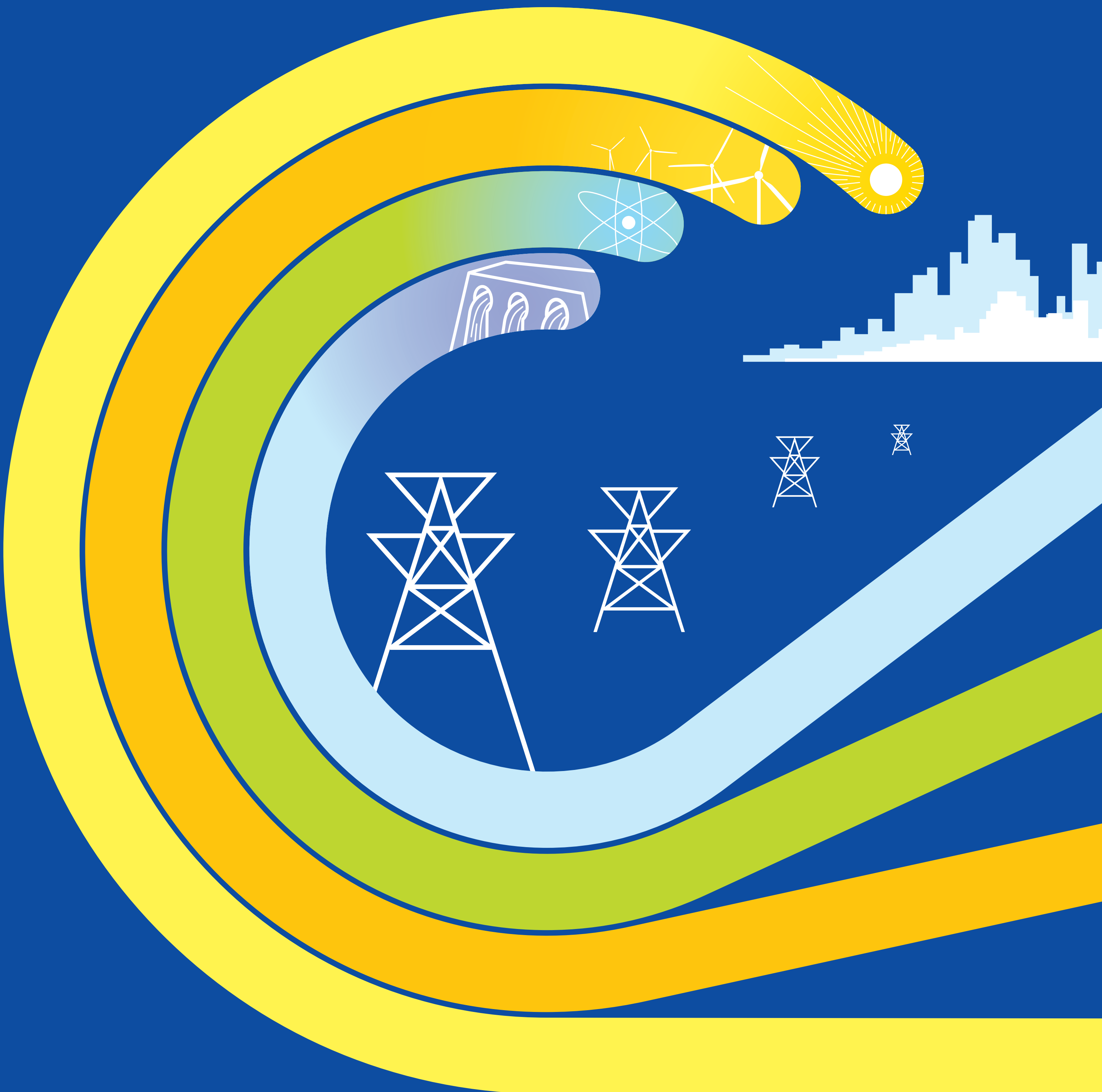
Wasion Holdings Limited
威勝控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 3393)



# ANNUAL REPORT 2019

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# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Mr. Ji Wei *(Chairman)*
Ms. Cao Zhao Hui
Mr. Zeng Xin
Ms. Zheng Xiao Ping
Mr. Tian Zhongping

## NON-EXECUTIVE DIRECTOR

Mr. Kat Chit

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hui Wing Kuen
Mr. Huang Jing
Mr. Luan Wenpeng
Mr. Cheng Shi Jie

## COMPANY SECRETARY

Mr. Choi Wai Lung Edward *FCCA, FCPA*

## AUTHORISED REPRESENTATIVES

Mr. Ji Wei
Mr. Choi Wai Lung Edward *FCCA, FCPA*

## AUDIT COMMITTEE

Mr. Hui Wing Kuen *(Chairman)*
Mr. Huang Jing
Mr. Luan Wenpeng
Mr. Cheng Shi Jie

## NOMINATION COMMITTEE

Mr. Ji Wei *(Chairman)*
Mr. Hui Wing Kuen
Mr. Huang Jing

## REMUNERATION COMMITTEE

Mr. Hui Wing Kuen *(Chairman)*
Mr. Ji Wei
Mr. Huang Jing

## INTERNAL CONTROL AND RISK MANAGEMENT COMMITTEE

Mr. Hui Wing Kuen *(Chairman)*
Mr. Huang Jing
Mr. Luan Wenpeng
Mr. Cheng Shi Jie
Mr. Zeng Xin
Mr. Kat Chit

## PRINCIPAL BANKERS

In Hong Kong:

Hang Seng Bank Limited
Standard Chartered Bank
Hongkong and Shanghai Banking Corporation Limited
Bank of Communications Hong Kong Branch

In the People's Republic of China (the "PRC"):

China Construction Bank
Bank of Communications

## LEGAL ADVISER

Sidley Austin
Level 39, Two International Finance Centre
8 Finance Street
Central
Hong Kong

## AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors
35/F, One Pacific Place
88 Queensway
Hong Kong

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

## PRINCIPAL PLACE OF BUSINESS

Unit 2605, 26/F, West Tower, Shun Tak Centre
168–200 Connaught Road Central
Sheung Wan
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road
P.O. Box 1586
Grand Cayman
KY1-1110
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Link Market Services (Hong Kong) Pty Limited
Suite 1601, 16/F, Central Tower
28 Queen's Road Central
Hong Kong

## COMPANY WEBSITE

www.wasion.com

## STOCK CODE

3393

## LEADING TOTAL SOLUTION PROVIDER OF ADVANCED METERING, ADVANCED DISTRIBUTION AND ENERGY EFFICIENCY MANAGEMENT

Wasion Holdings Limited ("Wasion Group" or the "Group") is the leading total solution provider of advanced metering, advanced distribution and energy efficiency management in China, and is committed to becoming an "Energy Metering and Energy Saving Expert" in China and across the world. The Group was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in December 2005, which was the first professional syndicate engaged in energy metering and energy efficiency management in China listed overseas, as well as the first company in Hunan Province listed on the Main Board overseas.

Wasion Group has long been focusing on the research and development, production and sales of total solutions relating to energy metering and energy efficiency management, the products and services of which have been extensively applied in energy supply industries for electricity, water, gas and heat, and large energy-consuming units of large-scale public infrastructure, petroleum and chemical, transportation, machine manufacturing, metallurgical and chemical fields and residents.

The advanced smart metering business of the Group mainly comprises of comprehensive smart meters, smart water meters, smart gas meters and ultrasonic calorimeters; various meters and power quality monitoring devices; comprehensive energy data collection terminals, load management terminals and user management devices; measurement automation systems and various application systems, services and energy data mining. The Group, with more than 20% of the domestic market share of high-end metering products, has built up its leading position in China and is the only professional manufacturer in China which provides various advanced energy metering products, systems and services for electricity, water, gas and heat, as well as satisfies the demand of the whole process from energy production, transmission and distribution to consumers.

The advanced distribution and energy efficiency management business of the Group comprises mainly of 40.5kV/12kV comprehensive high voltage switchgear; 12kV smart switchgear; 35kV/10kV comprehensive circuit breakers; 10kV power distribution automation terminals; electrical and electronic devices for power quality control and smooth connection with new energy; smart distribution systems, engineering and services; energy-saving services, etc. The Group is devoted to becoming the leading total solution provider for advanced distribution system in China.

Amidst the substantial changes in energy production and energy consumption mode in China and the world, the material social responsibility and development opportunities arisen from energy saving and carbon reduction as well as the new demand of smart power grids, Wasion Group will adhere to its corporate motto "Energy Metering and Energy Saving Expert" while upholding its core value "Perfect Work with Passion, and Success Achieved with Integrity" by continuous innovation and improvement in order to become the pioneer in smart power grids and smart metering in China, one of the major international smart power grids and smart metering provider and a well-known international brand.

In the future, every city, every enterprise and every family will be benefited from the use of the technology, products and services of Wasion.

# QUALIFICATIONS AND AWARDS

## January

The PIC-Y4 DTU line loss module (PIC-Y4站所終端用線損模塊) of Willfar Information Technology Company Limited ("Willfar Information") was identified as qualified in the inspection report issued by Metering Center of State Grid (國家電網計量中心).

## March

The EU power meter of Wasion Group Limited (威勝集團有限公司) ("Wasion Group") passed the CTR and FIT tests by IDIS association, representing the first smart meter manufacturer in China to obtain the full-function certificate of IDIS P2 DLM.

Wasion Electric Limited ("Wasion Electric") enter into agreement in respect of the Phase I project of warehouse and marketing center of Yajie Washing Plant (雅潔洗滌工廠) and Weigao Ceramic Title (未高瓷磚) in Cambodia. The circuit breaker in the brand of Wasion was exported to Cambodia and applied to the low-voltage cabinet of this project.

The single-phase electronic fee-controlled smart meter and two kinds of single-phase fee-controlled smart meters of Wasion Group were granted with the first energy-saving certificate for single-phase static smart meter in China by China Quality Certification Center.

## April

Wasion Electric was successfully authenticated by Bureau Veritas in France, marking that Wasion Electric was honorably accredited as an Assessed Supplier and a manufacturer in Alibaba.com granted with star.

Willfar Information won the "PLC-IoT Industry Innovation Award 2019" and was recognized as the first batch of "Key Enterprises of Artificial Intellectual in Changsha" and "National Electronic Information Industry Excellent Enterprise 2019".

## May

Wasion Electric was granted with the certificate of manufacturing license for medium voltage NXAirS LP switchgear by Siemens.

## June

Wasion Electric was recognized as "Industrial Quality Benchmarking Enterprise in Huanan Province", marking that the quality management of Wasion Electric was at provincial leading level.

## August

Wasion Electric was awarded "Top Ten Enterprise in Industrial Quality Effectiveness of Machinery Equipment in Hunan Province".

Wasion Electric was honored with "Benchmarking Enterprise at the Shangyunshang Platform (上雲上平台標桿企業)" at provincial level.

## September

The project "Key Technology Research on and Industrialization of Scientific and Technological Achievements of Smart Energy Consumption Management Based on IoT" of Willfar Information was recognized as 2019 Hunan Innovative and Pioneering Technology Investment Project.





## October

The three-phase electronic smart meter of Wasion Group successfully listed among the fourth batch of Champion Single Product in Manufacturing Industry in the "List of Champion Single Product in Manufacturing Industry Proposed to be Announced (the Fourth Batch) and Proposed to Pass Verification (the First Batch)" published by the Ministry of Industry and Information Technology of China.

Various modules independently developed by Zhuhai Zhonghui Microelectronics Co. Ltd. ("Zhuhai Zhonghui"), a subsidiary of Willfar Information, obtained inspection report issued by China Southern Power Grid International Co., Ltd. and full-performance inspection report issued by China Electric Power Research Institute under State Grid.

Hunan Weiming Energy Technology Co., Ltd., a subsidiary of Willfar Information, obtained the "Network Access License for Telecommunication Equipment from the Ministry of Industry and Information Technology of the People's Republic of China" and "Radio Transmission Equipment Type Approval" approved and issued by the Ministry of Industry and Information Technology with respect to its NB-IoT water meter and NB-IoT gas meter.

## November

Wasion Group completed the acquisition of the Dowertech factory in Brazil, which laid a solid foundation for the Group's expansion to the market in South America.

Wasion Electric was entitled the "SIVACON 8PT Core Cooperation Partner" by Siemens, which again demonstrated that the smart manufacturing strength of Wasion Electric was highly recognized by Siemens, one of the three leaders in the electrical industry.

The acceptance of the major smart manufacturing program of Wasion Group by the MIIT, the acceptance of MES system, the being online of PLM and WMS systems, and the certification of integration of information technology and industrialization marked a new progress of the smart manufacturing of Wasion Group.

## December

Wasion Group was entitled the "Hunan Top Ten of Best Employers of China 2019" and entitled the "Best Employers of China" for the 10th successive year.

Wasion Electric was granted to manufacture the low voltage Mdmax cabinets by ABB and obtained the test report and the CCC certificate of the relevant product model, thus further complementing its product series and enhancing its competitiveness.

Zhuhai Zhonghui was awarded as "National Leading Intellectual Property Enterprise 2019".

Wasion Group passed the SABS Certification of South Africa with respect to its all series of meters, which laid a solid product and qualification foundation for the Group's expansion to the market in South Africa and its surrounding regions.

China Securities Regulatory Commission approved the registration of initial public offering of Willfar Information's share at SSE STAR Market.






# MOTTOS OF OPERATION :

PERFECT WORK
WITH PASSION
AND SUCCESS
ACHIEVED WITH
INTEGRITY

# CHAIRMAN'S STATEMENT

# CHAIRMAN'S STATEMENT

TO ALL SHAREHOLDERS,

On behalf of the board of directors of Wasion Holdings Limited (the "Group"), I am pleased to present the operating results of the Group for the financial year ended 31 December 2019.

During the year under review, the Group recorded turnover of RMB3,656 million, representing an increase of 9% over last year. Net profit amounted to RMB281 million, representing an increase of 4% over last year. Earnings per share stood at RMB28 cents. The board of directors proposed to pay a final dividend of HK$0.20 per share.

During the year under review, the Group's three principle business has developed in a healthy manner. Among these, the Power Advanced Metering Infrastructure ("Power AMI") business realized revenue of RMB1.71 billion, representing a slight decrease of 1% over the same period last year; the Communication and Fluid Advanced Metering Infrastructure ("Communication and Fluid AMI") business realized revenue of RMB1.17 billion, representing an increase of 26% over the same period last year; and the Advanced Distribution Operations ("ADO") business realized revenue of RMB0.77 billion, representing an increase of 15% over the same period last year. Concerning customer structure, revenue from domestic power grid customers and domestic non-power grid customers increased by 18% and 15% respectively over the same period last year.

The outbreak of the Coronavirus Disease 2019 (COVID-19) in early 2020 had varied impacts on the development of each industry. Since the outbreak, the Group has focused on keeping its employees healthy and safe, paid close attention to the development of COVID-19 and strictly implemented epidemic prevention and controls, including measuring body temperature quickly and accurately in a distant place by using its independently developed thermoscreen infrared fever screening technology and implementing access controls with face recognition, a smart park technology, to ensure employee health throughout the Group and resume work and production in a reasonable and orderly manner with the support from governmental authorities at all levels.

In March 2020, the Standing Committee of the Political Bureau of the CPC pointed out to accelerate the construction of "new infrastructure" with focuses on the seven fields, including 5G base station, ultra-high voltage, inter-city high-speed rail and urban rail transit, new energy electric vehicle charging pile, big data center, artificial intelligence ("AI") and industrial internet, under the three major frameworks, i.e. the internet of information represented by 5G, internet of transportation represented by rail transit and internet of energy represented by electricity. Lists of key construction projects have been launched by various provinces and cities, which is expected to generate a sizable market of over RMB30 trillion and provide a vast space for the development of the Group.

The first executive meeting of the State Council of China in 2020 proposed to step up efforts in advanced manufacturing industry and release corresponding supportive policies on the construction of information network and other new infrastructure, including smart power grid, ultra-high voltage and Internet of Things ("IoT"). Besides, the National Development and Reform Commission pointed out to speed up the market-oriented electricity transactions, gradually promote electricity spot market pilot projects and expand the pilot incremental power distribution business reform. Readiness of the two key power grid companies and the technological innovation driven by the rapid development of new infrastructure and electricity spot market will present new opportunities for the development of each segment of the Group.

As for the Power AMI business, the Group will closely follow the new policies unveiled by the State Grid, stick to technological innovation, continuously improve cost efficiency and product quality, collaborate with the State Grid, the Southern Grid and other local electricity companies in respect of key technologies, participate in the preparation of new technology standards and make early planning for the relevant technologies and products of the next-generation power meter and internet of energy to do its part for the smartization of power grid.

As for the Communication and Fluid AMI business, the Group will continue to focus on its IoT-based business planning and realize the synergetic development of its power grid and non-power grid business. In smart power grid sector, the Group will leverage on the existing perception layer products, focus on edge computing layer and integrate with the AI capabilities of Alibaba Cloud to expand into cloud applications and provide professional technologies, products and services to the rapidly-developed power IoT. In the smart city sector, the Group will build up its vertical application capabilities from smart government, smart park, smart security to smart water service and integrate with the IoT platform of Alibaba Cloud to jointly act as the "smart brain" of cities.

As for ADO business, the Group will capture the opportunities from the "New Infrastructure" investment and continue to consolidate its leading role in the power industry. In the meantime, the Group will allocate more resources to the gradually emerging non-power grid sector, including rail transit, 5G, data center, healthcare and new energy. On one hand, the Group will continue to identify customer needs to optimize the smart power distribution solutions, enhance the digitalization, smartization and informatization level and improve the overall operating efficiency of power grid. On the other hand, the Group will further expand the smart energy services including the "new energy+" and the smart operation & maintenance and expand the application in multiple scenarios of smart city, including smart campus and smart hospital.

In overseas market, taking the opportunities arising from the development of smart energy and smart city, the "Belt and Road" initiative and the "Guangdong-Hong Kong-Macao Greater Bay Area" development program, the Group will cooperate with internationally known enterprises to provide smart metering equipment and systematic solutions in the developed countries; establish joint ventures, build up marketing teams with more local advantages to secure more market shares in the developing countries; and actively seeks for pilot projects to make breakthroughs in market expansion.

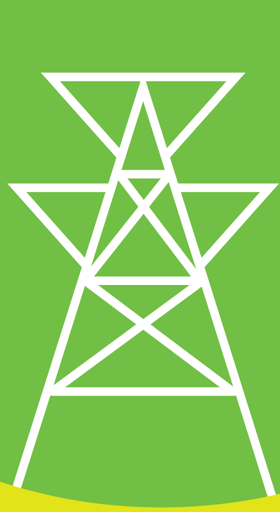
Looking forward, the Group will adhere to the principle of "Aggressive with Keen Determination and Achieving Growth through Innovation" and focus on technological innovation to expand the application of the three principal businesses vertically. The Group will also be positioned to capture the opportunities in domestic and overseas market to provide products and services with high standards and high technologies to both domestic and overseas customers and further expand into additional new markets to improve its overall market share and fulfill its commitment to becoming an energy metering and energy saving expert in China and even in the world.

Yours faithfully,
**Ji Wei**
*Chairman*

Hong Kong, 28 April 2020

# CORPORATE SPIRIT:

BE COHESIVE, AMBITIOUS, DOWN-TO-EARTH AND CREATIVE



# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

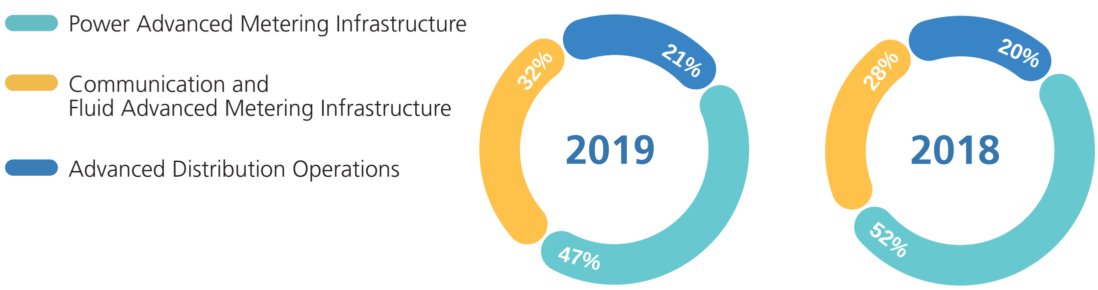
### Financial Highlights

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Revenue | **3,655,646** | 3,340,321 |
| Gross profit | **1,147,633** | 991,286 |
| Profit attributable to owners of the Company | **280,567** | 270,817 |
| Total assets | **10,096,774** | 8,608,295 |
| Equity attributable to owners of the Company | **4,216,317** | 4,186,660 |
| Basic earnings per share (RMB) | **0.28** | 0.27 |
| Diluted earnings per share (RMB) | **0.28** | 0.27 |

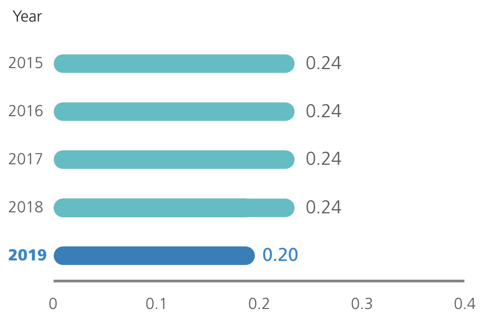
### Key Financial Indexes

| | 2019 | 2018 |
|---|---|---|
| Gross profit margin | **31%** | 30% |
| Operating profit margin | **14%** | 13% |
| Net profit margin | **10%** | 10% |
| Return on equity of the shareholders | **7%** | 6% |
| Current ratio | **1.54** | 1.65 |
| Quick ratio | **1.42** | 1.51 |
| Inventory turnover period (Days) | **75** | 76 |
| Trade receivable turnover period (Days) | **348** | 319 |
| Trade payable turnover period (Days) | **368** | 331 |
| Gearing ratio (Total borrowings divided by total assets) | **21%** | 16% |
| Interest coverage (Profit from operations divided by finance costs) | **5.79** | 7.03 |

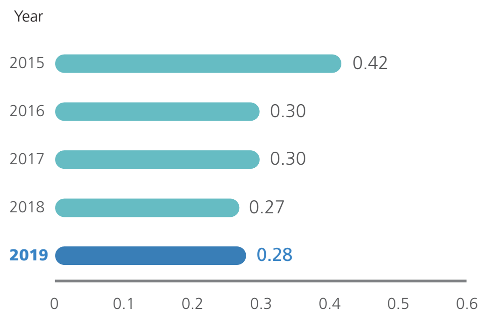
### Revenue Breakdown by Business Segments



Dividend (HKD)

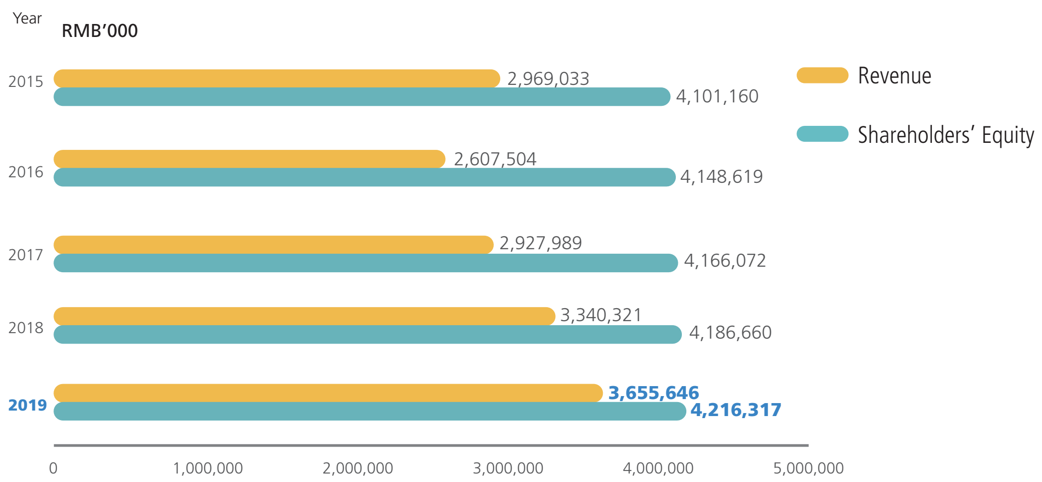



EPS (RMB)




## FIVE YEARS' FINANCIAL SUMMARY

Five Years' Financial Information




| | 2019<br>RMB'000 | 2018<br>RMB'000 | 2017<br>RMB'000 | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|---|---|
| Revenue | 3,655,646 | 3,340,321 | 2,927,989 | 2,607,504 | 2,969,033 |
| Profit for the year attributable to owners of the Company | 280,567 | 270,817 | 301,575 | 307,265 | 423,533 |
| Total assets | 10,096,774 | 8,608,295 | 7,884,054 | 7,493,091 | 7,223,094 |
| Total liabilities | 5,250,374 | 3,866,011 | 3,224,104 | 3,315,377 | 3,083,522 |
| Equity attributable to owners of the Company | 4,216,317 | 4,186,660 | 4,166,072 | 4,148,619 | 4,101,160 |

## FINANCIAL REVIEW

### Revenue

During the year under review, revenue increased by 9% to RMB3,655.6 million (2018: RMB3,340.3 million).

### Gross Profit

The Group's gross profit increased by 16% to RMB1,147.63 million for the year ended 31 December 2019 (2018: RMB991.29 million). The overall gross profit margin is 31% in 2019 (2018: 30%).

### Other Income

The other income of the Group amounted to RMB130.55 million (2018: RMB122.90 million) which was mainly comprised of interest income, government grant and refund of value-added tax.

### Other gains and losses

Other gains for the year ended 31 December 2019 amounted to RMB6.56 million (2018: other losses of RMB1.40 million) which comprised mainly net foreign exchange gain.

### Operating Expenses

In 2019, the Group's operating expenses amounted to RMB754.64 million (2018: RMB685.04 million). Operating expenses accounted for 21% of the Group's revenue in 2019, staying flat as compared with 2018.

### Finance Costs

For the year ended 31 December 2019, the Group's finance costs amounted to RMB86.52 million (2018: RMB59.59 million). The increase was attributable to the increase of bank borrowings and loan interest rate during the year.

### Operating Profit

Earnings before finance costs and tax for the year ended 31 December 2019 amounted to RMB501.15 million (2018: RMB419.14 million), representing an increase of 20% as compared with last year.

### Profit Attributable to Equity Shareholders of the Company

The profit attributable to equity shareholders of the Company for the year ended 31 December 2019 increased by 3.6% to RMB280.57 million (2018: RMB270.82 million) as compared with last year.

### Liquidity and Financial Resources

The Group's primary sources of working capital and long-term funding needs have been cash flows from operation and financing activities.

As at 31 December 2019, the Group's current assets amounted to approximately RMB7,338.16 million (2018: RMB5,779.53 million), with cash and cash equivalents totaling approximately RMB1,778.09 million (2018: RMB1,401.36 million).

As at 31 December 2019, the Group's total bank loans amounted to approximately RMB2,073.87 million (2018: RMB1,418.17 million), of which RMB1,618.64 million (2018: RMB1,069.87 million) will be due to repay within one year and the remaining RMB455.23 million (2018: RMB348.30 million) will be due after one year. In 2019, the interest rate for the Group's bank borrowings ranged from 3.06% to 6.64% per annum (2018: 3.50% to 6.64% per annum).

The gearing ratio (total borrowings divided by total assets) increased from 16% in 2018 to 21% in 2019.

## Emolument Policy

As at 31 December 2019, the Group had 3,460 (2018: 3,640) staff members. The staff costs (including other benefits and contributions to defined contribution retirement plan) amounted to RMB335.38 million (2018: RMB340.22 million) in 2019. Employee remuneration is determined on performance, experience and prevailing market conditions of the employees, with compensation policies being reviewed on a regular basis. The aggregate amount of the emoluments of the Company's directors was RMB4.07 million (2018: RMB3.97 million) in 2019.

The Group's employees in the PRC have enrolled in the mandatory central pension scheme operated by the State. The Group also provides housing allowances and benefits for medicine, employment injury and retirement for its staff in the PRC in accordance with the relevant PRC rules and regulations. The directors of the Company (the "Directors") confirm that the Group has fulfilled its obligations under the relevant PRC employment laws. The Group also set up the Mandatory Provident Fund Scheme for the employees in Hong Kong.

## Share Option Scheme

The Company has adopted a share option scheme on 16 May 2016 to recognise and acknowledge the contributions made or will be made to the Group by the eligible participants. The purpose of the scheme is to encourage the eligible participants to continue their contribution. The eligible participants include any full-time or part-time employees, executives, officers, Directors (including executive, non-executive and independent non-executive Directors), advisers, consultants, suppliers and agents of the Company or any of its subsidiaries or invested entities, and any person who, in the opinion of the board of directors of the Company, will contribute to the Group or have done so.

## Share Award Scheme

The Company has adopted a share award scheme on 3 May 2016 in which the eligible employees will be entitled to participate. The purposes of the share award plan are to recognise the contributions by certain employees and to provide them with incentives in order to retain them for the continual operation and development of the Group and also to attract suitable personnel for further development of the Group.

## Exchange Rate Risk

Most of the businesses of the Group are settled in Renminbi while businesses in foreign currencies are mainly settled in USD. The fluctuation of exchange rate of both currencies will have certain impact on the Group's business which are settled in foreign currencies. During the year, the Group did not enter into any foreign exchange forward contracts or other hedging instruments to hedge against fluctuations.

## Acquisitions

On 27 November 2019, Wasion Power Company Limited, a wholly owned subsidiary of the Company, has completed the acquisition of 100% of share capital of Dowertech Da Amazonia Industria De Instrumentos Eletronicos S.A. ("Dowertech") at an aggregate consideration of BRL 4.00. Dowertech is a company established in Brazil which engaged in the manufacturing and sale of smart meters. The acquisition enables the Group to enter and develop the smart meter market in South America.

## Charge on Assets

As at 31 December 2019, the pledge deposits are denominated in Renminbi and are pledged to banks as security for bills facilities granted to the Group. In addition, the Group's land and buildings are pledged to banks as security for bank loans to the Group.

### Capital Commitments

As at 31 December 2019, the capital commitments in respect of the acquisition of property, plant and equipment and additions of construction in progress contracted for but not provided in the consolidated financial information amounted to RMB19.18 million (2018: RMB23.65 million).

### Contingent Liabilities

As at 31 December 2019, the Group had no material contingent liabilities.

## MARKET REVIEW

In the year 2019 ("year under review"), the world economy experienced unprecedented challenges. Uncertainties caused by trade friction and geopolitical tension were on the rise, growth rates of major developed economies continued to decline, and emerging economies witnessed increased downward pressure. At the same time, insufficient global demand seriously inhibited economic growth. In the face of these complex and grim economic realities at home and abroad, China's economy still managed a growth rate of 6.1% in 2019, with the overall economy running reasonably smoothly and development quality improving steadily.

The Report of the 19th National Congress of the Communist Party of China called for a revolution in energy production and consumption in order to build an energy sector that is clean, low-carbon, safe and efficient. To reach the commanding heights of energy revolution, it is important that we persevere in building and operating a strong and smart power grid, and constantly improve the grid's ability to optimize resource allocation, guarantee power supply and interact intelligently.

Grid companies have actively responded to the government's call to promote construction of a smart grid. In the year under review, the State Grid Corporation of China ("State Grid") is estimated to have invested around RMB450 billion in the power grid and begun the construction of 52,000 km of 110 kV and above power transmission lines. Since the 13th five-year plan, a total of RMB644.4 billion has been invested in upgrading the rural power grid, completing a new round of upgrades a year ahead of schedule. China Southern Power Grid Company Limited ("Southern Grid") contributed a record high of 2,265 KWh in the West-to-East Power Transmission Project. Generated wind power and photovoltaic power generation were absorbed in full, while nuclear power has been generated under a strict policy of ensuring safety. After two years of active study, the 20 smart grid demonstration zones of Southern Grid have formed an initial smart grid construction model covering comprehensive demonstration at provincial level, overall demonstration at municipal level, key-point demonstration at park level and regional demonstration at county level. With the transformation and upgrading of the two largest grid companies in China, systems and equipment related to smart grid will be modernized step by step, bringing new opportunities for the Group's various business interests.

People's livelihood is key to national prosperity, and adequate access to safe power and water supply is fundamental to ensuring people's security and comfort and for optimizing the business environment. With the acceleration of urbanization, the Chinese government has vigorously promoted the renovation of old residential districts in cities and towns, improving the supply of safe drinking water and ensuring the basic needs of the people. The intelligent water industry has become a primary focus for intelligent urban management, and the construction of intelligent water systems have become a common goal for the entire industry. Steady progress has been made in market-based reforms of the power grid, with power transmission and distribution price improvements, incremental power distribution networks, the transformation of power trading centers into stock companies and the opening of power sales markets all being expedited. The construction of smart power grids and smart water supplies has greatly accelerated the replacement and upgrading of smart metering systems and equipment, bringing major new industry opportunities.

As an energy metering and energy saving expert, the Group maintains pace with all industry development trends and has achieved satisfactory results in its three main business segments. In the year under review, turnover of the Group was RMB3,655.6 million (2018: RMB3,340.3 million), an increase of 9% year-on-year; the net profit was RMB280.57 million (2018: RMB270.82 million), an increase of 3.6% year-on-year.

## BUSINESS REVIEW

### Power Advanced Metering Infrastructure ("Power AMI")

Grid investment has entered a stage of "pursuit of quality", putting more emphasis on structural optimization. The Group, however, has bucked the downward trend with its high-quality products and services. In the year under review, the Group led the industry in securing RMB498 million worth of contracts in two centralized tenders organized by the State Grid. The Group also performed well in Southern Grid's centralized purchasing, winning a total contract amount of RMB249 million. In response to the demand by State Grid and Southern Grid for upgrading of metering equipment in their development of the smart grid, the Group launched a new generation of smart meters, while also leading a pilot programme in Guangdong, Jiangsu and other places in January 2020. Meanwhile, the Group also achieved solid growth in the non-grid business, in addition to advances of "smart power product line" products for the Internet of Things ("IoT") business sector.

In the year under review, the Group's Power AMI business recorded a turnover of RMB1,713.9 million (2018: RMB1,734.9 million), representing a decrease of 1% year-on-year, and accounting for 47% of the Group's total turnover (2018: 52%).

### Communication and Fluid Advanced Metering Infrastructure ("Communication and Fluid AMI")

In the year under review, the Group's Communication and Fluid AMI business achieved impressive results, with a turnover of RMB1,167.5 million (2018: RMB929.9 million), representing an increase of 26% year-on-year and accounting for 32% of the Group's total turnover (2018: 28%).

In 2019, State Grid proposed the extensive construction of "Ubiquitous Power IoT", of which the laying of advanced metering equipment with new functions is an important component. The Group achieved rewarding results in the construction of "Power IoT" and "Smart City IoT", with sales reaching a record high. During the year under review, the Group ranked as the leading supplier of data collection terminals and concentrators in two unified tenders issued by State Grid, winning a total of RMB144 million worth of contracts.

The Group employed technological innovation and edge computing to steadily build its multi-level system solution capabilities and promote the common development of grid and non-grid businesses, relying heavily on continuously upgraded energy information management systems and iterated communication gateways and sensing equipment. In the year under review, the Group successfully set an industry-leading benchmark in implementing a number of informatization projects such as the "Early Warning System for Fire Safety Key Units in Changsha High-tech Zone". Based on the cloud platform of IoT industry leaders, the Group developed a comprehensive management system for smart parks, which includes subsystems of smart energy efficiency, smart water supply, smart fire protection, smart park, smart parking, smart check on work attendance, smart office, smart power distribution room, smart energy storage, etc. The project has been successfully implemented in Changsha, and will be gradually expanded to other regions. The Group took full advantage of a variety of technologies in the development of IoT and has achieved steady improvement in its wide-ranging capabilities in this sector.

In June 2019, NDRC pointed out the need to speed up the renovation of old residential areas in cities and towns, with a focus on improving delivery of safe water, power and gas and for supporting deployment of optical fiber and other related technologies. Thanks to the government's support for old city revitalization, after shortlisting as a supplier to some water companies in Shiyan, Hejian, Huangshi, Liaoyang, the Group has been successfully contracted in Taiyuan, Lanzhou, Urumchi, Luzhou, Hengyang, Linfen and Chenzhou, covering up to 14 prefecture-level and county-level cities, with shipments setting a new high for the Group.

The Group has quickly seized opportunities brought on by the rapid development of IoT technology. In the year under review, the Group's NB-IoT water meters and gas meters have secured network access licenses issued by the Ministry of Industry and Information Technology of China, while the Group has also been named one of the few national partners of China Telecom and China Mobile for IoT water meters. At the same time, the Group's new modular smart water meters have begun to fully enter the market, greatly enhancing the Group's competitiveness in the smart water meter sector. Smart water system is a growing business for the Group. The Group's intelligent monitoring terminals, based on 4G/5G/NB-IoT communication network, can be used in energy consumption monitoring for water works, water quality monitoring, unattended water supply pump house, leakage monitoring of water supply pipe network, sewage treatment monitoring, river and reservoir water level monitoring and other scenarios, laying a solid foundation for greater market demand of smart water system.

On 6 January 2020, Willfar Information Technology Company Limited, a 65% shareholding subsidiary of the Group, was successfully registered with the China Securities Regulatory Commission (CSRC) for an initial public offering on the Shanghai Stock Exchange Science and Technology Innovation Board ("STAR Market"). Willfar went public on 21 January, becoming the first company in Hunan Province to list on the STAR Market.

### Advanced Distribution Operations ("ADO")

In the face of a new generation of power systems requiring intelligence, controllability and flexibility, the Group attached great importance to the personalized demands of different customers, and introduced intelligent power distribution primary, secondary and primary together with secondary integration products for the power system, intelligent power distribution package solutions for industry end customers, and "New energy +" intelligent energy services for new energy and intelligent operation and maintenance. In the year under review, the Group secured orders from State Grid's centralized procurement of smart power distribution solutions in Shanghai, Beijing, Hunan, Chongqing, Henan, Jiangsu, etc. In the non-power grid business sector, the Group successfully penetrated new markets in Anhui, Hubei, Sichuan and other provinces, significantly expanding its domestic footprint.

With the accelerated implementation of incremental power distribution reform, the organic combination of incremental power distribution with distributed energy resources and comprehensive energy services has facilitated the trend toward diversified integration. The Group has actively participated in the integration of smart energy and achieved positive results in rail transit and data centers while tapping into the rising demand for electronic chips, healthcare and medical. In the year under review, the Group won a bid for the 400V switch cabinet system and equipment for Zhengzhou Subway, making a significant breakthrough into the electrical rail transit industry. "New energy +" solutions can be widely used in household systems, water lifting irrigation systems, forest fire control systems, smart hospitals, smart campuses, smart industrial parks and other fields, bringing new growth opportunities to the Group. Making the best of market opportunities of traditional photovoltaic business and endeavouring to develop "New energy +" business, the Group has performed well in Beijing, Hunan, Hubei, Shanxi, Yunnan, Sichuan and other markets through cooperation with large state-owned enterprises, listed companies and government investment platforms.

High standards of product quality are the cornerstone of market expansion and brand building. In the year under review, the Group obtained the licenses to produce Siemens medium-voltage NXAirS cabinet, ABB low-voltage Mdmax and distribution box MNS-E products, thus enhancing the Group's application coverage in the high-end market and its brand awareness.

In the year under review, the Group's ADO business achieved satisfactory results, with a turnover of RMB774.2 million (2018: RMB675.5 million), representing an increase of 15% year-on-year, and accounting for 21% of the Group's total turnover (2018: 20%).

## International Markets

Data prepared by the international market research firm, Markets and Markets, indicate that the global investment in the smart power grid will scale up from USD23.8 billion in 2018 to USD61.3 billion in 2023 with a compound annual growth rate of 20.9%. As the key terminal units for smart grid construction, the global smart metering market will increase from USD9.27 billion in 2018 to USD11.33 billion in 2023 with a compound annual growth rate of 4.11%. With the expedited deployment of smart meters, data collection and AMI system in overseas markets, the Group achieved remarkable results while successfully entering Latin America, Switzerland and South Africa. It is also pushing forward with the construction of key projects, including, but not limited to, a smart city in Egypt, BREB in Bangladesh and AMI in Indonesia. With superior product quality and technological strengths, the Group won initial success in several countries and made positive progress in the power AMI business, communication scheme, smart city, energy storage and micro-grid products and smart water management. In response to the national Belt and Road Initiative, the Group has been active in many overseas markets including Asia Pacific, Africa, South America and Europe. In respect to the Asian market, since the rapid industrialization of Southeast Asia has catalyzed the fast development of smart power grids, the Group succeeded in marketing energy storage and micro-grid products in Bangladesh and Indonesia during the year. The new generation of smart meter equipment has been accredited by the South Korean power company KEPCO, and the data acquisition terminal designed for power AMI business has been applied in batches in Malaysia. Regarding the African market, a new series of smart meters produced by the Group have been accredited by SABS in South Africa, laying a solid foundation for entering South Africa in a more proactive, all-round manner. In addition, both the smart prepayment programme in Egypt and the smart municipal renovation project in South Africa have been well received, propelling continuous expansion of Group's market share. With respect to the South American market, the Group completed the acquisition of a plant in Brazil in October 2019 and was subsequently accredited by INMETRO in Brazil, further accelerating the strategic progress for business localization, and laying a solid foundation for the Group's market expansion in South America. In the European market, the Group passed the certification process of both European MID and IDIS.

## Research and Development ("R&D")

The Group stalwartly pursues R&D-driven and technological innovation and closely follows market orientation and customer needs. It takes advantage of the prospective development of smart energy, intelligent manufacturing and Internet of energy, and actively promotes its technological innovation. During the year under review, the Group was granted 115 patents and authored 75 software copyrights, boosting the number of patents and software copyrights for effective new products and energy efficiency services to 1,303 and 1,096 respectively.

In the power AMI business, the Group has deepened its research into dual core interaction, high-speed telecommunication, modularization and IoT in addition to several other technological sectors. Furthermore, the Group is actively engaged in the development of a new generation of smart power meters for State Grid and Southern Grid, taking the lead in small-scale trial production of such meters. At the same time, the Group made a breakthrough in the research of non-intrusive load identification and was awarded the contract for a non-intrusive load sensing advanced meter project by State Grid Jiangsu Electric Power Co., Ltd. The Group also launched smart perception shared power socket and Wasion smart power cloud platform, which promotes safe power usage in public places.

In the Communication and Fluid AMI business, the Group adheres to the spirit of scientific and technological innovation and has been extensively involved with several public utilities, including power, water, gas and fire protection. During the year under review, the Group received qualification from the State Grid Metrology Center for its line loss model and passed the pre-qualification process of State Grid in bidding for fault indicators for distribution terminal unit (DTU), feeder terminal unit (FTU) and transformer terminal unit (TTU). The Group also passed inspection for its Zhonghui brand module from the Southern Power Grid Research Institute. Meanwhile, the Group formally passed the micro application test of intelligent TTU undertaken by China Electric Power Research Institute. In the non-power grid area, the Group was committed to the research of communication technology and overall IoT solutions. It has successfully launched modular intelligent water meters and commenced their deployment in batches.

In the ADO business, "IoT for Power Distribution" is the key to realize the interconnection of power facilities. In the power distribution field, the Group has integrated traditional industrial technology and IoT technology. It has also completed R&D and testing for application systems of the energy services cloud platform and the new generation of IoT intelligent energy saving gateways. Added to this is the R&D of another two series of new products — integrated power monitoring products for smart power distribution stations and intelligent low-voltage switches — which lays a solid technological foundation for the Group's business expansion into intelligent power distribution and smart energy market.

In international markets, the Group has focused on platform upgrades and product cost reductions and worked to create a new series of smart prepayment products based on new FM33A0 platform. It has successfully marketed such products across South Africa, Côte d'Ivoire, Bangladesh, Uganda and many other countries. In terms of technology, the Group unified new overseas software platforms, substantially shortening the R&D cycle and improving R&D efficiency. The Group has conducted in-depth research and system construction in respect of IEC62056 standard, COSEM/DLMS Blue Book and IDIS specifications based on market orientation, so as to gain more market certifications and expand international market share.

## PROSPECTS

In March 2020, the Standing Committee of the Political Bureau of the CPC Central Committee proposed the acceleration of "New Infrastructure Construction" under 3 frameworks, namely the information network represented by 5G, the transportation network represented by high-speed railway and urban rail transit, and the energy network represented by power grid, with 7 fields at the core, including 5G base station construction, ultra-high voltage network, intercity high-speed railway and urban rail transit, charging station for electric vehicles, big data centre, artificial intelligence, and industrial Internet. Different provinces and cities have launched their lists of key construction projects, which is expected to generate a potential market of over RMB30 trillion, providing a broad space for the Group's development.

China's National Development and Reform Commission has made clear that it is necessary to intensify the reform of the power system, promote independent and standardized operation of trading institutions, accelerate market-oriented trading of electric power, steadily promote pilot construction of the spot market for electric power, and expand the pilot reform of incremental power distribution. *The Institutional Reform of State Grid (2020) No. 8* issued by State Grid also proposes to accelerate the construction of the national unified power market and the reform of power transmission and distribution.

A report prepared by the consulting firm Wood Mackenzie revealed that, by the end of 2024, the global stock of smart meters will rise to more than 1.2 billion units, while the market size of smart power meters will rise to USD145.8 billion. In the year 2020, the Group will speed up its penetration of international markets and provide precise and customized services for markets in the regions in which it operates. In developed countries, the Group will cooperate with well-known international enterprises to provide solutions for smart metering equipment and systems; while in developing regions, the Group will establish more localized marketing teams through joint ventures and other methods to gain more market share. To further support market development, the Group will actively work to secure pilot projects in seeking strategic breakthroughs.

The rapid development of the IoT industry will mean increased and continuous demand for key technologies and equipment. On one hand, the Group will enhance market competitiveness by adopting a market-oriented strategy, continue to strengthen independent research and development, and improve public utility IoT technologies, including data collection technology, communication technology, data transmission technology, signal processing technology, modular software design and embedded software operating systems. On the other hand, the Group will continue to closely focus on the IoT framework for business in order to exploit dynamic changes in the IoT industry in both the grid and non-grid sectors. In smart grid, based on the existing perception layer products and centred on edge computing, the Group will integrate the AI capabilities of Alibaba Cloud and expand to cloud applications in order to provide professional technologies, products and services for the accelerated development of power IoT. In the field of smart cities, the Group will build its vertical application capabilities in areas such as smart municipal administration, smart parks, smart security and smart water, and integrate these with the platform capabilities of Alibaba Cloud IoT to jointly build smart brains for cities.

Smart water management and smart gas management are fundamental elements of smart city construction. Remote meter reading is developing rapidly with the advance of NB IoT and other IoT technologies. The *White Paper NB IoT Smart Water Meter Solution* released by China Mobile indicates that the penetration rate of smart water meters has only reached 20–30%. The Group will consistently strengthen R&D on NB-IoT water meters and NB-IoT gas meters to expand its market size. Moreover, the Group is committed to building its capabilities in multi-level systemic solutions and cooperating with leading enterprises in the internet industry to establish an IoT ecosystem and enhance core competitiveness.

Smart grid construction will bring huge opportunities for technological change and iterative requirements for hardware in relation to power transmission, distribution and consumption. The advancement of intelligent power grids will place higher demands on communication, while the distribution terminal is the basic link to realizing intelligent distribution. On one hand, the Group will continue to tap into the needs of customers and commit to the optimization of intelligent power distribution solutions to advance the level of digitalization, intelligence and informatization of power grids and reinforce the overall operating efficiency of the power grid. On the other hand, the Group will focus on grid and non-grid customers and consistently promote the application of smart energy services "New energy +" in smart factories, smart campuses, smart hospitals, smart cities and other places.

Smart grid construction will continue to travel in the fast lane with the rapid development of IoT and 5G technology. As strategic R&D investment is the cornerstone of sustainable progress and development for an enterprise, the Group will continuously advance technological R&D, steadily increase the quality and technological level of its products in order to quickly adapt to the development pace of the rapidly shifting industry.

Looking forward, the Group will consistently adhere to the principle of "Aggressive with Keen Determination and Achieving Growth through Innovation" and hold technological innovation as the core value to broaden the application of its three main business segments under increasingly diverse scenarios. Meanwhile, the Group will pay close attention to market opportunities at home and abroad, serve domestic and international customers with high-standard and high-tech products, further access new markets to expand the Group's overall market share and commit to becoming a world-class energy metering and energy saving expert throughout the world.

## EVENTS AFTER 31 DECEMBER 2019

### Response to the Epidemic

At the beginning of 2020, the sudden outbreak of COVID-19 coronavirus has affected the progress of China's social and economic development and increased the level of uncertainty. In the face of the grim situation caused by the epidemic, the Group deploys epidemic prevention and control work in a timely manner, purchases epidemic prevention materials, conducts nucleic acid test for each employee before he/she returns to work, and uses the thermal imaging temperature measurement technology independently developed by the Group to conduct distant temperature measurement quickly and accurately. The Group also uses smart parks technology of facial recognition at the entrances to protect the health of all employees, and organizes employees to return to work and production in a scientific and orderly way with the support of government departments at all levels.

The Group's united, scientific and effective work of epidemic prevention and control guaranteed the smooth resumption of work and production. As of 29 February 2020, the overall work resumption rate of Wasion Science and Technology Park (Changsha) reached 91.5%, and that of Wasion Electric Industrial Park reached 92%, gradually resuming normal production and minimizing the uncertainty caused by the coronavirus. The Group will continue to pay close attention to epidemic development, make every effort to ensure the health of employees, an orderly resumption of work and production, and focus on changes in the industry to prepare for business development after the coronavirus has run its course.

### Spin-off and Separate Listing of Willfar Information Technology on the STAR Market

Pursuant to the announcement of the Company dated 6 January 2020, China Securities Regulatory Commission has agreed the registration of Willfar Information Technology Company Limited ("Willfar Information Technology"), a 65% owned subsidiary of the Company, for initial public offering of shares on the STAR Market of Shanghai Stock Exchange ("Star Market"). The listing of Willfar Information Technology on the STAR Market was subsequently taken place on 21 January 2020 while the interest of the Company in Willfar Information Technology was reduced to approximately 58.5% after completion of the listing.

## SUMMARY

It is the corporate social responsibility report presented by Wasion Holdings Limited ("Wasion Holdings" or "Wasion"), who ensures the authenticity, objectivity and timeliness of the information in the report, for the fifth consecutive year. This report is prepared based on the principles of materiality, quantitative, balance and consistency, and discloses Wasion Holdings' willingness to discharge responsibility and its responsibility performance (both environmental and social) in 2019 as well as the commitments in 2020 in respect of the substantive subjects of Wasion Holdings' performance of its social responsibility.

### (1) Organizations in the report

Unless otherwise stated, the report covers Wasion Holdings Limited and its subsidiaries, of which the businesses scope are described in "About Wasion".

### (2) Period of the report

The period of the report is from 1 January 2019 to 31 December 2019.

### (3) Cycle of the report

The report is presented annually and generally issued before the end of March in the following year.

### (4) Clarification of the data in the report

If there is any discrepancy in the economic performance data of 2019 disclosed in the report, the financial reports shall prevail.

### (5) Standard of the report

The report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, issued by The Stock Exchange of Hong Kong Limited, the G4 Edition of Global Reporting Initiative (GRI) Sustainable Development Reporting Guidelines, and the Guidelines for the Preparation of Corporate Social Responsibility Reports in China (CASS-CSR3.0).

### (6) Statement of change

The scope and other category of the report have nothing significant change to the 2018 Corporate Social Responsibility Report of Wasion Holdings Limited.

For further information of Wasion, please visit http://www.wasion.com

To obtain the hard copy of 2019 Corporate Social Responsibility Report of Wasion Holdings Limited, please contact us at:

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Zip code: 410205
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Fax: 0731-8861 9555

## I. ABOUT WASION

Wasion Holdings Limited is a leading total solution provider of advanced metering, advanced distribution and energy efficiency management in China, and is committed to becoming an "Energy Metering and Energy Saving Expert" of China and across the world. Wasion Holdings was listed on the main board of Hong Kong Stock Exchange in 2005, which was the first professional enterprise engaged in energy metering and energy efficiency management in China listed overseas, as well as the first company in Hunan Province listed on main board overseas.

Wasion has long been focusing on the research and development, production and sales of total solutions relating to energy metering and energy efficiency management, the products and services of which have been extensively applied in energy supply industries for electricity, water, gas and heat, and large energy-consuming units of large-scale public infrastructure, petroleum and chemical, transportation, machine manufacturing, metallurgical and chemical fields and residents, and has provided support to the development of smart city, smart community and smart living with innovative products and solution.

The advanced smart metering business of Wasion mainly comprises of comprehensive smart meters, smart water meters, smart gas meters and ultrasonic calorimeters; various meters and power quality monitoring devices; comprehensive energy data collection terminals, load management terminals and user management devices; measurement automation systems and various application systems, services and energy data mining. The Group, with more than 20% of the domestic market share of high-end metering products, has built up its leading position in China and is the only professional manufacturer in China which provides various advanced energy metering products, systems and services for electricity, water, gas and heat, as well as satisfies the demand of the whole process from energy production, transmission and distribution to consumers.

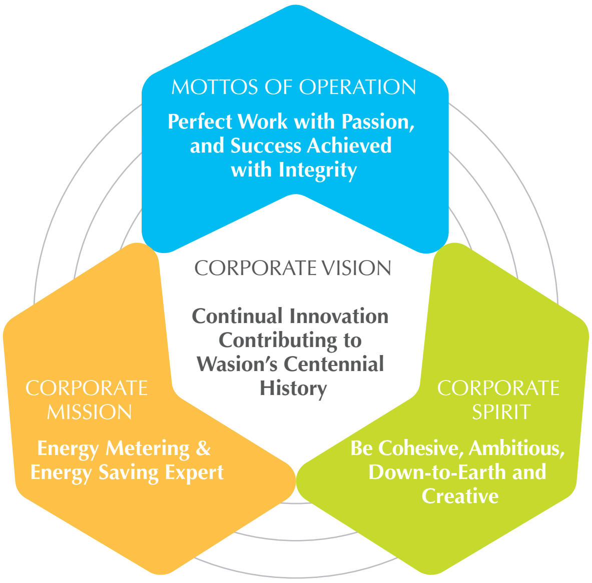
The advanced distribution and energy efficiency management business of Wasion comprises mainly of 40.5kV/12kV comprehensive high voltage switchgear; 12kV smart switchgear; 35kV/10kV comprehensive circuit breakers; 10kV power distribution automation terminals; electrical and electronic devices for power quality control and smooth connection with new energy; smart distribution systems, engineering and services; energy-saving services, etc.

Amidst the deep influence of smart internet of things ("IoT") on energy sectors and life style in China and around the world, the material social responsibility of and development opportunities arising from exploring low-carbon energy for social sustainable development as well as the new demands from smart city construction for IoT communication technology, Wasion will adhere to its corporate motto "Energy Metering and Energy Saving Expert" by continuous innovation and improvement in order to become the pioneer in smart power grids, smart metering and IoT in China; Wasion will also insist on its internationalized development strategy and contribute its expertise to promoting the sustainable development of energy IoT by virtue of its global-leading energy measurement and management techniques, striving to become one of the major international smart power grids, smart city and IoT provider and a well-known international brand.

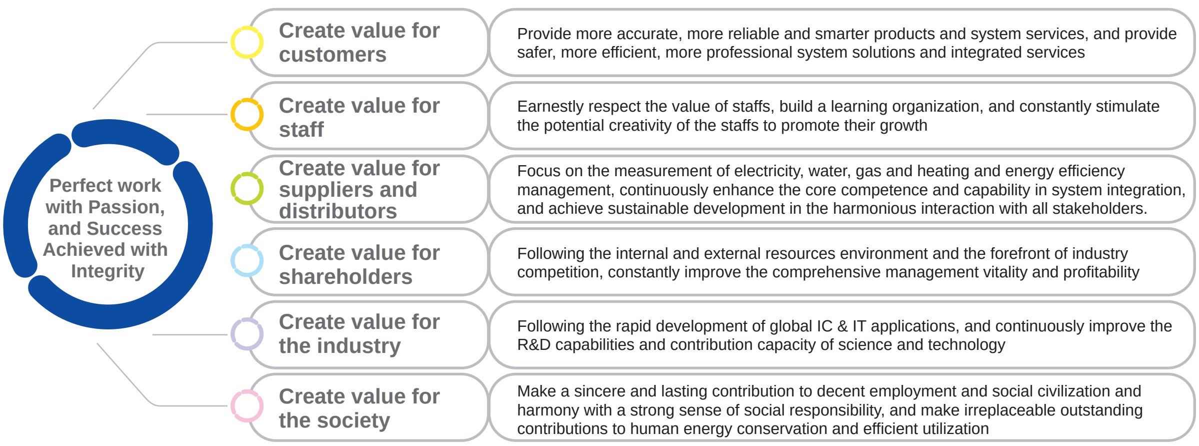
Wasion will persist in the core value of "Perfect Work with Passion, and Success Achieved with Integrity". At the mean time of fast development, it will also perform its corporate social responsibility proactively and let every city, community, enterprise and family be benefited from the products, technologies and services provided by Wasion in a sustainable way.

## II. WILLINGNESS TO DISCHARGE RESPONSIBILITY

### 2.1 Sustainable Development Based on Cultural Concept




As time goes by, the social value of enterprise has aroused extensive public attention. Against such background, it has been the common pursuit of human society about how to achieve sustainable development for mankind amid the opening, shared and inclusive economic globalization. In response to the demand from development of times and regarding "**to make irreplaceable outstanding contributions to energy conservation and energy efficiency of the human kind**" as its goal, Wasion is committed to the sector it is good at with strong sense of historical mission, strives to promote sustainable development of energy industry and proactively performs its social responsibility, so as to help the whole society to gradually improve energy efficiency and boost the development of the society in a harmonious and sustainable manner.




During the process of exploring corporate sustainable development, Wasion has sought to maximize the comprehensive value integrating the interests of stakeholders. By focusing on the original intention to boost public interests and create social value, Wasion has profoundly interpreted the motto of "**Perfect work with Passion, and Success Achieved with Integrity**" from the perspective of stakeholders.

## 2.2 Social Responsibility Contributing to Corporate Strategic Development

Through accurate positioning and the integration of social responsibility development strategy into its medium-to-long-term strategies and major decisions, Wasion has determined the priority of social responsibility strategy based on the core strategic goal for social responsibility of "Being an industry benchmark of proposing harmonious development and discharging social responsibility". By analysis of the comprehensive long-term value of the "six stakeholders", Wasion launches "Four Actions, Four Steps and Three Projects" in order to gain value recognition from stakeholders and draw investors' attention to sustainable development, so as to achieve a win-win situation between social responsibility development strategy and its business development.


## 2.3 Management Mechanism of Social Responsibility

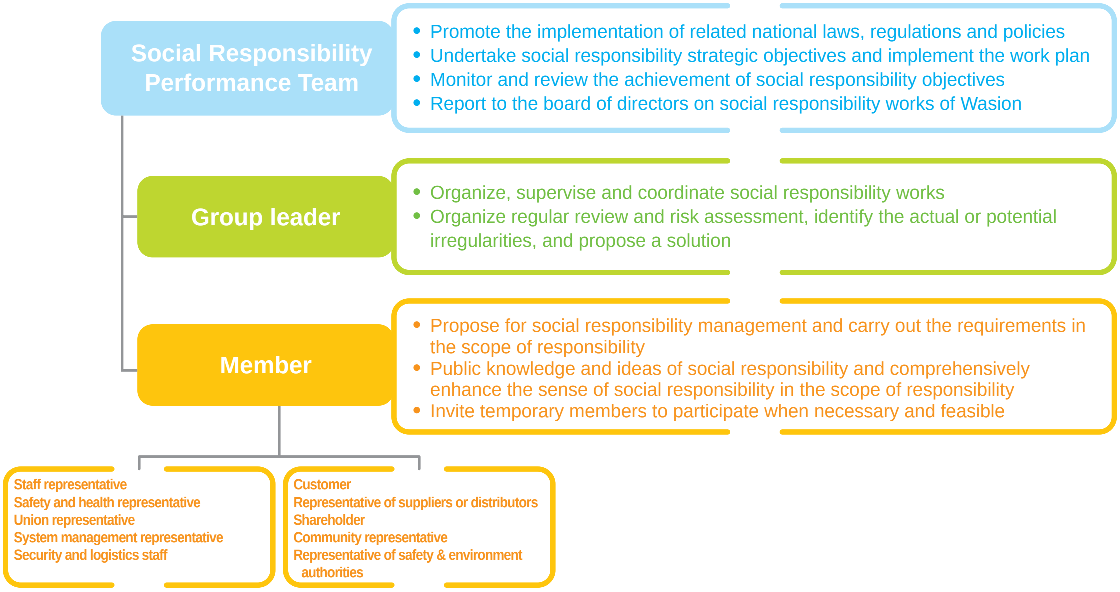
➢ Organization framework of social responsibility

A scientific and reasonable organization framework can serve as the basis of promoting implementation of strategy, therefore, Wasion has given full consideration to its influence on stakeholders in daily operation and attached great importance to the critical role it plays in promoting the integration of the concept of social responsibility into working practices. In order to enable its undertaking of social responsibility to be passed on from generation to generation, Wasion has aroused major stakeholders' sense of participation and enhanced their capabilities by establishing a fully covered organization framework of social responsibility, which has granted them with constant spiritual strength.


Wasion's organization framework of social responsibility

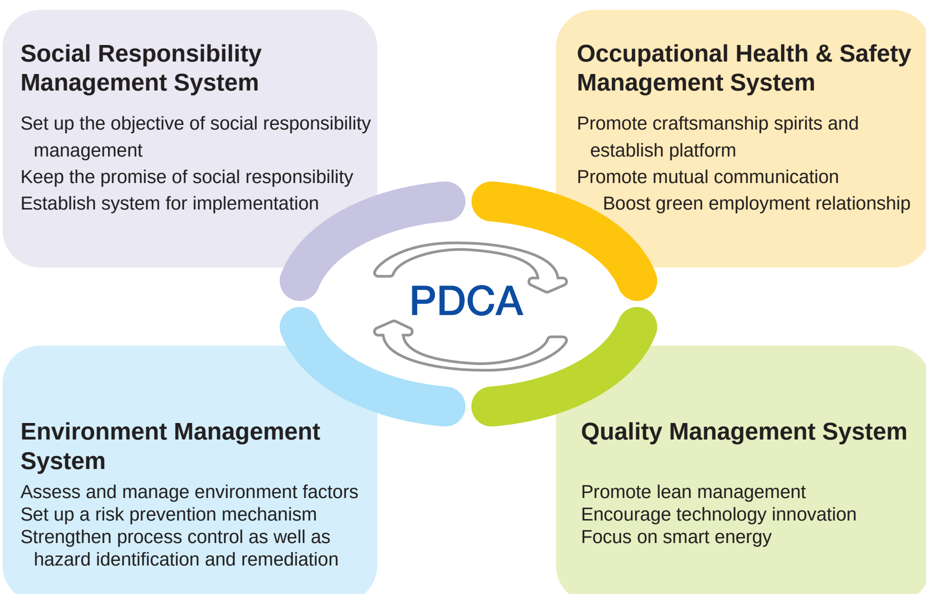
## Responsibilities of social responsibility performance team

Wasion is committed to propelling the integration of social responsibility management into its functional management and daily business operation in an orderly manner by continuously intensifying the organization and construction of the core team, i.e. the social responsibility performance team and exerting the core team's pioneering and leading roles, and through energetic exploration, horizontal collaboration and vertical linkage.




## Management system for social responsibility performance

Based on the fact that social responsibility management system is fully integrated with quality management system, environment management system and occupational health & safety management system, Wasion makes an overall planning for the training of basic social responsibility knowledge, and promotes the improvement of and constantly strengthens the awareness of discharging responsibility by utilizing the PDCA circular management model, in order to implement the policy of social responsibility management system of "keep faith and abide by laws, be safe and health, cherish the staff and give back to the society" throughout its whole process of operating.



## 2.4 Responsible Communication and Substantive Analysis

### Diversified communication

In order to effectively promote the establishment of corporate social responsibility, Wasion proactively establishes diversified channels for responsible communication through exploration and practice, which has lay a foundation for Wasion to make informed decisions about significant events.

By carrying out systematic analysis of the nature and emergency of matters communicated, Wasion determines real-time communication, regular communication, responsibility investigation and other communication methods under comprehensive deployment and with importance highlighted, in order to lead stakeholders to participate in communication and focus on the issues about sustainable development of Wasion. Meanwhile, Wasion actively promotes the establishment of social responsibility in energy industry by exerting the leading role of communication in industry chain.

| Stakeholders | Major Concerns | Communication and Response |
|---|---|---|
| Customer | • Quality product<br>• Customized service<br>• Safety of customer's information | • Continuous technology innovation<br>• Customized solution<br>• Customer satisfaction survey |
| Shareholder | • Sustainable and healthy investment return<br>• Complying with laws and regulations<br>• Social influence<br>• Corruption-free business environment | • Innovation contributing to development<br>• Holding general meeting and press conference<br>• Operating in compliance with laws and strengthening internal control management<br>• open the factory to visitors |
| Staff | • Safeguard of rights and interests<br>• Increasing benefits<br>• Development platform<br>• Physical and psychological health | • Meeting of labor union<br>• Promotion of long-lasting mechanism for talent development<br>• Employee satisfaction survey<br>• Full-participation cultural and recreational activities |
| Suppliers and distributors | • Compliance with laws and regulations and business ethics<br>• Integrity cooperation and mutual benefit<br>• Common development and collaborative support | • Open and transparent procurement policy<br>• Supplier inspection and supplier conference<br>• Shared training and technical exchange |
| Industry | • Fair competition<br>• Open strategic cooperation | • Technical summit<br>• Participate in industry planning and standards definition<br>• Strategic cooperation agreement |
| Government and community | • Safety production and environmental protection<br>• Supporting social welfare<br>• Promoting social and economic development | • Daily work report<br>• Participating in community volunteer activities<br>• Organizing social welfare activities on an ongoing basis<br>• Satisfaction Survey |

## Communication practices

### Establishing international exchange platform to share the concept of sustainable development

In order to widely spread the operation idea of green and sustainable development, Wasion actively promotes the establishment of international exchange platform for the development of smart power grids, which has delivered and gathered strong positive power for the transformation and development of new energy industry worldwide. As a result, the concept of living a green life is deeply rooted in people's heart.

Members of bilateral training course for smart power grids are visiting Wasion and exchanging opinions

### Organizing open day for family members of our staff to get sustain support from them

On 26 July 2019, Wasion organized the social practice activity of "Visiting Wasion to Get Knowledge of Intelligent Production" during summer vacation, so as to provide more family members of our staff with information about new development of the smart energy industry, show them new achievements made in Wasion's measurement undertaking and express thanks to them for their continued support and selfless contribution.

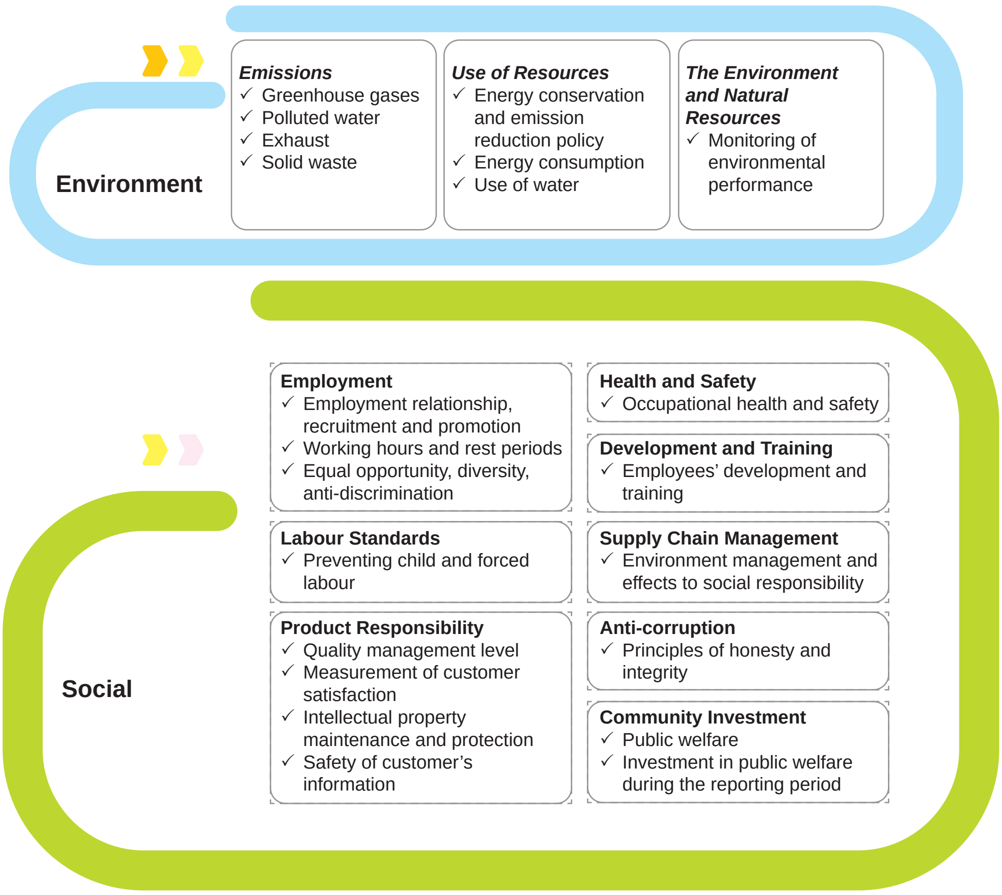
A worker is introducing smart manufacturing workshop to family members of our staff

## Reaching consensus

Low-carbon energy not only evolves as a tendency at a global scale, but also represents an opportunity for sustainable development. Considering the current situation that smart IoT technology has been deeply integrated with smart energy, referring to the outcome from communication with stakeholders and based on its harmonious development strategy and planning, Wasion determines the key issues of its sustainable development in 2019 upon the reflection, classification and assessment of social responsibility issues.

## 2.5 Evaluation of Materiality

Based on the key performance indicators stated in the **Environmental, Social and Governance Reporting Guide set out in Appendix 27** of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, adhering to the reporting principles of materiality, quantitation, balance and consistency, and with the participation of major stakeholders, Wasion Holdings identified and conducted evaluation on the key performance indicators of its key categories in relation to the environment, society and governance in 2019.



## III. RESPONSIBILITY PERFORMANCE

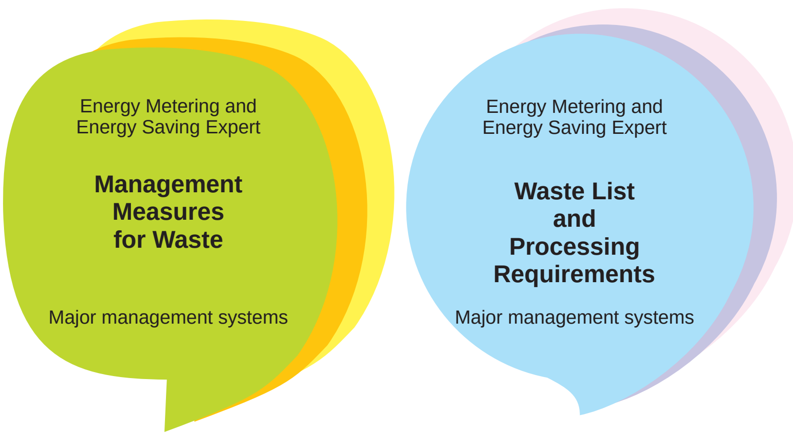
"God will not throw you into poverty if you work hard and implement cost-saving measures". Committed to sustainable development, Wasion Holdings sticks to a "resource-conservative and environment-friendly" scientific development concept, focuses on the core target of driving its green development, energy conservation and quality improvement, and further implements green operation, green management and green office during the whole process of Wasion's infrastructure construction, research and development, production and manufacturing, and operation management.

### 3.1 Environment

Wasion Holdings sticks to the implementation of green operation, continuously improve each auxiliary environment protection policy of Wasion pursuant to "GB/T 24001-2015/ISO 14001:2015 Environmental Management Systems — Requirements with Guidance for Use", and focuses on the on-site environment risk management and the evaluation of environment compliance for the sustainable improvement of management mechanism.

During the reporting period, no case has been identified by Wasion constituting a breach of the laws and regulations in relation to environment.

➢ Emissions



*Category of emissions and treatment measures*

**Greenhouse gases**

Carbon emissions are mainly resulted from the greenhouse gases generated in electricity and seasonal natural gas consumption for the temperature control in the working environment

**Domestic sewage**

- Except for domestic sewage, no industrial waste water is generated during the production process.
- IV class. The water quality meets the standards for IV class water under the Environmental Quality Standards for Surface Water (GB383-2002)

**Exhaust**

- It strictly complies with the requirements under the Air Pollution Prevention Law of the PRC and subject to the inspection of related management authorities
- Exhaust from the production process mainly represents welding fume generated from the volatilization of welding materials and flux during the welding process of electronic parts and components. The main contaminants of the welding fume are tin and its chemical compounds
- Install gas collecting devices for the welding process, through which the welding fume is collected and discharged into high-altitude air after being purified via fume purification devices
- Exhaust from our canteen is purified by the fume purification devices certified by the provincial environmental protection authority before being discharged into high-altitude air
- Strengthen daily leak detection and maintenance of our facilities, pipes and valves to avoid unordered discharge

**Solid waste**

- Non-hazardous waste mainly represents a few waste packing materials from raw materials purchased by the Company and finished products stored by the Company, as well as waste plastics, staff's domestic garbage and kitchen waste
- The Company implements waste classification, strengthen the relevant publicity and education, instruct and regulate waste classification and collection by the staff
- The Company promotes product storage in a "non-packed" form and supply via pass box to reduce the use and waste of cardboard box
- Pursuant to the National Catalogue of Hazardous Wastes, the main hazardous waste represents the very few waste electronic parts and components and solder splashes from the welding process
- Hazardous wastes are stored on special site and regularly delivered to qualified contractors for recycling

*Key performance indicators*

| Category | Total emission | Average emission per million of annual turnover | Unit |
|---|---|---|---|
| Greenhouse gases[1] | 14,976 | 4.1 | ton |
| Domestic sewage | 308,000 | 84.3 | ton |
| Solid wastes — waste paper and plastics | 236 | 0.06 | ton |
| Solid wastes — domestic garbage | 780 | 0.21 | ton |
| Solid wastes — solder splash | 7.1 | / | ton |

1 The calculation of carbon emissions is based on the Greenhouse Gases Protocol published by WBCSD and WRI, Environmental Key Performance Index Reporting Guide issued by the HKEx, and the China Regional Grid Baseline Emission Factor and Guidelines for the Accounting and Reporting of Greenhouse Gases Emissions in Electronic Equipment Manufacturing Enterprises (for Trial Implementation) published by the Climate Change Office of National Development and Reform Commission of China.

### Publicity of waste classification

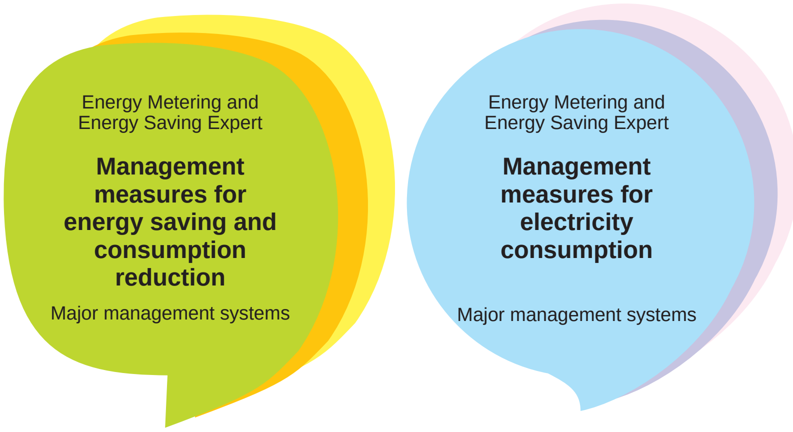
On 14 December, a Waste classification-themed activity named "Beautiful Lugu and Blue Changsha" (共享長沙藍，美麗新麓谷) was jointly held by the Work Committee of the Communist Youth League, Gaoxin branch, Changsha, Wasion Committee of the Communist Youth League and Zhaohui Youth Development Center, Changsha (長沙朝暉青少年公益發展中心) in Wasion Technology Park. More than 50 primary level management personnel organized by Wasion Committee of the Communist Youth League and the production center attended the activity.

Waste classification-themed activity in Wasion Technology Park

### Use of Resources

Internally, Wasion strengthens green management by stepping up its efforts in the integration of information technology ("IT") application and industrialization, and continuously improving the IT level of its production and operation. With a focus on the four management areas, including management responsibility, basic security, implementation process and evaluation & improvement, it aims to realize process management and global optimization via the integration of IT application and industrialization, reduce its reliance on the traditional office resources and minimize resource consumption. Externally, it promotes green package by replacing the traditional cardboard box with the reusable pass box, and actively support and drive the development of "non-packed" supply chain distribution projects to facilitate the energy saving and emission reduction along the industry chain.

Wasion has made reasonable use of water obtained adequately from the municipal water supply system, hence no problem had been found in seeking for water source.

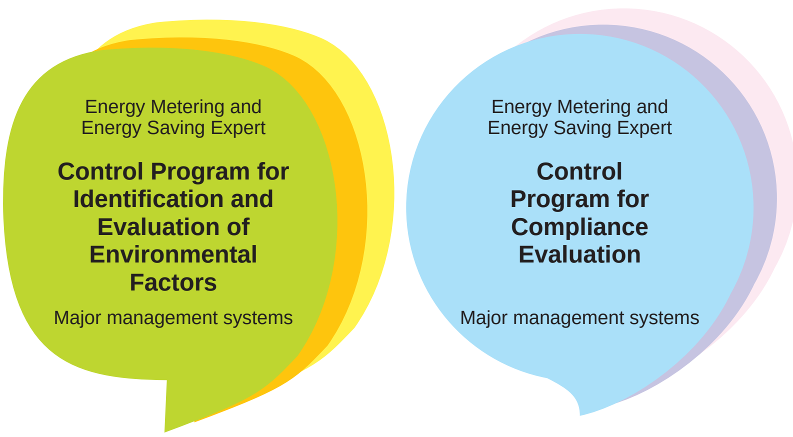



*Key performance indicators*

| Category | Total | Average consumption per million of annual turnover | Unit |
|---|---|---|---|
| Electricity | 21,681,840 | 5,931 | KWH |
| Natural gas | 400,667 | 110 | cubic meter |
| Tap water | 520,963 | 143 | ton |
| Packing material[2] | 2,924 | 0.80 | ton |

## ➢ Environment and Natural Resources

As an energy metering and energy saving expert, Wasion focuses on technological innovation in strengthening energy saving and emission reduction measures and proactively identifies and promote the introduction and application of new materials, new technology, new technics and new equipment. Regarding to environment protection and control, Wasion focuses on the improvement of environment risk control ability on the work site and has a sewage monitoring and repair & maintenance system in place, thus forming a complete process of inspection, maintenance, repair and monitoring and ensuring the emission of pollutants are controlled in a standard manner. In order to raise the awareness of energy conservation and environment protection, Wasion actively follows the government's policies on energy conservation and environment protection. It organizes the staff to implement and give publicity to waste classification and steps its effort in promoting environment protection and related trainings through various activities.




2 The major packing material is cardboard box.

Wasion's village-level power station construction project in 2019
for photovoltaic poverty alleviation set out in the 13th Five-Year Plan

## 3.2 Society

### ➢ Employment

Human resource management plays an integral part for an enterprise to maintain a solid foundation and realize sustainable and healthy development. In order to ensure the human resource management of Wasion consistent with its development strategy, we value our employees and teams as our primary high-quality assets. Abiding by the principle of "making a sincere and lasting contribution to decent employment and social civilization and harmony with a strong sense of social responsibility", Wasion integrates the corporate culture into each part of human resource management to drive the development of Wasion in a healthy and sustainable manner while helping its employees to realize their social value.

Wasion strictly complies with the requirements of the laws and regulations including the Labour Law of the PRC and the Law on the Protection of Women's Rights and Interests of the PRC to implement each management policy. During the reporting period, Wasion had not found any case constituting a significant violation of laws and regulations in relation to human resource.

Wasion won "Top 10 Employers in Hunan of China Best Employer Award 2019"
(2019中國年度最佳僱主湖南十強)

Adhering to the operation philosophy, i.e. act for the benefit and interests of the staff and assume its social responsibility to pay back to the society, Wasion has implemented various measures to make the staff increasingly benefit from its development fruits in a more fair and appropriate manner.

Establish Home of the Staff into a harbor of love


Advocate craftsmanship and establish a staff training platform for skills and techniques

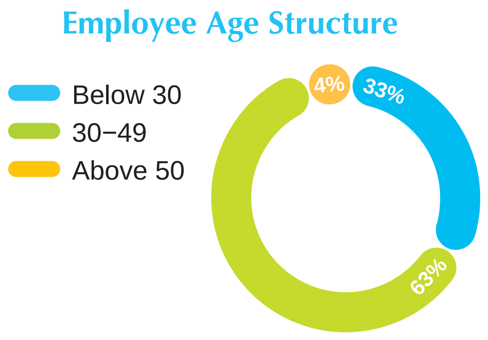

Understand employee need and solve the most-concerned problem

As at 31 December 2019, Wasion Holdings had a total of approximately 3,243 employees[3] as follows:

| Gender | Total (person) |
|---|---|
| Male | 2,233 |
| Female | 1,010 |

| Position | Total (person) |
|---|---|
| Senior | 62 |
| Middle | 351 |
| General | 2,830 |

| Country | Total (person) |
|---|---|
| China | 3,239 |
| Overseas | 4 |




## Health and Safety

Adhering to the safe production approach of "safety-first and precaution-based comprehensive control", Wasion intensifies the safe production management system continuously, fulfills the safe production management target in a top-down way, identifies and ascertains the relevant responsibility-owner, conducts potential risk identification and control and provides safety trainings to improve the safety and precaution awareness of the staff.

According to the personnel appointment in 2019, Wasion Holdings made certain adjustments to the members of the safe production, occupational health and environment management committee to ensure the leading group and execution group of the committee cover the major leaders of each responsibility center and the safe production work are carried out smoothly.

3 Total number of employees represents the aggregation of all full-time contractual employees.

During the reporting period, no case has been identified by Wasion constituting a breach of the laws and regulations in relation to health and safety in workplace.

## Fire drills in 2019

Wasion revised its emergency plan based on the emergency drills organized in 2018. It organized 5 emergency drills on request, including the "emergency drill on workplace electrical shock" and the "evacuation drill on plant fire", in order to further facilitate the coordination among each group of the emergency organization and improve their preparedness, organization and response to emergencies.

Firefighters simulate to put out a fire in a fire drill

## Special Skills Training

In addition to the three levels of safety education and training, Wasion also provides various special skills training, including the occupational health training, cardio-pulmonary resuscitation training and safety training for outsourced engineers. Aggregately, 26 cardio-pulmonary resuscitation training sessions, consisting of theoretical knowledge training and practical knowledge training, were organized for 265 employees.


First aid training

## Green and healthy staff activities

Wasion organized various recreational activities in relation to occupational health and safe production to guide the staff to a healthy, scientific and active life style.

### ➢ Development and Training

Wasion continues to expand its talent pool by attracting, developing, using and managing people in a selective, effective, reasonable and scientific way. Further, it develops innovative thinking and optimizes policy to lay a solid foundation for the rapid development of Wasion.

The combination of hiring from outside and developing inside continues to be Wasion's talent reserve mechanism. It puts great efforts in talent sourcing and development. On one hand, it improves the quality of its services to and seeks for preferential policy for its employees and help them to solve the problem relevant to their interests, such as the evaluation and engagement of professional titles, education of their children and residence migration, to attract more talents to join and take root in Wasion. On the other hand, under the guidance of its development strategy, Wasion strengthens the establishment of internal training system, monitors job skills training and encourages vocational studies to allow the existing employees to be fully developed to make new contribution.

Wasion provides diversified career development schemes to its employees and has a healthy competition mechanism in place to encourage its employees to face the competition and stand out therefrom. Following the principles of openness, fairness and impartiality, Wasion further implements the job qualification rating system to drive the development of a long-term incentive mechanism for core talents.

**The launch ceremony of the first Elite Globalization Training Camp 2019 was held by Wasion in the afternoon on 23 August**

| Gender | Attendance | Average Training Hours |
|---|---|---|
| Female | 95.9% | 32.0 |
| Male | 96.5% | 28.9 |

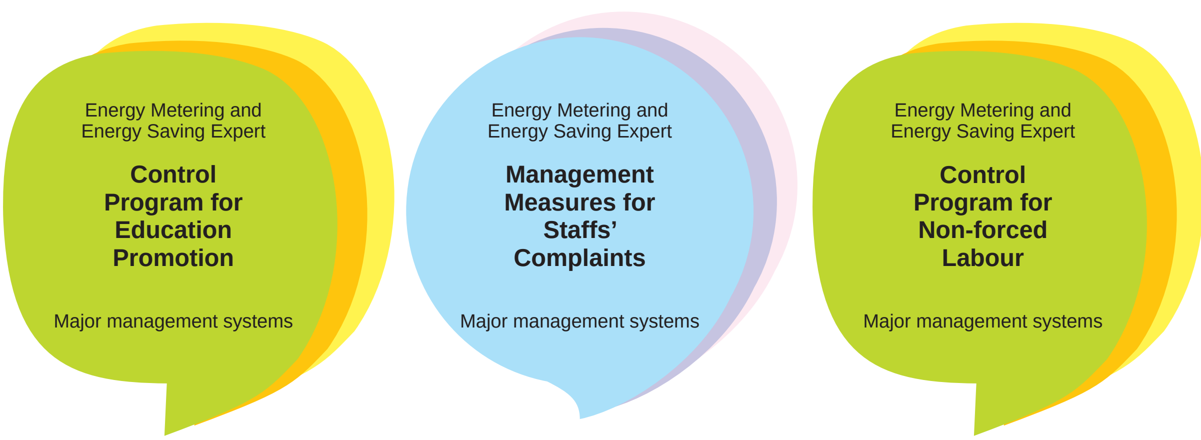
| Position | Attendance | Average Training Hours |
|---|---|---|
| General | 92.9% | 19.2 |
| Middle | 100% | 42.0 |
| Senior | 100% | 47.8 |

### Labour Standards

During the establishment, adjustment and implementation of internal labour policies and employee management system, Wasion strictly complies with the relevant national, provincial, municipal and local policies, laws and regulations, and, as required by the SA8000 Social Responsibility Management System, adopts the most favorable terms for the workers in relation to regulations of the same theme. In order to make sure each rule or regulation is implemented in a proper manner, Wasion provides targeted training sessions to let the management know their power and authority and the performer know their interests. Meanwhile, it has established an employee monitoring system, through which each employee can make suggestions and express his/her expectation.

In to avoid the misuse of child labour, Wasion continuously provides trainings on the laws and regulations related to the prohibition of using child labour to the recruiters and inspects the compliance and completeness of the personnel archives on a sample basis through internal audit and special audit. As bridges linking labours and Wasion, the labour representative and labour union are also relied on to prevent the use of forced labour.

During the reporting period, no case has been identified by Wasion constituting a breach of the laws and regulations in relation to anti-child labour or forced labour.



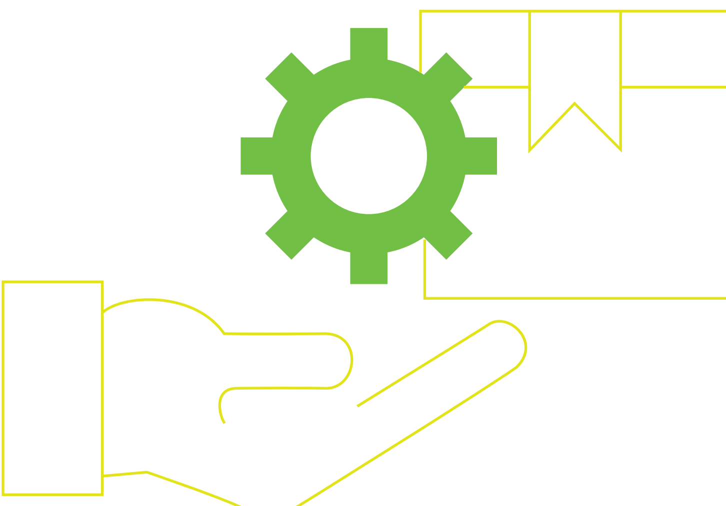
### ➢ Chain Management

In implementing its green development strategy, Wasion incorporates environment protection and social responsibility risk into its supply chain risk control system and improves its management over the environment performance and social responsibility performance of its suppliers, while fulfilling its own social responsibilities.

Supplier Conference 2019 of Wasion Electric Limited themed “Integrity and Solidarity Make Success”

Wasion continues to improve the method for evaluating the social responsibility risk level of its suppliers. Based on the product types and production process of its suppliers, it divides the social responsibility risk of suppliers into different levels. During the open supplier introduction and evaluation, it chooses on-site inspection, questionnaire or other forms of due diligence review on social responsibility, subject to different risk control requirements. It also focuses on the improvement of the professional ability of the internal management personnel and organizes trainings and examinations on the SA8000 Social Responsibility Management System for the quality assurance engineers of suppliers, enabling its strategic partners to improve their environment protection and social responsibility management and boost the sustainable development performance of the supply chain.

| Geographic Location | Number of Supplier |
|---|---|
| China | 800 |
| Overseas | 35 |



## Product Responsibility

*Innovation-driven quality improvement*

Wasion is committed to establishing industry-university-research platforms to deepen the cooperation of scientific research and improve technological innovation and the core competitive edge of products. It steps up efforts in research and development to improve Wasion's innovation strength and level of expertise and internationalization. In response to the government's "Belt and Road" initiative, Wasion has accelerated overseas market expansion and gradually improved its overseas business layout, making the products, technologies and services of Wasion available to more cities, communities, enterprises and families. Wasion will make continuous efforts to achieve new results of innovative development.

In order to implement the innovation value of "everyone innovates everyday", we give finance aid to each innovative thinking and scheme. In 2019, Wasion received 217 applications for innovation fund award, 197 or 91% of which won the award. An aggregate amount of RMB881,300 was granted by Wasion.

During the reporting period, no case has been identified by Wasion constituting a breach of the laws and regulations in relation to product and service quality.

### Main Technical Achievements

- Willfar Information Technology Company Limited won the Second Prize for Progress in Science and Technology granted by China Southern Power Grid Co Ltd
- Willfar Information Technology Company Limited was recognized as a "2019 Changsha Model Pilot Enterprise of Smart Manufacturing" (2019年長沙市智能製造試點示範企業)
- Willfar Information Technology Company Limited was awarded the "2019 Changsha First Batch of Key Artificial Intelligence Enterprise" (2019年長沙市首批人工智能重點企業)


- The 3-phase electric power meter produced by Wasion Group Limited was enlisted in the fourth batch of Champion Single Product in Manufacturing Industry by the Ministry of Industry and Information Technology of the PRC
- The single-phase & tariff-control smart power meter produced by Wasion Group Limited received the certificate of energy-saving single-phase static power meter by China Quality Certification Center, the first in China

- Wasion Group Limited won the bronze award of the fifth “Youth Innovation Challenge” (青年創新創意大賽) organized by State Grid Corporation of China
- Conducted extensive “industry-university-research” collaboration with several universities, including Zhejiang University, Huazhong University of Science and Technology, Hunan University, and scientific research organizations, including Hunan Metering Center (湖南省計量中心) of the State Grid

- Wasion Electric Limited was approved to upgrade to be an Engineering Research Center
- Wasion Electric Limited was awarded as “Hunan Industry Quality Benchmark” (湖南省工業質量標桿)



Wasion in China International Rail Transit & Equipment Manufacturing Industry Exposition 2019

*Measurement of customer satisfaction*

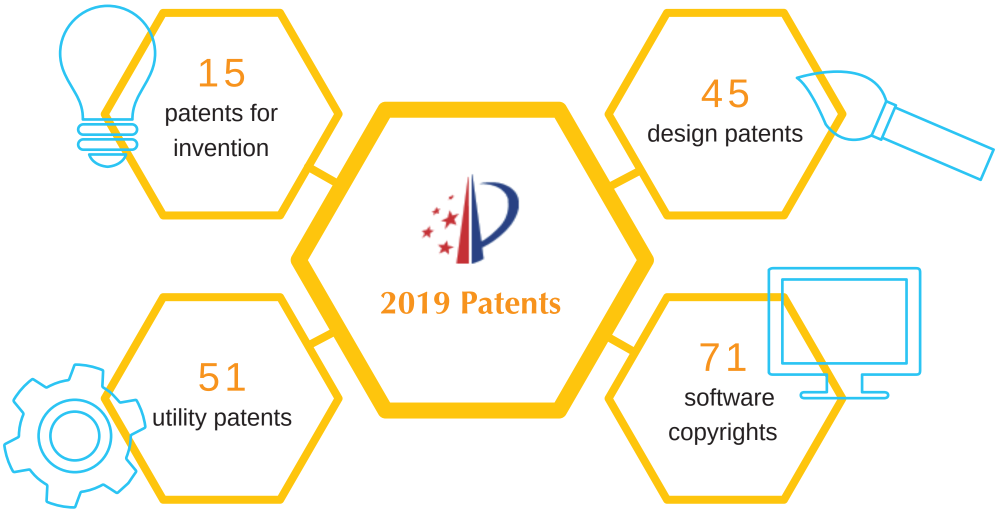
Product fulfillment satisfaction and marketing work satisfaction were added by the quality control department to the scheme of customer satisfaction measurement of the customer satisfaction survey in 2019 on the basis of 2018 scheme. The survey was assisted by the domestic and overseas marketing and technology service departments to collect data from the questionnaire of customer satisfaction. The results upon sorting and calculation pursuant to the measurement scheme are as follows:

| Item | 2019 | 2018 |
|---|---|---|
| Product Quality Satisfaction | 95.64% | 94.48% |
| Service Quality Satisfaction | 98.01% | 97.02% |
| Product Fulfillment Satisfaction | 96.43% | / |
| Marketing Work Satisfaction | 97.43% | / |

*Maintenance and protection of intellectual properties*

Wasion has delegated professional intellectual property management department responsible for the establishment and improvement of intellectual property management and incentive mechanism, supported by research & development, technology, production and legal risk control and based on laws and regulations including the Patent Law of the PRC (《中華人民共和國專利法》), the Detailed Rules for the Implementation of the Patent Law of the PRC (《中華人民共和國專利法實施細則》) and the Provisions of Patent of Hunan Province (《湖南省專利條例》) in relation to the requirement of the management of patents, copyrights and trademarks.

In May 2019, Wasion Electric Limited passed the certification of the Intellectual Property Management System and was included in the "List of Pilot Enterprises for Industrial Enterprise Intellectual Property Application" (工業企業知識產權運用試點企業名單) of the Ministry of Industry and Information Technology of the PRC.




*Customer data security*

Wasion considers data security and customer information protection to be a responsibility that Wasion and its partners must assume. Based on the requirement and management strategy of ISO27001 information security management system, in respect of commercial secrets, customer information and privacy protection, Wasion adopts appropriate technical means and processes to prevent the relevant information from unauthorized use and asks relevant suppliers to sign relevant terms and conditions to protect confidential information. Any information leakage of the supplier or staff will be strictly investigated pursuant to the signed effective provisions or internal regulations.

➢ Anti-corruption

During the reporting period, no case was identified by Wasion constituting a breach of the laws and regulations in relation to bribery and corruption, nor any lawsuit was pending or concluded against Wasion or any employee.

威胜集团

安全、廉洁过春节倡议书

公司全体同仁：

大家好，值此新春佳节来临之际，预祝各位同仁新年快乐！

在此喜庆时刻，我们倡议"安全、廉洁过春节"，合作伙伴极可能通过赠送礼品等各种方式问候春节，然而，公司员工接受馈赠是有违威胜价值观及商业行为准则，更与签署的《廉洁守法承诺书》等法律文件相违背。我们提醒：为了您的个人前途和公司利益，期望您严格遵守《中华人民共和国刑法》、《威胜商业活动行为禁令》、《廉洁守法承诺书》等相关规定，任何时候都不要收受、更不得索取合作伙伴或潜在合作伙伴的回扣、返利、馈赠、宴请、旅游或娱乐消费等，上述表现形式包括但不限于现金或现金等价物、实物、礼品或其他财产性利益等。

同时我们提醒：为了您的健康与平安，春节期间不酗酒、不劝酒、更不要强行灌酒，对同桌醉酒者要尽合理的安全到家义务，服用头孢等过敏性药品时请不要饮酒，酒后不要开车，不要对公安机关的查处酒驾力度存有侥幸心理。

春节期间不是法外之地，请各位同仁高度重视，切勿以身试法，春节期间监察举报和法律服务电话是：136 0731 1695谭律师祝大家过一个廉洁、安全祥和的春节。

风控中心法务监察部
2020年1月18日

We place anti-corruption as one of the prohibitions of commercial activities in order to maintain a fair market. We strengthen our internal control mechanism and delegate the power of supervision and inspection to professional audit department according to relevant system and intensify the publicity of anti-corruption among the employees. We also procure relevant employees at key positions to sign a letter of undertaking to improve their anti-corruption awareness. A reporting process has also been set up to encourage and assist whistle-blowers to report misconduct, fraud or irregularities through confidential channels.

We undertake to review the relevant claims fairly and justly and decide appropriate investigation and corrective actions depending on specific needs.

## Community Investment

"Remain True to Our Original Aspiration", Wasion Holdings has been actively involved in various public welfare and charity undertakings and aligned the key direction of "Wasion's Public Welfare" with "targeted poverty alleviation", a strategic thinking of General Secretary Xi Jinping: spirit spreading, disaster relieving, poverty alleviation and education promotion. "Do not think any virtue trivial, and so neglect it", we believe every person's every little act of kindness will ultimately form endless power of public welfare. To this end, we encourage every wasioner to undertake initiatives to spread the positive effect of Wasion fund, participate in public welfare and co-develop with Wasion in a sustainable and healthy manner.

With an open and inclusive culture, Wasion accepts the undergraduates for internship in finance, research and technical support posts. In 2019, over 90 short-term internships were arranged and over 360 students were employed by Wasion.

Staff Support Fund

In 2019, the Staff Support Fund of Wasion made an accumulated donation amount of RMB332,900 to 85 employees in the theme of "Cares for Wasion Women" (情暖威勝半邊天), "Hymn to Labor" (向勞動者致敬), "Healthy Life" (健康生活) and "Cares for the Expatriates" (情繫駐外) respectively. Since the launch, the Staff Support Fund has donated an aggregate amount of over RMB6.3 million.

| Category | Capital investment | Time investment |
|---|---|---|
| Education and community | Over RMB300,000 | Over 200 hours |

## IV. EVALUATION AND DEVELOPMENT DIRECTION OF RESPONSIBILITY PERFORMANCE

Under the 10 principles of "Global Compact", Wasion made the following conclusion on the evaluation of the responsibility performance in 2019 and the undertaking and development for 2020:

| 10 principles of "Global Compact" | Undertaking | Evaluation of responsibility performance in 2019 | Development direction in 2020 |
|---|---|---|---|
| **Human Rights** | | | |
| 1. Businesses should support and respect the protection of internationally proclaimed human rights<br>2. Make sure that they are not complicit in human rights abuses | Comply with the international conventions and international practices signed and recognized by the Chinese Government, comply with the laws and regulations of the country where it operates, and undertake to respect and support human rights across Wasion's footprint. | Full compliance. | To maintain and review whether there is a deviation and continuously improve. |
| | Make sure that we are not complicit in human rights abuses. | Full compliance. | To maintain and review whether there is a deviation and continuously improve. |
| | Offer job opportunities for certain disabled people to protect their rights and interests. | The Company treated all the disabled equally in recruitment. | To identify appropriate posts for the disabled. |

| 10 principles of "Global Compact" | Undertaking | Evaluation of responsibility performance in 2019 | Development direction in 2020 |
|---|---|---|---|
| **Labour** | | | |
| 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining | Ensure the free operation of trade unions and actively support trade union activities to protect the right to collective bargaining. | Various recreational activities beneficial to physical and mental health were planned and organized to enrich the staffs' spare time, including various cultural and sports activities. | To continuously inspect and improve according to established policies. |
| 4. The elimination of all forms of forced and compulsory labour<br>5. The effective abolition of child labour | Promote the regularization, standardization and transparency of democratic management in forms of staff congress, staff forum and operation express. | Active participation of staff representatives was encouraged to know the needs of our staff and staff forums were hold regularly to understand their situation. | To continuously inspect and improve according to established policies. |
| 6. The elimination of discrimination in respect of employment and occupation | Eliminate child and forced labour. | It is specified in the recruitment system. Relevant trainings were organized to ask for strict implementation. No child labour was found. | To continuously inspect and improve according to established policies. |
| | Eliminate discrimination in respect of ethnic, gender, age, disease, race and religion, adopt position and performance-based remuneration package, and implement equal pay for equal work. | Relevant management provisions have been reflected in Wasion's compensation policy and staff manual have been strictly carried out. | To continuously inspect and improve according to established policies. |
| | Ensure decent employment, provide compensation in line with the national condition and actual corporate situation, balance the employees' work and life, establish a reasonable paid leave system, and realize 100% labour contracting ratio, five insurance-one fund coverage and employment compliance. | A survey on the minimum living needs of our staff was carried out to review their compensation level.<br><br>100% labour contracting ratio, "five insurance-one fund" coverage ratio and employment compliance were realized. | To continuously expand talent pool. |

| 10 principles of "Global Compact" | Undertaking | Evaluation of responsibility performance in 2019 | Development direction in 2020 |
|---|---|---|---|
| **Environment** | | | |
| 7. Businesses should support a precautionary approach to environmental challenges<br><br>8. Undertake initiatives to promote greater environmental responsibility | Based on the demand for energy, intensify the technological research in the smart energy industry.<br><br>Continue to tap the potential of consumption reduction to reduce 2%–5% of our comprehensive energy consumption. | The total consumption of electricity, water and gas in the park decreased 3.1% compared to the previous year (in terms of the percentage of annual turnover energy consumption). | To continuously promote and improve the management of energy conservation and consumption reduction work. |
| 9. Encourage the development and diffusion of environmentally friendly technologies | Continue to promote paper-free office business. | Integration of IT application and industrialization was introduced and implemented. | |
| **Anti-corruption** | | | |
| 10. Businesses should work against corruption in all its forms, including extortion and bribery | Continuously promote and implement the Wasion Values and Code of Conduct Manual and ten prohibitions of commercial activities of Wasion. | Training and evaluation were organized to facilitate Wasion Values in each working process. | To continuously implement corporate culture advocacy project. |
| | Enhance prevention and supervision function of the Risk Control Center, accept corruption reports, and carry out anticorruption investigation. | No case was found by Wasion constituting a breach of the laws and regulations in relation to bribery and corruption. | To promote relevant laws and regulations, and maintain and strengthen the supervising efforts. |
| | Promote transparent operation, strengthen legal governance, improve internal control system, accept supervision of the community and prevent corruption risk. | No lawsuit was pending or concluded against Wasion or its employees in respect of corruption. | |

* Please contact us if you have any comment on this report.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Ji Wei (吉為)**, aged 63, is an executive Director, the chairman of the Company and the founder of the Group. Mr. Ji is responsible for the Group's overall strategic planning and the formulation of corporate policies. Prior to founding the Group in 2000, Mr. Ji was a business manager of Hunan Province Minerals Import and Export Company (湖南省五金礦產進出口公司) between 1980 and 1985 and the import and export manager of Hunan International Economic Development (Group) Company (湖南省國際經濟開發(集團)公司) between 1985 and 1989. Mr. Ji was appointed as an executive Director of the Company with effect from 20 July 2004. Mr. Ji was consecutively appointed as a member of the 10th, 11th, and 12th Chinese People's Political Consultative Conference of Hunan Province from 2007 to date. He is now a deputy chairman of the Hunan Federation of Industry and Commerce. He was awarded with several honourary titles such as "Most Socially Responsible Entrepreneur", "The Sixth Top Ten Educational Entrepreneur Award in China", "Most Caring Entrepreneur on Staff Development", "National Machinery Industry Excellent Entrepreneur", "Key Personnel for the Construction of Innovative Culture in Hunan Province", "Special Recognition Award for Occupational Technology Creation in Hunan Province" and "Excellent Entrepreneur" at the 30th anniversary of Changsha Hi-Tech Zone.

**Ms. Cao Zhao Hui (曹朝輝)**, aged 52, is an executive Director, the Chief Executive Officer and the chairman of Wasion Electric Limited. Ms. Cao graduated from Hunan University of Technology and Business with a bachelor degree in Economics. She also obtained a degree in executive master of business administration (EMBA) from the University of Hunan (湖南大學). Ms. Cao joined the Group in 2000 and was appointed as an executive Director of the Company with effect from 3 March 2005.

**Mr. Zeng Xin (曾辛)**, aged 49, is a senior engineer, an executive Director and the president of Wasion Electric Limited. Mr. Zeng graduated from the National University of Defense Technology with a bachelor's degree in system engineering in 1992. During 1992 to 1993, he studied in the Qinghua University for a postgraduate degree programme. In 1995, Mr. Zeng obtained a master degree in engineering from the China Academy of Space Technology (中國空間技術研究院). In 2012, he graduated from the Advanced Management in the Energy Sector of Cheung Kong Graduate School of Business. He participated in several research projects in the China Academy of Space Technology (中國空間技術研究院) during his studies and after graduation. Mr. Zeng was a general manager for domestic sales of Wasion Group Limited, a general manager of Weisheng Energy Industrial Technology Co., Ltd., and vice president of the Group since 2006. Mr. Zeng joined the Group in July 2004 and was appointed as an executive Director of the Company with effect from 1 September 2005.

**Ms. Zheng Xiao Ping (鄭小平)**, aged 56, is a senior engineer, a master of engineering in automation, an executive Director and chairman of Wasion Group Limited. Between 1987 and 1988, Ms. Zheng was a teaching assistant at the North China Institute of Technology. She lectured at the Taiyuan University of Technology between 1988 and 1993 and was the research director of Hunan Weisheng Electronics Co., Ltd. (湖南威勝電子有限公司) from 1993 to 2000 being responsible for the research and development work. She joined the Group in 2000 and was responsible for the research and development work of the Group. Ms. Zheng was appointed as an executive Director of the Company with effect from 1 September 2005. Ms. Zheng was also awarded with various honourary titles such as "The Seventh Group of Outstanding Experts in Changsha", "Top Ten Women Entrepreneurs with Outstanding Achievement in Changsha City", "National Labour Day Medal" and "National Top Ten Technological Worker in Electronic Devices and Meters Industry".

**Mr. Tian Zhongping (田仲平)**, aged 40, is an executive Director and the president of Wasion Group Limited. Mr. Tian graduated from Xiangtan University (湘潭大學) with a bachelor degree in Engineering in 2002, and obtained a master degree in Control Engineering from Zhongnan University (中南大學) in 2008. Mr. Tian joined the Group in 2002 after graduation and had held positions as Development Engineer for firmware, Project Manager, Product Development Manager, Deputy Chief Engineer and General Manager of the Overseas Sales Department of the Group. During the period when he was a Development Engineer of the Group, Mr. Tian has obtained more than sixty patents for products and technology. Mr. Tian was appointed as an executive Director of the Company on 26 January 2017. He serves as the president of Wasion Group Limited from 2017 up to date. Mr. Tian was awarded with the honorary titles of Excellent Entrepreneur of Changsha Hi-Tech Zone and Excellent Manager in China in 2017, and Outstanding Entrepreneur by China Electronics Enterprises Association in 2018.

## NON-EXECUTIVE DIRECTOR

**Mr. Kat Chit (吉喆)**, aged 36, is a non-executive Director. Mr. Kat graduated from the University of British Columbia of Canada with a bachelor degree in economics in 2007. From 2007 to 2011, he was an executive of the equity capital markets division of Macquarie Group Limited. Mr. Kat was appointed as a non-executive Director of the Company on 12 August 2014. He serves as the president of Willfar Information Technology Company Limited with effect from January 2017. Mr. Kat is the son of Mr. Ji Wei, the chairman, executive Director and controlling shareholder of the Company.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Professor Huang Jing (黃靖)**, aged 63, is an independent non-executive Director. Professor Huang graduated from Sichuan University with a bachelor degree in English. He obtained his master degree in history from Shanghai Fudan University, and his doctor of philosophy degree in political science from Harvard University. Mr. Huang is currently a University Professor at Beijing Language and Culture University, the Academic Dean of College of International and Regional Studies (國別和區域研究院) and a Richard Von Weizsäcker fellow from the Robert Bosch Stiftung. Mr. Huang had been a Lee Foundation chair professor of US-China Relations and director of Centre on Asia and Globalisation at the Lee Kuan Yew School of Public Policy, National University of Singapore. Prior to joining the Lee Kuan Yew School of Public Policy, Mr. Huang had been a senior research analyst at the Brookings Institution and taught at Harvard University, University of Utah and Stanford University. Mr. Huang is a senior overseas economic analyst for China's Xinhua News Agency, a chief strategist and the vice chairman of the Academic Committee of Grandview Institution in Beijing an advisory member of European-House Ambrosetti Foundation in Italy, a member of the Academic Board of StarsFoundation in Switzerland, a member of the Academic Board of the Center on China and Globalization, and a member of the Global Agenda Council at the World Economic Forum. Mr. Huang was appointed as an independent non-executive Director of the Company on 18 October 2016.

**Mr. Luan Wenpeng (欒文鵬)**, aged 55, was an independent non-executive Director with doctor's degree in electrical engineering. Mr. Luan is a PEng in British Columbia, Canada, a senior member of IEEE and an individual member of CIGRE. He has been engaged in the works as well as the research of systematic planning of the electrical power system, smart power grids, smart metering infrastructure, distribution automation, data analysis, distributed energy resources integration, asset management etc. for more than 20 years. As a distinguished expert of state level in China, Mr. Luan is currently a professor of Tianjin University, general secretary of the Technical Board of IEC distributed electric energy system (SC8B), the chairman of the IEEE expert working group for microgrids planning and design (IEEE P2030.9 WG) and the vice chairman of IEEE expert working group for smart distribution terminal (IEEE P2815 WG). Mr. Luan was appointed as an independent non-executive Director of the Company on 16 May 2016.

**Mr. Cheng Shi Jie (程時杰)**, aged 74, is an independent non-executive Director. Mr. Cheng graduated from the Xi'an Jiaotong University with a bachelor degree in electronic engineering in 1967, the Huazhong University of Science and Technology with a master degree in electrical engineering in 1981 and the University of Calgary, Canada with a doctoral degree in philosophy in 1986, respectively. He has been a professor in the Huazhong University of Science and Technology since 1991 and a visiting professor in the Nanyang Technological University in 1995 and 1996. Mr. Cheng was granted the qualification of doctoral tutor by the Academic Degrees Committee of the State Council in 1993 and was elected as an academician of the Chinese Academy of Sciences and a fellow of the Institute of Electrical and Electronics Engineers (美國電子電氣工程師協會) in 2007 and 2010 respectively. Mr. Cheng was appointed as an independent non-executive Director of the Company on 12 August 2014.

**Mr. Hui Wing Kuen (許永權)**, aged 71, is an independent non-executive Director and an Australian by nationality. Mr. Hui has extensive financial and taxation experience in Hong Kong and Australia. He is a member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries and CPA Australia. He obtained his Master of Business Administration degree from the University of South Australia. Mr. Hui was previously an independent non-executive Director of the Company from September 2005 to May 2014. Mr. Hui was appointed as an independent non-executive Director of the Company on 15 May 2015.

## SENIOR MANAGEMENT OF THE GROUP

**Mr. Choi Wai Lung Edward (蔡偉龍)**, aged 51, is the chief financial officer and company secretary of the Company. Mr. Choi is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants with over 29 years of experience in accounting, auditing and finance.

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries and a joint venture are set out in Notes 44 and 20 to the consolidated financial statements, respectively.

## BUSINESS REVIEW

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the "Management Discussion and Analysis" section set out on pages 14 to 24 of this annual report. This discussion forms part of this Directors' Report.

## DIVIDENDS

The results of the Group for the year ended 31 December 2019 and the Group's financial position at that day are set out in the consolidated financial statements on pages 88 to 90 of the annual report. An interim dividend of HK$0.06 per share was paid to the shareholders during the year.

The directors have proposed a final dividend of HK$0.20, per share (2018: HK$0.20) per share to shareholders of the Company whose names appear in the register of members on 25 June 2020 and a resolution to this effect will be proposed and subject to the shareholders' approval in the forthcoming annual general meeting. The final dividend is expected to be paid on 8 July 2020.

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in Note 32 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2019 comprised the share premium, merger reserve and retained profits of RMB1,286,575,000 (2018: RMB1,526,978,000) in aggregate.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

### Executive directors:

Ji Wei *(Chairman)*
Cao Zhao Hui *(Chief Executive Officer)*
Zeng Xin
Zheng Xiao Ping
Tian Zhongping

### Non-executive director:

Kat Chit

### Independent non-executive directors:

Hui Wing Kuen
Huang Jing
Luan Wenpeng
Cheng Shi Jie

Pursuant to Article 87 of the Articles of Association of the Company (the "Articles"), at each annual general meeting of the Company ("Annual General Meeting"), one third of the directors for the time being or, if their number is not three or a multiple of three, then the number nearest to one-third, shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years. The directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. The retiring directors shall be eligible for re-election. Pursuant to Article 87 of the Articles, Mr. Zeng Xin, Mr. Kat Chit, Mr. Hui Wing Kuen and Mr. Huang Jing will retire at the Annual General Meeting, and being eligible, have offered themselves for election at the Annual General Meeting. Mr. Zeng Xin, Mr. Hui Wing Kuen and Mr. Huang Jing have informed the Board that they will not offer themselves for re-election at the Annual General Meeting and will retire upon the conclusion of the Annual General Meeting.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive directors and non-executive directors (including independent non-executive directors) entered into service agreements with the Company for a term of three years and one year respectively and either the Company or the executive director or non-executive director (including independent non-executive directors) may terminate the appointment by giving the other a prior notice of three months in writing before its expiration.

Other than as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2019, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

### Long positions

Ordinary shares of HK$0.01 each of the Company

| Name of director | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Ji Wei | Interest of controlled corporation (Note 1) | 529,986,888 | 53.00% |
| Zheng Xiao Ping | Beneficial owner (Note 2) | 3,682,000 | 0.37% |
| Cao Zhao Hui | Beneficial owner | 2,000,000 | 0.20% |
| Zeng Xin | Beneficial owner | 2,000,000 | 0.20% |
| Hui Wing Kuen | Beneficial owner | 550,000 | 0.06% |

Notes:

(1) The shares are held by Star Treasure Investments Holdings Limited ("Star Treasure"), a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Ji Wei.

(2) 1,990,000 shares and 1,692,000 shares are held by Ms. Zheng Xiao Ping and Mr. Wang Xue Xin respectively. Mr. Wang Xue Xin is the spouse of Ms. Zheng Xiao Ping.

Other than as disclosed above, none of the directors, chief executives nor their associates had any interest or short positions in any shares or underlying shares of the Company or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as at 31 December 2019.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' interests in shares and underlying shares" above, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

### Long positions — Ordinary shares of HK$0.01 each of the Company

| Name of shareholder | Capacity | Number of issued ordinary shares held | Percentage of the issued capital of the Company |
|---|---|---|---|
| Ji Wei | Interest in controlled corporation | 529,986,888 | 53.00% |
| Star Treasure | Beneficial owner | 529,986,888 | 53.00% |
| Edgbaston Asian Equity Trust | Beneficial owner | 59,832,000 | 5.98% |
| Edgbaston Investment Partners LLP | Investment manager | 79,986,000 | 8.00% |

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2019.

## RELATED PARTY TRANSACTIONS

Related party transactions entered into for the year are set out in Note 35 to the consolidated financial statements.

## ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share options", at no time during the year was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

No transactions, arrangements and contract of significance, to which the Company, its holding company or any of its subsidiaries was a party and in which a director or a connected entity of a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## SHARE OPTIONS

The following table disclosed movements in the Company's share options during the year:

| Name and category of of participation | Number of share options As at 1 January 2019 | Exercised during the year | As at 31 December 2019 | Date of grant of share options | Vesting period of share options | Exercise period of share options | Exercise price of share options* HK$ | Share price of the Company as at the date of grant of share options** HK$ |
|---|---|---|---|---|---|---|---|---|
| Other employees | 9,000,000 | — | 9,000,000 | 10 February 2014 | 10 February 2014 to 9 February 2016 | 10 February 2016 to 9 February 2024 | 4.680 | 4.680 |
| Other employees | 9,000,000 | — | 9,000,000 | 10 February 2014 | 10 February 2014 to 9 February 2017 | 10 February 2017 to 9 February 2024 | 4.680 | 4.680 |
| Total | 18,000,000 | — | 18,000,000 | | | | | |

* The exercise price of share options is subject to adjustment made in respect of the alteration in capital structure of the Company.

** The share price of the Company as at the date of the grant of share options was the closing price as quoted on the Stock Exchange of the trading day on the date of the grant of share options.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

## APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive directors are independent.

## CORPORATE GOVERNANCE

The Company is committed to maintain the high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 64 to 82 of the annual report.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited, details of which are set out in Note 32 to the consolidated financial statements. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers accounted for less than 30% of the Group's total sales and total purchases of the Group respectively.

None of the directors, their associates or any shareholders of the Company which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules throughout the year ended 31 December 2019.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 192 of the annual report.

## AUDIT COMMITTEE

The audit committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2019.

## AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**Ji Wei**
*CHAIRMAN*

Hong Kong
28 April 2020

The Company recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the needs of its business.

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

During the year ended 31 December 2019, the Company has applied the principles of and has complied with all code provisions of the Corporate Governance Code.

Code Provisions A.6.7 and E.1.2 of the Corporate Governance Code provide that independent non-executive directors and non-executive directors of the Company and the chairman of the board of directors of the Company (the "Board") should attend general meetings of the Company. Mr. Huang Jing, Mr. Luan Wenpeng and Mr. Cheng Shi Jie, being independent non-executive directors of the Company and Mr. Ji Wei, being chairman of the Board, failed to attend the annual general meeting of the Company ("2019 AGM") held on 22 May 2019 due to conflicts with their schedules.

Save as disclosed, there has been no deviation from the code provisions of the Corporate Governance Code for the year ended 31 December 2019.

The Company regularly reviews its organisational structure to ensure that operations are conducted in accordance with the standards of the Corporate Governance Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors of the Company (the "Directors") and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2019.

The Company has also established written guidelines on terms no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

## BOARD OF DIRECTORS

### Responsibilities

The overall management of the Company's business is vested with the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

The Board makes decisions on all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary of the Company (the "Company Secretary"), with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expenses, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer of the Company (the "Chief Executive Officer") and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

### Board Composition

The composition of the Board ensures a balance of skills and experience necessary for its independent judgement and fulfilling its business needs.

The Board currently comprises ten members, consisting of five executive Directors, one non-executive Director and four independent non-executive Directors. Their biographical details are set out on pages 54 to 56 of this annual report.

The Board comprises the following Directors:

### Executive Directors:

Mr. Ji Wei, chairman of the Board and the nomination committee of the Company (the "Nomination Committee"), and member of the remuneration committee of the Company (the "Remuneration Committee")

Ms. Cao Zhao Hui, Chief Executive Officer

Mr. Zeng Xin, member of the internal control and risk management committee of the Company (the "Internal Control and Risk Management Committee")

Ms. Zheng Xiao Ping

Mr. Tian Zhongping

### Non-executive Director:

Mr. Kat Chit, member of the Internal Control and Risk Management Committee*

### Independent Non-executive Directors:

Mr. Hui Wing Kuen, chairman of the audit committee of the Company (the "Audit Committee"), the Remuneration Committee and the Internal Control and Risk Management Committee, and member of the Nomination Committee

Mr. Huang Jing, member of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Internal Control and Risk Management Committee

Mr. Luan Wenpeng, member of the Audit Committee and the Internal Control and Risk Management Committee

Mr. Cheng Shi Jie, member of the Audit Committee and the Internal Control and Risk Management Committee

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

During the year under review, the Board at all times met the requirements of Rule 3.10(1) and (2), and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

* Mr. Kat Chit is the son of Mr. Ji Wei

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive Directors bring a wide range of technical, business and financial expertise, experiences and independent judgement to the Board. Through their active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

## Board Diversity Policy

The Company is of a view that Board diversity is an essential element to achieve sustainable and balanced development. Board diversity has been considered and practiced by the Company with reference to a number of factors, including but not limited to gender, age, cultural and educational background, professional experience and other qualities of directors. The Company has adopted a policy on Board diversity (the "Board Diversity Policy") setting out the approach to achieve diversity in the Board. The existing Board is considered well-balanced with a diverse mix appropriate for the business of the Company. The Nomination Committee will review the Board Diversity Policy on a regular basis to determine an appropriate composition of the Board.

## Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Each of the executive Directors is engaged in a service contract for a term of three years. The appointment may be terminated by not less than three months' written notice. All the non-executive Director and independent non-executive Directors are appointed for a specific term. The terms of their appointments are as follows:

| | | |
|---|---|---|
| Mr. Kat Chit | : | up to the 2020 annual general meeting |
| Mr. Hui Wing Kuen | : | up to the 2020 annual general meeting |
| Mr. Huang Jing | : | up to the 2020 annual general meeting |
| Mr. Luan Wenpeng | : | up to the 2020 annual general meeting |
| Mr. Cheng Shi Jie | : | up to the 2020 annual general meeting |

Pursuant to the Articles, all Directors are subject to retirement by rotation once every three years and any new Director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following general meeting and the next following annual general meeting respectively.

## Training for Directors

According to Code Provision A.6.5 of the Corporate Governance Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of the Directors.

The Company encourages the Directors to attend any relevant programme to further enhance their knowledge to enable them to discharge their duties and responsibilities more effectively. There are also arrangements in place for providing continue briefing and professional development to Directors whenever necessary such as continuously update the Directors on the latest developments of the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

During the year ended 31 December 2019, the training participated by each Director is set out below:

| Directors | Training received |
|---|---|
| *Executive Directors:* | |
| Mr. Ji Wei | A, C, D |
| Ms. Cao Zhao Hui | A, C, D |
| Mr. Zeng Xin | A, C, D |
| Ms. Zheng Xiao Ping | A, C, D |
| Mr. Tian Zhongping | A, C, D |
| *Non-executive Director:* | |
| Mr. Kat Chit | A, C, D |
| *Independent Non-executive Directors:* | |
| Mr. Hui Wing Kuen | A, D |
| Mr. Huang Jing | A, B, D |
| Mr. Luan Wenpeng | A, B, D |
| Mr. Cheng Shi Jie | A, B, D |

A: attending conferences, seminars and forums
B: giving talks at conferences, seminars and forums
C: participation in in-house seminars
D: private study of materials relevant to the Company's business or director's duties and responsibilities

## Board Meetings

### Number of Meetings and Directors' Attendance

In 2019, the Company has held six board meetings. The Company will endeavour to hold at least four regular board meetings a year.

The attendance of the Directors at board meetings held during the year is set out below:

| Directors | Attendance/ Number of Meetings |
|---|---|
| *Executive Directors:* | |
| Mr. Ji Wei *(Chairman)* | 6/6 |
| Ms. Cao Zhao Hui | 6/6 |
| Mr. Zeng Xin | 5/6 |
| Ms. Zheng Xiao Ping | 5/6 |
| Mr. Tian Zhongping | 5/6 |
| *Non-executive Director:* | |
| Mr. Kat Chit | 5/6 |
| *Independent Non-executive Directors:* | |
| Mr. Hui Wing Kuen | 5/6 |
| Mr. Huang Jing | 5/6 |
| Mr. Luan Wenpeng | 5/6 |
| Mr. Cheng Shi Jie | 5/6 |

## Practices and Conduct of Board Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep the Directors appraised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The Chief Executive Officer, chief financial officer of the Company ("Chief Financial Officer") and Company Secretary attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

Minutes of all Board meetings and committee meetings are kept by the Company Secretary. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to the current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Articles also contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the chairman of the Board (the "Chairman") and the Chief Executive Officer to ensure a balance of power and authority. So, the posts of the Chairman and Chief Executive Officer are held separately by Mr. Ji Wei and Ms. Cao Zhao Hui respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practices. With support of the senior management, the Chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at the Board meetings.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. She is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

## BOARD COMMITTEES

The Board has established four committees, namely, the Nomination Committee, the Remuneration Committee, the Audit Committee, and the Internal Control and Risk Management Committee for overseeing particular aspects of the Company's affairs. All Committees of the Company are established with defined written terms of reference. The terms of reference have been posted on the websites of the Stock Exchange and the Company.

The majority of the members of each Committee are independent non-executive Directors and the list of the chairman and members of each Committee is set out under "Board Composition" of this report on pages 65 to 66.

The Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

## NOMINATION COMMITTEE

The duties of the Nomination Committee include the following:

(a) to review the structure, size and composition of the Board (including the skills, knowledge and experience) at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships;

(c) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer;

(d) to assess the independence of independent non-executive Directors;

(e) to review the Board diversity Policy and any measurable objectives for implementing such Board Diversity Policy as may be adopted by the Board from time to time and to review the progress on achieving the objectives; and to make disclosure of its review results in the annual report of the Company annually; and

(f) where the Board proposes a resolution to elect an individual as an independent non-executive Director at the general meeting, the Committee should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe the individual should be elected and the reasons why they consider the individual to be independent.

## NOMINATION POLICY

The Nomination Committee is responsible for identifying and nominating qualified candidates for the Board's consideration and appointment when the Board needs additional Directors or to fill casual vacancies, and making recommendation to the shareholders of the Company (the "Shareholders") on re-electing retiring Directors at general meetings. The Nomination Committee shall consider, among others, the following criteria in evaluating and selecting candidates for directorships:

(i) age, skills, experience, professional qualifications, educational background and personal integrity of the candidate;

(ii) commitment of the candidate to devote sufficient time to effectively carry out his/her duties. In this regard, the number and nature of offices held by the candidate in public companies or organisations, and other executive appointments or significant commitments will be considered;

(iii) effect on the board's composition and diversity;

(iv) potential/actual conflicts of interest that may arise if the candidate is selected;

(v) independence of the candidate in the case of proposed appointment of an independent non-executive director;

(vi) the number of years he/she has already served in the case of a proposed re-appointment of an independent non-executive director; and

(vii) other factors that the Nomination Committee may consider relevant.

For appointment of new Directors, the Nomination Committee should evaluate the candidates based on the criteria as set out above to determine whether such candidates are qualified for directorship and then make recommendation to the Board. Where appropriate, the Nomination Committee and/or the Board should make recommendation to the Shareholders in respect of the proposed election of Director at a general meeting.

For re-election of Director, the Nomination Committee and/or the Board should review the overall contribution and service to the Company of retiring Director and the level of participation and performance by such Director in the Board. The Nomination Committee and/or the Board should also review and determine whether retiring Director continues to meet the criteria as set out above. The Nomination Committee and/or the Board should then make recommendation to the Shareholders in respect of the proposed re-election of Director at a general meeting.

The Board shall from time to time review the nomination policy to ensure its continued effectiveness and compliance with regulatory requirements and good corporate governance practice.

Two Nomination Committee meetings have been held during the year to review the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

The attendance of individual members at Nomination Committee meetings held during the year is set out below:

| | Attendance/ Number of Meetings |
|---|---|
| Mr. Ji Wei *(Chairman)* | 2/2 |
| Mr. Hui Wing Kuen | 2/2 |
| Mr. Huang Jing | 2/2 |

In accordance with the Articles, Mr. Zeng Xin, Mr. Kat Chit, Mr. Hui Wing Kuen and Mr. Huang Jing shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the next forthcoming annual general meeting of the Company.

## REMUNERATION COMMITTEE

The duties of the Remuneration Committee include the following:

(a) to make recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) to review and approve the management's remuneration proposals with reference to corporate goals and objectives resolved by the Board from time to time;

(c) to determine the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board on the remuneration of non-executive Directors. The Committee should consider salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group. A significant proportion of executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance;

(d) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(e) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

(f) to ensure that no Director or any of his associate is involved in deciding his own remuneration; and

(g) to advise shareholders on how to vote with respect to any service contracts of Directors that require shareholders' approval under Rule 13.68 of the Listing Rules.

The Remuneration Committee normally meets twice in each year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive Directors and the senior management and other related matters. The human resources department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the chairman about these recommendations on remuneration policy and structure and remuneration packages.

Two Remuneration Committee meetings have been held during the year to review the remuneration policy and structure of the Company and remuneration packages of the executive Directors and the senior management.

The attendance of individual members at Remuneration Committee meetings held during the year is set out below:

| | **Attendance/ Number of Meetings** |
|---|---|
| Mr. Hui Wing Kuen *(Chairman)* | 2/2 |
| Mr. Ji Wei | 2/2 |
| Mr. Huang Jing | 2/2 |

## AUDIT COMMITTEE

The Audit Committee comprises four independent non-executive Directors (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The duties of the Audit Committee include the following:

(a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

(c) to discuss with the external auditor before the audit commences, the nature and scope of the audit and reporting obligations, and ensure co-ordination where more than one audit firm is involved;

(d) to develop and implement policy on engaging an external auditor to supply non-audit services. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

(e) to monitor the integrity of financial statements of the Company and the annual report and accounts, half-year report and, if prepared for publication, quarterly reports and to review significant financial judgements contained in them. In reviewing these reports before submission to the Board, the Audit Committee should focus particularly on:

 (i) any changes in accounting policies and practices;

 (ii) major judgmental areas;

 (iii) significant adjustments resulting from the audit;

 (iv) the going concern assumption;

 (v) compliance with accounting standards; and

 (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting.

(f) to liaise with the Board, senior management and the Chief Financial Officer and to meet, at least twice a year, with the Company's auditors and to consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Chief Financial Officer, compliance officer or auditors;

(g) to review the Company's financial controls, internal control and risk management systems;

(h) to discuss the internal control system with management to ensure that the management has performed its duty to have an effective internal control system. The discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting and financial reporting function of the Company;

(i) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management response, findings of internal investigations and management's response to these findings;

(j) (where an internal audit function exists) to ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

(k) to review the Group's financial and accounting policies and practices;

(l) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

(m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(n) to review arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

(o) to act as the key representative body for overseeing the Company's relations with the external auditor;

(p) to report to the Board on the matters set out in the Corporate Governance Code;

(q) to establish a whistle blowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company; and

(r) to consider other topics, as defined by the Board.

The Audit Committee held two meetings during the year to review and discuss the financial results and reports, financial reporting and compliance procedures, internal control and risk management systems, and the re-appointment of the external auditors.

The attendance of individual members at Audit Committee meetings held during the year is set out below:

| | Attendance/ Number of Meetings |
|---|---|
| Mr. Hui Wing Kuen *(Chairman)* | 2/2 |
| Mr. Huang Jing | 2/2 |
| Mr. Luan Wenpeng | 2/2 |
| Mr. Cheng Shi Jie | 2/2 |

There is no material uncertainty relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2019 have been reviewed by the Audit Committee.

## INTERNAL CONTROL AND RISK MANAGEMENT COMMITTEE

The duties of the Internal Control and Risk Management Committee include the following:

(a) to consider the Group's internal control and risk management strategies, review and approve internal control and risk management policies and guidelines;

(b) to assess the adequacy and effectiveness of the internal control and risk management systems established by the management of the Group and report any findings, including any deficiencies, failures or risks noted to the Board via the Audit Committee at least twice a year or as and when any material deficiency, failure or risk is noted. Particular attention should be paid to the compliance with the Listing Rules;

(c) to decide on risk levels and related resource allocation, to approve major decisions affecting the Group's risk profile and exposure, and to oversees formal reviews of activities associated with the effectiveness of risk management processes;

(d) to review the Group's procedures for detecting fraud and whistle blowing and ensure that arrangements are properly in place and a comprehensive system of control should be established to ensure such risks are mitigated;

(e) to consider issues raised by external auditor, Audit Committee or any member of the Board who has lodged a request for a meeting;

(f) to provide the Board, as and when consider fit, its opinion relating to any matters concerning the internal control and risk management of the Group and to recommend any changes or improvements thereto to the Board, if necessary;

(g) to invite any employee of the Group, through the Company Secretary, to attend its meeting as and when required;

(h) to provide the Board, on a half-yearly basis, assessment reports on the Group's internal control and risk management systems; and

(i) to be provided with sufficient resources enabling it to discharge its duties, including but not limited to obtaining advice and assistance from internal or external legal, accounting or other advisors at the expenses of the Company if necessary. The committee shall have access to such information, whether from sources within or outside the Group, as it deems necessary.

Two Internal Control and Risk Management Committee meetings have been held during the year to discuss the adequacy and effectiveness of the internal control and risk management systems established by the management of the Group and the findings of the internal control reviews performed by internal audit department of the Group.

The attendance of individual members of the Internal Control and Risk Management Committee meeting during the year is set out below:

| | **Attendance/ Number of Meeting** |
|---|---|
| Mr. Hui Wing Kuen *(Chairman)* | 2/2 |
| Mr. Huang Jing | 2/2 |
| Mr. Luan Wenpeng | 2/2 |
| Mr. Cheng Shi Jie | 2/2 |
| Mr. Zeng Xin | 2/2 |
| Mr. Kat Chit | 2/2 |

## CORPORATE GOVERNANCE FUNCTION

The Board will be responsible for performing the following corporate governance duties:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report in the annual report of the Company.

The Board may delegate the corporate governance duties to a committee of the Board.

During the year ended 31 December 2019, the Board has reviewed the Company's corporate governance practices.

## AUDITORS' REMUNERATION

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 83 to 87 of this annual report.

The Company's external auditor is Deloitte Touche Tohmatsu. Total auditor's remuneration paid and payable by the Group for the year ended 31 December 2019 amounted to RMB3.68 million, which comprises RMB3.04 million for the audit of the Group's consolidated financial statements for the year ended 31 December 2019 and RMB0.64 million for the review of the Group's interim report for the six months ended 30 June 2019.

## RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019 on a going concern basis.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its overall responsibility to maintain appropriate and effective risk management and internal control systems in order to safeguard the Group's assets and shareholders' interests, as well as oversee and review the implementation and effectiveness of the systems.

The Group's risk management and internal control systems are featured with a defined management structure with reasonable delegated authority so as to identify and manage potential risks, to safeguard its assets against unauthorized use or disposition, to ensure reliability of financial reporting and compliance with relevant laws and regulations. The systems are designed to manage rather than eliminate the risk of failure to achieve the Group's business objectives, with main purpose of providing reasonable and not absolute assurance against material misstatement or loss.

In order to assist the Board to discharge its duties, the Audit Committee is delegated with the authority and responsibility for reviewing and monitoring of the effectiveness of the risk management and internal control systems on a regular basis to ensure the systems in place are adequate. A sub-committee, the Internal Control and Risk Management Committee ("ICRM Committee"), was established and its main objective is to assist the Audit Committee to discharge its oversight responsibility over the risk management and internal control systems of the Group. The ICRM Committee works closely with the Risk Control Department which is supervised by the Audit Committee.

The Group has established an on-going process for identifying, evaluating and managing the significant risks associated with the achievement of its strategic objectives. Different business units are responsible for identifying, assessing and monitoring risks during their daily operations. Their risk responses including control measures implemented to mitigate risk identified will be reported to the Risk Control Department through regular internal meetings. Risk Control Department will prepare risk assessment reports on quarterly basis for the Board and the Audit Committee to discuss and evaluate the effectiveness of the risk management and internal control systems during Board meetings and Audit Committee meetings.

During the year ended 31 December 2019, the Audit Committee with the assistance of ICRM Committee, has conducted a review of the effectiveness of the Group's risk management and internal control systems. The review covers major areas, including financial, operational and compliance controls, risk management functions, and the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions. No significant areas of concern that may affect the Group to achieve its strategic goals have been identified and the Audit Committee accepts that the existing risk management and internal control systems have been functioning effectively to meet the respective financial reporting, operational and compliance needs.

The Company's internal audit department is responsible for providing independent assurance that the Group's risk management, governance and internal control procedures are operating effectively. During the year under review, the Group's internal audit department conducted on-going reviews on the effectiveness of the internal control systems of the Group. The reviews covered major financial and operational controls. The reports of its findings have been submitted to the Audit Committee for review. No significant deficiency but areas for improvement was identified during the course of review and the systems have been operating effectively and adequately.

Based on the results of the review as reported by the Audit Committee, the Board is of the opinion that the risk management and internal control systems which address the Group's financial, operational and compliance risks, are effective and adequate and the Group has duly complied with the provisions of the Corporate Governance Code regarding risk management and internal control during the year ended 31 December 2019.

The Board has established policy and internal control procedures for the handling and dissemination of insider information in compliance with the requirements under Part XIVA of the Securities and Future Ordinance and the Listing Rules to ensure that disclosures are made on a timely and accurate manner. Such policy has been communicated to all Directors and senior management of the Group. Every Director and senior management must take all reasonable measures from time to time to ensure that proper safeguards exist to prevent a breach of disclosure requirement. The Chief Financial Officer works closely with Directors and senior management in identifying potential inside information and assessing the materiality thereof, and if appropriate, will escalate to the attention of the Board to take appropriate action promptly to ensure compliance of the applicable laws and regulations.

The Company has also taken all reasonable measures from time to time to ensure proper preservation of confidentiality of inside information until disclosure to general public, including restrictive access to inside information to a limited number of employees on a need-to-know basis, ensure the relevant employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality and ensure appropriate confidentiality agreements are in place when the Group enters into significant negotiations.

## COMPANY SECRETARY

During the year ended 31 December 2019, Mr. Choi Wai Lung Edward was the Company Secretary. Mr. Choi is a full-time employee of the Company, and has the day-to-day knowledge of the Company's affairs. His biographical details are set out in the "Biographical Details of Directors and Senior Management" section of this annual report. For the year ended 31 December 2019, Mr. Choi had complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

## DIVIDEND POLICY

The Board has adopted a dividend policy (the "Dividend Policy") on 9 November 2018. The Board endeavors to maintain a balance between the interests of the Shareholders and prudent capital management with a sustainable Dividend Policy. It is the policy of the Board, in considering the payment of dividends, to allow Shareholders to participate in the Company's profits whilst retaining adequate reserves for the Group's future growth. The Board shall consider the following factors before declaring or recommending dividends:

(a) the Group's results of operations;

(b) the Group's actual and expected financial performance;

(c) retained earnings and distributable reserves of the Company and each of the subsidiaries of the Group;

(d) the Group's expected working capital requirements, capital expenditure requirements and future expansion plans;

(e) the Group's liquidity and cash flow position;

(f) general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and

(g) any other factors that the Board may consider relevant.

The declaration and payment of dividends shall remain to be determined at the sole discretion of the Board and subject to any restrictions under the Companies Law of the Cayman Islands and the articles of association of the Company. The Board will continually review the Dividend Policy as appropriate from time to time.

## SHAREHOLDERS' RIGHTS

### Rights and procedures for shareholders to convene an extraordinary general meeting ("EGM") (including putting forward proposals/moving a resolution at the EGM)

Pursuant to Article 58 of the Articles, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

Eligible Shareholder(s) who wish to convene an EGM for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at Unit 2605, 26/F West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Sheung Wan, Hong Kong, for the attention of the Company Secretary.

The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholdings in the Company, the reason(s) to convene an EGM, the agenda including the details of the business(es) proposed to be transacted in the EGM, signed by the Eligible Shareholder(s) concerned.

The Company will check the Requisition and the identity and the shareholdings of the Eligible Shareholder(s) will be verified with the Company's branch share registrar. If the Requisition is found to be proper and in order, the Company Secretary will ask the Board to convene an EGM within 2 months and/or include the proposal or the resolution proposed by the Eligible Shareholder(s) at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM and/or include the proposal or the resolution proposed by the Eligible Shareholder(s) at the EGM.

If within 21 days of the deposit of the Requisition the Board has not advised the Eligible Shareholder(s) of any outcome to the contrary and fails to proceed to convene such EGM, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the Memorandum and Articles of Association of the Company, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

### Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong at Unit 2605, 26/F West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Sheung Wan, Hong Kong by post or email to enquires@wasionholdings.com.hk for the attention of the Company Secretary.

Upon receipt of the enquiries, the Company Secretary will forward:

- communications relating to matters within the Board's purview to the executive Directors of the Company;
- communications relating to matters within a Board committee's area of responsibility to the chairman of the appropriate committee; and
- communications relating to ordinary business matters, such as suggestions, inquiries and consumer complaints, to the appropriate management of the Company.

### Procedures for Shareholders to propose a person for election as a director

- If a Shareholder wishes to propose a person other than a director of the Company for election as a Director, the Shareholder must deposit a written notice (the "Notice") to the principal place of business of the Company in Hong Kong at Unit 2605, 26/F West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Sheung Wan, Hong Kong or the branch share registrar of the Company, Link Market Services (Hong Kong) Pty Limited, at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong for the attention of the Company Secretary.
- The Notice must state clearly the name of the Shareholder and his/her/their shareholdings, the full name of the person proposed for election as a Director, including the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the Shareholder concerned (other than the person to be proposed). The Notice must also be accompanied by a letter of consent signed by the person proposed to be elected on his/her willingness to be elected as a Director.

- The period for lodgment of the Notice will commence no earlier than the day after the despatch of the notice by the Company of the general meeting appointed for election of directors of the Company and end no later than seven (7) days prior to the date of such general meeting. If the Notice is received less than 15 days prior to the general meeting, the Company will need to consider the adjournment of the general meeting in order to give shareholders 14 days' notice of the proposal.

- The Notice will be verified with the Company's branch share registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Nomination Committee and the Board to consider to include the resolution in the agenda for the general meeting proposing such person to be elected as a Director.

## INVESTOR RELATIONS

The Board has established a shareholders' communication policy which aims to set out the provisions with the objective of ensuring the Shareholders are provided with equal and timely access to information about the Company, in order to enable the Shareholders to exercise their rights in an informed manner and to allow them to engage actively with the Company.

The Board will maintain an on-going dialogue with the Shareholders and will review this policy regularly to ensure its effectiveness. Information will be communicated to the Shareholders through the Company's financial reports, annual general meetings and other general meetings that may be convened, as well as all the disclosures submitted to the Stock Exchange. Effective and timely dissemination of information to the Shareholders will be ensured at all times.

A dedicated Investor Relations section is available on the Company's website www.wasion.com. Information on the Company's website is updated on a regular basis. Information released by the Company to the Stock Exchange is also posted on the Company's website immediately thereafter. Such information includes financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents, etc. All presentation materials provided in conjunction with the Company's annual general meeting and results announcement each year will be made available on the Company's website. All press releases and Shareholders' newsletters will also be made available on the Company's website.

Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meetings. Board members, in particular, the chairmen of the Board committees or their delegates, appropriate senior management and external auditors will attend annual general meetings to answer Shareholders' questions.

During the year ended 31 December 2019, the 2019 AGM was held on 22 May 2019. All the resolutions proposed at the 2019 AGM were duly passed by the Shareholders by way of poll and the results of the poll have been published on the websites of the Stock Exchange and the Company. Mr. Ji Wei, the chairman of the Board and Nomination Committee, has delegated Mr. Hui Wing Kuen, the chairman of the Audit Committee, the Remuneration Committee, the Internal Control and Risk Management Committee, member of the Nomination Committee and an independent non-executive Director, to chair the 2019 AGM and answer Shareholders' questions on his absence due to conflict with his schedule. Mr. Huang Jing, an independent non-executive Director and member of Nomination Committee, Remuneration Committee, Audit Committee and Internal Control and Risk Management Committee, Mr. Luan Wenpeng, an independent non-executive Director and member of Audit Committee and Internal Control and Risk Management Committee and Mr. Cheng Shi Jie, an independent non-executive Director and member of Audit Committee and Internal Control and Risk Management Committee, failed to attend the 2019 AGM due to conflicts with their schedules. The external auditor of the Company, Deloitte Touche Tohmatsu, attended the 2019 AGM to answer Shareholders' questions about the conduct of the audit, the preparation and content of the independent auditor's report and independence of auditor.

The attendance of the Directors at the 2019 AGM is set out below:

| Directors | AGM Attended/held |
|---|---|
| *Executive Directors:* | |
| Mr. Ji Wei *(Chairman)* | 0/1 |
| Ms. Cao Zhao Hui | 0/1 |
| Mr. Zeng Xin | 0/1 |
| Ms. Zheng Xiao Ping | 0/1 |
| Mr. Tian Zhongping | 0/1 |
| *Non-executive Director:* | |
| Mr. Kat Chit | 1/1 |
| *Independent Non-executive Directors:* | |
| Mr. Hui Wing Kuen | 1/1 |
| Mr. Huang Jing | 0/1 |
| Mr. Luan Wenpeng | 0/1 |
| Mr. Cheng Shi Jie | 0/1 |

The forthcoming annual general meeting of the Company will be held on 18 June 2020 ("2020 AGM"). The notice convening the 2020 AGM together with the circular will be published on the websites of the Stock Exchange and the Company and dispatched to Shareholders before 15 May 2020.

Shareholders are also encouraged to attend Shareholders' activities organized by the Company, where information about the Company, including its latest strategic plan, products and services will be communicated.

## SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There was no significant change in the Company's constitutional documents during the year ended 31 December 2019.

Deloitte. 德勤

**TO THE MEMBERS OF WASION HOLDINGS LIMITED**
威勝控股有限公司
*(incorporated in Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Wasion Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 88 to 191, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Recoverability of trade receivables*** | |
| We identified the recoverability of trade receivables, amounted to RMB3,238,445,000 net of allowance for expected credit loss amounting to RMB67,737,000 recognised as at 31 December 2019 as set out in note 25 to the consolidated financial statements as a key audit matter due to the magnitude of the amount and the significant judgement by management that is required in determining the appropriate level of provision to be made in respect of allowance for credit loss.<br><br>As disclosed in note 4 to the consolidated financial statements, except for those which had been determined as credit-impaired under HKFRS 9, the management estimates the expected credit loss ("ECL") individually or based on provision matrix which is based on the Group's historical default rates taking into consideration of forward-looking information that is available without undue costs or effort. The provision rates are based on a combination of groupings of various debtors that shared similar credit risk characteristics and past due analysis. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.<br><br>As disclosed in note 39(b) to the consolidated financial statements, the Group recognised an additional amount of RMB21,907,000 of credit losses for the year and the Group's lifetime ECL on trade receivables, as at 31 December 2019 amounted to RMB67,737,000. | Our procedures in relation to recoverability of trade receivables included:<br><br>• Understanding how the credit loss of trade receivables has been estimated by management;<br><br>• Assessing management's basis and judgement in determining credit loss allowance on trade and bills receivables including their identification of credit-impaired trade receivables, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to market information and forward-looking information); and<br><br>• Evaluating the disclosures regarding the impairment assessment of trade receivables in notes 9, 25 and 39(b) to the consolidated financial statements. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Capitalisation of development costs*** | |
| We identified the capitalisation of development costs, amounting to RMB466,145,000 as at 31 December 2019 as set out in note 18(b) to the consolidated financial statements as a key audit matter due to the magnitude of the amount and the significant judgement involved.<br><br>The Group capitalises certain costs incurred during development phase of internal projects for development of new technology and new products. In order to determine the amount of cost that should be capitalised, the Group assesses whether the cost meets the capitalisation criteria set out in the significant accounting policies per note 3 to the consolidated financial statements, especially on how the intangible asset will generate probable future economic benefits. The Group applies judgement in determining whether the Group has the ability to use the intangible assets, can demonstrate the existence of a market for the products produced from the use of the intangible asset or the intangible asset itself or, if it is to be used internally, the ability to generate positive future cash flows from the use of the intangible asset. | Our procedures in relation to capitalisation of development costs included:<br><br>• Assessing and testing the effectiveness of key controls over the capitalisation of development costs, on a sample basis;<br><br>• Performing substantive test, on a sample basis, on the addition of development costs during the year, for the occurrence and accuracy of development costs and assessing whether it meets the capitalisation criteria set out in the significant accounting policies per note 3 to the consolidated financial statements;<br><br>• Inquiring of project managers from the development department of the Group for details of material development projects; and<br><br>• Evaluating the Group's assessment on the expected future economic benefits brought by the intangible asset by checking the budgeted benefits in development project proposals and comparing with the related benefits incurred subsequent to the completion of the project, on a sample basis. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Luk Kam Fan.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*

Hong Kong

28 April 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

| | NOTES | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| Revenue | 5 | **3,655,646** | 3,340,321 |
| Cost of sales | | **(2,508,013)** | (2,349,035) |
| Gross profit | | **1,147,633** | 991,286 |
| Other income | 6 | **130,545** | 122,895 |
| Other gains and losses | 7 | **6,561** | (1,398) |
| Impairment losses on financial assets under expected credit loss model | 9 | **(25,118)** | (8,023) |
| Administrative expenses | | **(179,596)** | (174,517) |
| Selling expenses | | **(329,319)** | (292,863) |
| Research and development expenses | | **(245,722)** | (217,660) |
| Finance costs | 8 | **(86,518)** | (59,594) |
| Share of result of a joint venture | 20 | **(4,000)** | — |
| Share of results of associates | 19 | **168** | (580) |
| Profit before taxation | 10 | **414,634** | 359,546 |
| Income tax expense | 11 | **(57,256)** | (28,775) |
| Profit for the year | | **357,378** | 330,771 |
| **Profit for the year attributable to** | | | |
| — Owners of the Company | | **280,567** | 270,817 |
| — Non-controlling interests | | **76,811** | 59,954 |
| | | **357,378** | 330,771 |
| **Other comprehensive income (expense)** | | | |
| *Item that will not be subsequently reclassified to profit or loss* | | | |
| Fair value changes on investments in equity instruments at fair value through other comprehensive income, net of related deferred taxation | | **15,690** | (51,147) |
| *Item that may be subsequently reclassified to profit or loss:* | | | |
| Exchange differences arising on translation of foreign operations | | **(9,676)** | 16,531 |
| Other comprehensive income (expense) for the year | | **6,014** | (34,616) |
| Total comprehensive income for the year | | **363,392** | 296,155 |
| **Total comprehensive income for the year attributable to** | | | |
| — Owners of the Company | | **286,581** | 236,201 |
| — Non-controlling interests | | **76,811** | 59,954 |
| | | **363,392** | 296,155 |
| **Earnings per share** | 14 | | |
| Basic | | **RMB28 cents** | RMB27 cents |
| Diluted | | **RMB28 cents** | RMB27 cents |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 December 2019

| | NOTES | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 15(a) | **1,288,959** | 1,282,072 |
| Prepaid lease payments | 15(b) | **—** | 148,460 |
| Right-of-use assets | 16 | **153,110** | — |
| Investment properties | 17 | **28,407** | 28,160 |
| Goodwill | 18(a) | **313,272** | 297,919 |
| Other intangible assets | 18(b) | **520,437** | 472,948 |
| Investments in associates | 19 | **—** | 9,150 |
| Investment in a joint venture | 20 | **—** | — |
| Equity instruments at fair value through other comprehensive income | 21 | **97,327** | 125,889 |
| Financial assets at fair value through profit or loss | 22 | **200,000** | 200,000 |
| Deferred tax assets | 34 | **21,230** | 17,111 |
| Other non-current assets | 23 | **135,870** | 142,057 |
| Loan receivable | 27 | **—** | 105,000 |
| | | **2,758,612** | 2,828,766 |
| **CURRENT ASSETS** | | | |
| Inventories | 24 | **541,345** | 495,522 |
| Trade and other receivables and prepayments | 25 | **4,058,559** | 3,129,597 |
| Contract assets | 26 | **583,497** | 437,638 |
| Prepaid lease payments | 15(b) | **—** | 3,541 |
| Financial assets at fair value through profit or loss | 22 | **—** | 30,888 |
| Loan receivable | 27 | **105,000** | — |
| Pledged bank deposits | 28(a) | **271,673** | 280,981 |
| Bank balances and cash | 28(b) | **1,778,088** | 1,401,362 |
| | | **7,338,162** | 5,779,529 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 29 | **3,001,897** | 2,271,847 |
| Contract liabilities | 30 | **100,562** | 102,259 |
| Tax liabilities | | **50,583** | 55,026 |
| Borrowings — due within one year | 31 | **1,618,639** | 1,069,864 |
| Lease liabilities | 33 | **3,048** | — |
| | | **4,774,729** | 3,498,996 |
| **NET CURRENT ASSETS** | | **2,563,433** | 2,280,533 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **5,322,045** | 5,109,299 |

| | NOTES | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Share capital | 32 | **9,947** | 9,969 |
| Reserves | | **4,206,370** | 4,176,691 |
| Equity attributable to owners of the Company | | **4,216,317** | 4,186,660 |
| Non-controlling interests | | **630,083** | 555,624 |
| | | **4,846,400** | 4,742,284 |
| **NON-CURRENT LIABILITIES** | | | |
| Borrowings — due after one year | 31 | **455,230** | 348,303 |
| Deferred tax liabilities | 34 | **18,615** | 18,712 |
| Lease liabilities | 33 | **1,800** | — |
| | | **475,645** | 367,015 |
| | | **5,322,045** | 5,109,299 |

The consolidated financial statements on pages 88 to 191 were approved and authorised for issue by the Board of Directors on 28 April 2020 and are signed on its behalf by:

**Ji Wei**
*DIRECTOR*

**Cao Zhao Hui**
*DIRECTOR*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | Attributable to owners of the Company | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 (note 29) | Share premium RMB'000 | Merger reserve RMB'000 (Note i) | Exchange reserve RMB'000 | PRC statutory reserves RMB'000 (Note ii) | Share option reserve RMB'000 | Investment revaluation reserve RMB'000 | Shares held for share award scheme RMB'000 (Note iii) | Share repurchase reserve RMB'000 (Note vi) | Other reserve RMB'000 (Note iv & v) | Retained profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At 1 January 2018 | 9,988 | 1,645,571 | 49,990 | (69,353) | 335,777 | 27,730 | 2,022 | (25,119) | — | (14,353) | 2,200,051 | 4,162,304 | 493,631 | 4,655,935 |
| Profit for the year | — | — | — | — | — | — | — | — | — | — | 270,817 | 270,817 | 59,954 | 330,771 |
| Exchange difference arising on translation of foreign operations | — | — | — | 16,531 | — | — | — | — | — | — | — | 16,531 | — | 16,531 |
| Fair value changes on investments in equity instruments at fair value through other comprehensive income, net of related deferred taxation | — | — | — | — | — | — | (51,147) | — | — | — | — | (51,147) | — | (51,147) |
| Total comprehensive (expense) income for the year | — | — | — | 16,531 | — | — | (51,147) | — | — | — | 270,817 | 236,201 | 59,954 | 296,155 |
| Transfer to PRC statutory reserves | — | — | — | — | 45,760 | — | — | — | — | — | (45,760) | — | — | — |
| Shares cancelled | (19) | (7,379) | — | — | — | — | — | — | 7,398 | — | — | — | — | — |
| Shares repurchased | — | — | — | — | — | — | — | — | (12,359) | — | — | (12,359) | — | (12,359) |
| Transaction cost attributable to shares repurchased | — | (27) | — | — | — | — | — | — | (18) | — | — | (45) | — | (45) |
| Distribution of shares under share award scheme | — | — | — | — | — | — | — | 3,107 | — | — | — | 3,107 | — | 3,107 |
| Proportional capital injection by non-controlling interests | — | — | — | — | — | — | — | — | — | — | — | — | 2,039 | 2,039 |
| Dividend recognised as distribution (note 13) | — | (202,548) | — | — | — | — | — | — | — | — | — | (202,548) | — | (202,548) |
| At 31 December 2018 | 9,969 | 1,435,617 | 49,990 | (52,822) | 381,537 | 27,730 | (49,125) | (22,012) | (4,979) | (14,353) | 2,425,108 | 4,186,660 | 555,624 | 4,742,284 |
| **At 31 December 2018** | **9,969** | **1,435,617** | **49,990** | **(52,822)** | **381,537** | **27,730** | **(49,125)** | **(22,012)** | **(4,979)** | **(14,353)** | **2,425,108** | **4,186,660** | **555,624** | **4,742,284** |
| Profit for the year | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **280,567** | **280,567** | **76,811** | **357,378** |
| Exchange difference arising on translation of foreign operations | **—** | **—** | **—** | **(9,676)** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(9,676)** | **—** | **(9,676)** |
| Fair value changes on investments in equity instruments at fair value through other comprehensive income, net of related deferred taxation | **—** | **—** | **—** | **—** | **—** | **—** | **15,690** | **—** | **—** | **—** | **—** | **15,690** | **—** | **15,690** |
| Total comprehensive (expense) income for the year | **—** | **—** | **—** | **(9,676)** | **—** | **—** | **15,690** | **—** | **—** | **—** | **280,567** | **286,581** | **76,811** | **363,392** |
| Transfer to PRC statutory reserves | **—** | **—** | **—** | **—** | **45,412** | **—** | **—** | **—** | **—** | **—** | **(45,412)** | **—** | **—** | **—** |
| Disposal of financial assets at fair value through other comprehensive income | **—** | **—** | **—** | **—** | **—** | **—** | **(1,798)** | **—** | **—** | **—** | **1,798** | **—** | **—** | **—** |
| Acquisition of addition interests in a subsidiary | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(648)** | **—** | **(648)** | **(2,352)** | **(3,000)** |
| Shares cancelled | **(22)** | **(8,263)** | **—** | **—** | **—** | **—** | **—** | **—** | **8,285** | **—** | **—** | **—** | **—** | **—** |
| Shares repurchased | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(17,111)** | **—** | **—** | **(17,111)** | **—** | **(17,111)** |
| Transaction cost attributable to shares repurchased and cancelled | **—** | **(12)** | **—** | **—** | **—** | **—** | **—** | **—** | **(50)** | **—** | **—** | **(62)** | **—** | **(62)** |
| Purchase of shares under share award scheme | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(17,409)** | **—** | **—** | **—** | **(17,409)** | **—** | **(17,409)** |
| Dividend recognised as distribution (note 13) | **—** | **(221,694)** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(221,694)** | **—** | **(221,694)** |
| At 31 December 2019 | **9,947** | **1,205,648** | **49,990** | **(62,498)** | **426,949** | **27,730** | **(35,233)** | **(39,421)** | **(13,855)** | **(15,001)** | **2,662,061** | **4,216,317** | **630,083** | **4,846,400** |

Notes:

(i) Merger reserve represents the difference between the nominal value of shares of the subsidiary acquired over the nominal value of the shares used by the Company in exchange thereafter.

(ii) PRC statutory reserves are reserves required by the relevant laws in the People's Republic of China (the "PRC") applicable to the Group's PRC subsidiaries.

(iii) Shares held for share award scheme represents the own shares of the Company repurchased by a trustee for an employees' share award scheme. During the year ended 31 December 2019, a total of 5,686,000 ordinary shares of the Company at a fair value of RMB17,409,000 were repurchased but yet to be granted to employee.

During the year ended 31 December 2018, a total of 900,000 ordinary shares of the Company at a fair value of RMB3,107,000 were granted to the employee of the Company.

(iv) Other reserve includes an amount of RMB33,164,000 representing the excess of the balance of plan asset over the carrying amount of shares held under share award plan of the Company, which was recognised upon termination of the plan in prior years.

(v) The Group accounts for changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over those subsidiaries as equity transactions and recognises any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received in other reserve.

During the year ended 31 December 2019, the Group acquired 10% equity interests in a non-wholly owned subsidiary from its non-controlling shareholder at a consideration of RMB3,000,000. The difference between the non-controlling interests released and the consideration is recognised in equity and accumulated in other reserve.

(vi) During the current year, 5,082,000 ordinary shares (2018: 3,760,000 ordinary shares) of the Company were repurchased at an aggregate cost of HK$19,489,000 (equivalent to RMB17,111,000) (2018: HK$14,489,000 (equivalent to RMB12,359,000)) and 2,500,000 ordinary shares of the Company were cancelled (2018: 2,260,000 ordinary shares).

The transaction costs attributable to shares repurchase and cancelled are recorded at share repurchase reserve in the year they were incurred.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before taxation | **414,634** | 359,546 |
| Adjustments for: | | |
| Amortisation of intangible assets | **124,890** | 92,176 |
| Bank interest income | **(26,081)** | (23,950) |
| Depreciation of property, plant and equipment | **60,403** | 59,428 |
| Depreciation of right-of-use assets | **12,516** | — |
| Depreciation of investment properties | **968** | 483 |
| Dividend income from financial assets at fair value through profit or loss ("FVTPL") | **—** | (631) |
| Dividend income from equity instruments at fair value through other comprehensive income ("FVTOCI") | **(650)** | (1,159) |
| Fair value gain on financial assets at FVTPL | **(839)** | (2,106) |
| Finance costs | **86,518** | 59,594 |
| Impairment losses on financial assets under expected credit loss model | **25,118** | 8,023 |
| Interest income from financial assets at FVTPL | **(18,304)** | (15,331) |
| Interest income from consideration receivable for disposal of a subsidiary | **(4,486)** | (4,486) |
| Interest income from loan receivables | **(11,919)** | (11,919) |
| Net loss (gain) on disposal of property, plant and equipment | **40** | (211) |
| Provision for allowance of inventories | **1,916** | 6,667 |
| Release of prepaid lease payments | **—** | 2,832 |
| Share of result of a joint venture | **4,000** | — |
| Share of results of associates | **(168)** | 580 |
| Operating cash flows before movements in working capital | **668,556** | 529,536 |
| Increase in inventories | **(36,995)** | (17,710) |
| Increase in trade and other receivables | **(975,045)** | (52,777) |
| Increase in contract assets | **(149,070)** | (437,638) |
| Increase in trade and other payables | **716,197** | 127,201 |
| (Decrease) increase in contract liabilities | **(1,697)** | 15,086 |
| Cash generated from operations | **221,946** | 163,698 |
| Income tax paid | **(69,319)** | (17,932) |
| **NET CASH FROM OPERATING ACTIVITIES** | **152,627** | 145,766 |

| | NOTE | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Placement of pledged bank deposits | | **(699,611)** | (436,335) |
| Expenditure on intangible assets | | **(172,379)** | (139,299) |
| Purchase of financial assets at FVTPL | | **(100,000)** | (392,393) |
| Purchase of property, plant and equipment | | **(61,449)** | (60,266) |
| Payment of a life insurance product | | **(22,497)** | — |
| Advance to a joint venture | | **(18,000)** | — |
| Acquisition of additional interest in a joint venture | | **(4,000)** | — |
| Withdrawal of pledged bank deposits | | **708,919** | 428,453 |
| Proceeds from disposal of financial assets at FVTPL | | **131,727** | 283,611 |
| Interest received | | **71,717** | 61,300 |
| Repayment of loan receivables | | **51,000** | 87,869 |
| Proceeds from disposal of financial assets at FVTOCI | | **47,412** | — |
| Repayment of advance to a joint venture | | **18,000** | — |
| Proceed from dissolution of an associate | | **9,318** | — |
| Repayment of consideration receivable for disposal of unlisted equity instruments | | **2,000** | — |
| Net cash received on acquisition of a subsidiary | 37 | **1,015** | — |
| Dividends received from equity instruments at FVTOCI | | **650** | 1,159 |
| Proceeds from disposal of property, plant and equipment | | **512** | 3,148 |
| Purchase of equity instruments at FVTOCI | | **—** | (110,139) |
| Advance to an associate | | **—** | (18,000) |
| Proceed from disposal of subsidiary in prior year | | **—** | 71,000 |
| Dividends received from financial assets at FVTPL | | **—** | 631 |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(35,666)** | (219,261) |
| **FINANCING ACTIVITIES** | | | |
| New borrowings raised | | **1,707,193** | 1,229,354 |
| Repayment of borrowings | | **(1,101,668)** | (748,669) |
| Dividends paid | | **(221,694)** | (202,548) |
| Interest paid on borrowings | | **(86,175)** | (59,594) |
| Shares repurchased for share award scheme | | **(17,409)** | — |
| Shares repurchased and yet to be cancelled | | **(13,774)** | (4,961) |
| Repayment of lease liabilities | | **(8,777)** | — |
| Shares repurchased and cancelled | | **(3,337)** | (7,398) |
| Acquisition of additional interest in a subsidiary | | **(3,000)** | — |
| Interest paid on lease liabilities | | **(343)** | — |
| Transaction cost attributable to shares repurchased | | **(62)** | (45) |
| **NET CASH FROM FINANCING ACTIVITIES** | | **250,954** | 206,139 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **367,915** | 132,644 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | | **1,401,362** | 1,243,892 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | | **8,811** | 24,826 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | | **1,778,088** | 1,401,362 |

## 1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors consider the immediate and ultimate holding company to be Star Treasure Investments Holdings Limited, a limited liability company incorporated in the British Virgin Islands (the "BVI"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

The Company is an investment holding company. Particulars of the principal activities of its principal subsidiaries, associates and a joint venture are set out in notes 44, 19 and 20, respectively.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

| | |
|---|---|
| HKFRS 16 | Leases |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015–2017 Cycle |

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or on the disclosures as described below.

#### HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases" ("HKAS 17"), and the related interpretations.

*Definition of a lease*

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

#### HKFRS 16 "Leases" (Continued)

*As a lessee*

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" ("HKAS 37") as an alternative of impairment review;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iii. applied a single discount rate to a portfolio of leases with similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rates for certain leases of office buildings in Hong Kong were determined on a portfolio basis.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.43%.

| | RMB'000 |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 3,361 |
| Lease liabilities discounted at relevant incremental borrowing rates and as at 1 January 2019 | 3,252 |
| Analysed as | |
| Current portion | 3,011 |
| Non-current portion | 241 |
| | 3,252 |

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

#### HKFRS 16 "Leases" (Continued)

*As a lessee (Continued)*

The carrying amount of right-of-use assets as at 1 January 2019 comprised the following:

| | **Right-of-use assets** RMB'000 |
|---|---|
| Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 | 3,252 |
| Reclassified from prepaid lease payments (note) | 152,001 |
| | 155,253 |

note: Upfront payments for leasehold land in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$3,541,000 and HK$148,460,000 respectively were reclassified to right-of-use assets.

*As a lessor*

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

(a) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's consolidated statement of financial position at 1 January 2019. However, effective on 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

(b) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. However, the discounting effect has had no material impact on the consolidated financial statements of the Group at 1 January 2019.

(c) Effective on 1 January 2019, the Group has applied HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15") to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the consolidated financial statements of the Group at 1 January 2019.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

#### HKFRS 16 "Leases" (Continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

| | Carrying amounts previously reported at 31 December 2018<br>RMB'000 | Adjustments<br>RMB'000 | Carrying amounts under HKFRS 16 at 1 January 2019<br>RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Prepaid lease payments | 148,460 | (148,460) | — |
| Right-of-use assets | — | 155,253 | 155,253 |
| **Current asset** | | | |
| Prepaid lease payments | 3,541 | (3,541) | — |
| **Current liability** | | | |
| Lease liabilities | — | 3,011 | 3,011 |
| **Non-current liability** | | | |
| Lease liabilities | — | 241 | 241 |

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

There was no significant adjustment on rental income, finance costs, income tax expenses and other payable for the discounting effects for refundable rental deposits upon the application of HKFRS 16 as a lessor.

### New and amendments to HKFRSs in issue but not yet effective

| | |
|---|---|
| HKFRS 17 | Insurance Contracts[1] |
| Amendments to HKFRS 3 | Definition of a Business[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[4] |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform[4] |

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2020

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### New and amendments to HKFRSs in issue but not yet effective (Continued)

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

### Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

### Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards (Continued)

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Company will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods or services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, for financial reporting purpose, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of consolidation (Continued)

#### Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 "Financial Instruments" ("HKFRS 9") or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combinations (Continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see accounting policy below);

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or groups of CGUs) to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or groups of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or groups of CGUs).

On disposal of the relevant CGU or any of the CGU within the group of CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU unit within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

### Investments in associates and a joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and a joint venture are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and a joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the associate's and the joint venture accounting policies to those of the Group. Under the equity method, an investment in an associate's and joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or a joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments in associates and a joint venture (Continued)

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

#### Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations (such as the provision of delivery, installation, repair and maintenance services), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue from contracts with customers (Continued)

#### Warranties

If a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with HKAS 37.

#### Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

### Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below). Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

#### Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment (Continued)

#### Ownership interests in leasehold land and building (Continued)

Depreciation is recognised so as to write off the cost of assets other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

A property is transferred to an investment property when there is a change of use, as evidenced by end of owner-occupation. The cost and accumulated depreciation of that item (including the relevant leasehold land under HKFRS 16 or prepaid lease payments under HKAS 17) at the date of transfer is recognised as the cost and accumulated depreciation of the investment property respectively.

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

An item of investment property is transferred to property, plant and equipment when there is a change of use, as evidenced by start of owner-occupation. The cost and accumulated depreciation of that item at the date of transfer is recognised as the cost and accumulated depreciation of the property, plant and equipment respectively.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases

#### Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

#### The Group as lessee (upon application of HKFRS 16 in accordance with transition in note 3)

*Allocation of consideration to components of a contract*

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

*Right-of-use assets*

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

#### The Group as lessee (upon application of HKFRS 16 in accordance with transition in note 3) (Continued)

*Refundable rental deposits*

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

*Lease liabilities*

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

#### The Group as lessee (upon application of HKFRS 16 in accordance with transition in note 3) (Continued)

*Lease modifications*

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification. The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

#### The Group as a lessee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### The Group as a lessor

*Classification and measurement of leases*

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

#### The Group as a lessor (Continued)

*Allocation of consideration to components of a contract*

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

*Refundable rental deposits*

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

*Lease modification*

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

### Intangible assets

#### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

#### Internally-generated intangible assets — research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Intangible assets (Continued)

#### Internally-generated intangible assets — research and development expenditure (Continued)

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

### Life insurance products

Life insurance products are stated in the consolidated statement of financial position at cost, plus accumulated interest earned and minus the accumulated monthly insurance premium expenses charged less subsequent accumulated impairment losses, if any.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

#### Financial assets

*Classification and subsequent measurement of financial assets*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 “Business Combinations” applies.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

*Classification and subsequent measurement of financial assets (Continued)*

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

**(i) Amortised cost and interest income**

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

**(ii) Equity instruments designated as at FVTOCI**

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the other income in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

*Classification and subsequent measurement of financial assets (Continued)*

**(iii) Financial assets at FVTPL**

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

*Impairment of financial assets and contract assets*

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, loan receivables, loan receivables from an associate, other receivables, pledged bank deposits and bank balances) and contract assets which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables, and contract assets without significant financing component. The ECL on these assets are assessed collectively using a provision matrix based on a combination of groupings of various debtors that shared similar credit risk characteristics and past due analysis.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

*Impairment of financial assets and contract assets (Continued)*

**(i) Significant increase in credit risk**

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

*Impairment of financial assets and contract assets (Continued)*

**(ii) Definition of default**

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

**(iii) Credit-impaired financial assets**

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

**(iv) Write-off policy**

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

**(v) Measurement and recognition of ECL**

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

*Impairment of financial assets and contract assets (Continued)*

**(v) Measurement and recognition of ECL (Continued)**

Where ECL is measured on a collective basis to cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size, industry and geographical location of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve without reducing the carrying amount of these instruments. Such amount represents the changes in the investment revaluation reserve in relation to accumulated loss allowance.

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial liabilities and equity instruments

*Classification as debt or equity*

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Financial liabilities at amortised cost*

The Group's financial liabilities, including trade and other payables and borrowings, are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

*Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### Equity-settled share-based payment transactions

#### Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve).

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Equity-settled share-based payment transactions (Continued)

#### Awarded shares granted to employees

When trustee of the share award scheme purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held for share award scheme and deducted from total equity. No gain or loss is recognised on the transactions of the Company's own shares.

The fair value of services received is determined by reference to the fair value of share awards granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (shares held for share award scheme).

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rate prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rate prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non- controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

### Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees after deducting any amount already paid.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, associates and a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual CGUs, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

## 4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### Capitalisation of development cost

Careful judgement by the Group's management is applied when deciding whether the recognition requirements for intangible assets arising from development costs have been met. The Group applies judgement in determining whether the Group has the ability to use the intangible asset, can demonstrate the existence of a market for the products produced from the use of the intangible asset or the intangible asset itself or, if it is to be used internally, the ability to generate positive cash flows from the use of the intangible asset. The management has conducted a careful assessment and concluded that the future economic benefit relating to these development cost is probable which fulfill the capitalisation criteria.

### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### (i) Estimated carrying amounts of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected or changes in facts and circumstances which result in downward revision of future cash, a material impairment loss may arise. The carrying amount of goodwill of approximately RMB313.3 million as at 31 December 2019 (2018: approximately RMB297.9 million) was allocated to the power advanced metering infrastructure (including Brazil power advanced metering infrastructure), communication and fluid advanced metering infrastructure and advanced distribution operations segments. Details of the recoverable amount calculation are disclosed in note 18(a).

#### (ii) Provision of ECL for trade receivables and contract assets

Except for those which had been determined as credit-impaired under HKFRS 9, the Group calculates ECL individually or based on provision matrix for the trade receivables and contract assets. The provision matrix is taking into consideration forward-looking information that is available without undue costs or effort. The provision rates are based on a combination of groupings of various debtors that shared similar credit risk characteristics and past due analysis. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and contract assets are disclosed in notes 25 and 39(b) respectively.

## 5. REVENUE AND SEGMENT INFORMATION

### Disaggregation of revenue from contracts with customers

| | Power advanced metering infrastructure RMB'000 | Communication and fluid advanced metering infrastructure RMB'000 | Advanced distribution operations RMB'000 | Year ended 31.12.2019 RMB'000 |
|---|---|---|---|---|
| Sales of goods: | | | | |
| Smart power meters | **1,713,888** | **—** | **—** | **1,713,888** |
| Communication terminals | **—** | **1,010,363** | **—** | **1,010,363** |
| Water, gas and heat metering products | **—** | **157,187** | **—** | **157,187** |
| Smart power distribution devices | **—** | **—** | **774,208** | **774,208** |
| | **1,713,888** | **1,167,550** | **774,208** | **3,655,646** |

| | Power advanced metering infrastructure RMB'000 | Communication and fluid advanced metering infrastructure RMB'000 | Advanced distribution operations RMB'000 | Year ended 31.12.2018 RMB'000 |
|---|---|---|---|---|
| Sales of goods: | | | | |
| Smart power meters | 1,734,857 | — | — | 1,734,857 |
| Communication terminals | — | 801,893 | — | 801,893 |
| Water, gas and heat metering products | — | 128,051 | — | 128,051 |
| Smart power distribution devices | — | — | 675,520 | 675,520 |
| | 1,734,857 | 929,944 | 675,520 | 3,340,321 |

The Group sells smart power meters, communication terminals and water, gas and heat metering products and smart power distribution devices directly to customers.

The revenue from the sales of the above said products is generally recognised when customer acceptance has been obtained, which is the point of time when the customer has the ability to direct the use of the products and obtain substantially all of the remaining benefits of the products.

Upon the signing of sales contract, a deposit from customers amounting to approximate 10% of the invoiced amount may be requested. Upon shipment and acceptance of products by the customers, the invoiced amount will be settled by customers by instalments and a credit period of 90 days will be allowed. There is a 10% of the invoiced amount being withheld by the customers and will be released to the Group upon the satisfaction of a one to two-years retention period. During the retention period, the Group will provide assurance-type repair and maintenances and other related services.

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### Disaggregation of revenue from contracts with customers (Continued)

On the receipt of deposit, a contract liability is recognised. On the shipment and acceptance of products by the customers, the Group recognised the sales and a receivable and a contract asset (for the withheld portion) are recognised. Upon the completion of retention period, the contract asset will transfer to as a receivable.

The directors of the Company assessed the existence of significant financing component and considered that the amount is insignificant at contract level.

For the revenue from other performance obligations, including the provision of delivery, installation, repair and maintenance services, the directors of the Company reviewed and assessed the estimated amount of transaction prices and considered that the amount is insignificant and no allocation is performed to separately account for the revenue from these other performance obligations.

### Transaction price allocated to the remaining performance obligation for contracts with customers

The Group's contracts with customers typically completed within one year. The Group elected to apply the practical expedient as the remaining performance obligation is part of a contract that has an original expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts are not disclosed.

### Segment Information

Information reported to the Group's Chief Executive Officer, being the chief operating decision maker (the "CODM"), for the purposes of resources allocation and assessment of segment performance focuses on business lines of the Group based on different products sold. This is also the basis upon which the Group is managed and organised. No operating segments identified by the CODM have been aggregated in arriving the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

(a) Power advanced metering infrastructure segment, which engages in the development, manufacture and sale of smart power meters and provision of respective system solution;

(b) Communication and fluid advanced metering infrastructure segment, which engages in the development, manufacture and sale of communication terminals and water, gas and heat metering products and provision of respective system solution; and

(c) Advanced distribution operations segment, which engages in the manufacture and sale of smart power distribution devices and providing smart power distribution solution and energy efficiency solution.

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:

**For the year ended 31 December 2019**

| | Power advanced metering infrastructure RMB'000 | Communication and fluid advanced metering infrastructure RMB'000 | Advanced distribution operations RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|
| Segment revenue | 1,713,888 | 1,167,550 | 774,208 | 3,655,646 |
| Segment profit | 168,991 | 205,970 | 100,662 | 475,623 |
| Unallocated income and gains/losses | | | | 56,912 |
| Share of results of associates and a joint venture | | | | (3,832) |
| Central administration costs | | | | (27,551) |
| Finance costs | | | | (86,518) |
| Profit before taxation | | | | 414,634 |

For the year ended 31 December 2018

| | Power advanced metering infrastructure RMB'000 | Communication and fluid advanced metering infrastructure RMB'000 | Advanced distribution operations RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|
| Segment revenue | 1,734,857 | 929,944 | 675,520 | 3,340,321 |
| Segment profit | 174,973 | 143,763 | 85,332 | 404,068 |
| Unallocated income and gains/losses | | | | 47,705 |
| Share of results of associates | | | | (580) |
| Central administration costs | | | | (32,053) |
| Finance costs | | | | (59,594) |
| Profit before taxation | | | | 359,546 |

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### Segment revenue and results (Continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit attributable to each segment without allocation of certain other income, other gains and losses, share of result of a joint venture, share of results of associates, central administration costs, directors' salaries, finance costs and taxation. This is the measure reported to the Group's CODM for the purposes of resource allocation and performance assessment.

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

| | **31.12.2019 RMB'000** | 31.12.2018 RMB'000 |
|---|---|---|
| **SEGMENT ASSETS** | | |
| Power advanced metering infrastructure | **4,924,624** | 3,113,856 |
| Communication and fluid advanced metering infrastructure | **1,770,911** | 1,404,164 |
| Advanced distribution operations | **1,494,055** | 1,671,355 |
| Total segment assets | **8,189,590** | 6,189,375 |
| Unallocated assets | **1,907,184** | 2,418,920 |
| Consolidated assets | **10,096,774** | 8,608,295 |
| **SEGMENT LIABILITIES** | | |
| Power advanced metering infrastructure | **1,526,127** | 1,183,511 |
| Communication and fluid advanced metering infrastructure | **863,957** | 535,123 |
| Advanced distribution operations | **794,309** | 607,539 |
| Total segment liabilities | **3,184,393** | 2,326,173 |
| Unallocated liabilities | **2,065,981** | 1,539,838 |
| Consolidated liabilities | **5,250,374** | 3,866,011 |

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than certain property, plant and equipment, right-of-use assets/prepaid lease payments, investments in associates, investment in a joint venture, equity instruments in FVTOCI, financial assets at FVTPL, life insurance products, loan receivables, other receivables, pledged bank deposits, bank balances and cash and deferred tax assets; and

- all liabilities are allocated to operating segments other than certain other payables, tax liabilities, borrowings, lease liabilities, and deferred tax liabilities.

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### Other segment information

Amounts included in the measure of segment profit or segment assets and liabilities:

**For the year ended 31 December 2019**

| | Power advanced metering infrastructure RMB'000 | Communication and fluid advanced metering infrastructure RMB'000 | Advanced distribution operations RMB'000 | Segment total RMB'000 | Unallocated RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|---|---|
| Additions to non-current assets (Note) | 138,927 | 46,170 | 66,363 | 251,460 | — | 251,460 |
| Depreciation and amortisation of property, plant and equipment, right-of-use assets and intangible assets | 99,482 | 52,343 | 43,474 | 195,299 | 2,510 | 197,809 |
| Loss (gain) on disposal of property, plant and equipment | 2 | (8) | 46 | 40 | — | 40 |

For the year ended 31 December 2018

| | Power advanced metering infrastructure RMB'000 | Communication and fluid advanced metering infrastructure RMB'000 | Advanced distribution operations RMB'000 | Segment total RMB'000 | Unallocated RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|---|---|
| Additions to non-current assets (Note) | 95,602 | 54,897 | 47,821 | 198,320 | 1,245 | 199,565 |
| Depreciation and amortisation of property, plant and equipment and intangible assets | 56,871 | 51,463 | 37,579 | 145,913 | 5,691 | 151,604 |
| Release of prepaid lease payments | 448 | 670 | 1,714 | 2,832 | — | 2,832 |
| (Gain) loss on disposal of property, plant and equipment | (210) | 4 | (5) | (211) | — | (211) |

Note: Non-current assets exclude financial instruments and deferred tax assets.

### Revenue from major customers

None of the customers individually contributed over 10% of the consolidated revenue in any of the two years ended 31 December 2019 and 31 December 2018.

## 5. REVENUE AND SEGMENT INFORMATION (Continued)

### Geographical information

The Group's operations are mainly located in the PRC.

The following table provides an analysis of the Group's revenue by geographical location of customers, irrespective of the origin of the goods, and information about its non-current assets by geographical location of the assets.

| | Revenue from external customers | | Non-current assets (Note) | |
|---|---|---|---|---|
| | **2019 RMB'000** | 2018 RMB'000 | **2019 RMB'000** | 2018 RMB'000 |
| PRC | **3,445,035** | 2,945,553 | **2,294,907** | 2,239,028 |
| Asian countries, except for PRC | **148,162** | 202,050 | **—** | — |
| African countries | **47,065** | 142,670 | **1,779** | 306 |
| Other overseas countries | **15,384** | 50,048 | **7,499** | — |
| | **3,655,646** | 3,340,321 | **2,304,185** | 2,239,334 |

Note: Non-current assets exclude financial instruments and deferred tax assets.

## 6. OTHER INCOME

| | **Year ended 31.12.2019 RMB'000** | Year ended 31.12.2018 RMB'000 |
|---|---|---|
| Other income comprises: | | |
| Bank interest income | **26,081** | 23,950 |
| Dividend income from financial assets at FVTPL | **—** | 631 |
| Dividend received from equity instruments at FVTOCI | **650** | 1,159 |
| Government grants (Note i) | **31,451** | 26,533 |
| Interest income from consideration receivable for disposal of a subsidiary | **4,486** | 4,486 |
| Interest income from loan receivables (Note ii) | **11,919** | 11,919 |
| Interest income on financial assets at FVTPL | **18,304** | 15,331 |
| Refund of value-added tax ("VAT") (Note iii) | **29,794** | 34,712 |
| Rental income from investment properties | **2,405** | 2,561 |
| Others | **5,455** | 1,613 |
| | **130,545** | 122,895 |

Notes:

(i) Government grants mainly comprise financial subsidies from the PRC government for the immediate rewards of the Group's contribution to the relevant provinces and the continuous technological advancements of the Group in its products with no future related costs or obligations.

(ii) The amount represents the interest income from advance by the Group to a certain independent third party under entrusted loan contract. Details of the loan is disclosed in note 27.

(iii) Pursuant to the relevant regulations in the PRC, certain subsidiaries of the Group operating in the PRC are entitled to refunds of certain percentage of VAT on the sale of specified high technology products. The amount represents such VAT refund which is approved by the relevant tax authorities.

## 7. OTHER GAINS AND LOSSES

| | Year ended 31.12.2019 RMB'000 | Year ended 31.12.2018 RMB'000 |
|---|---|---|
| Other gains (losses) comprises: | | |
| Net foreign exchange gain (loss) | **5,762** | (3,715) |
| Net (loss) gain on disposal of property, plant and equipment | **(40)** | 211 |
| Fair value gain on financial assets at FVTPL | **839** | 2,106 |
| | **6,561** | (1,398) |

## 8. FINANCE COSTS

| | Year ended 31.12.2019 RMB'000 | Year ended 31.12.2018 RMB'000 |
|---|---|---|
| Interest on borrowings | **86,175** | 59,594 |
| Interest on lease liabilities | **343** | — |
| | **86,518** | 59,594 |

## 9. IMPAIRMENT LOSSES ON FINANCIAL ASSETS UNDER EXPECTED CREDIT LOSS MODEL

| | Year ended 31.12.2019 RMB'000 | Year ended 31.12.2018 RMB'000 |
|---|---|---|
| Impairment losses under ECL recognised on: | | |
| — Trade receivables and contract assets | **25,118** | 8,023 |

Details of impairment assessment for the year ended 31 December 2019 and 2018 are set out in note 39(b).

## 10. PROFIT BEFORE TAXATION

| | **Year ended 31.12.2019 RMB'000** | Year ended 31.12.2018 RMB'000 |
|---|---|---|
| Profit before taxation has been arrived at after charging: | | |
| Staff costs (including directors' emoluments): | | |
| Salaries and benefits | **320,615** | 323,396 |
| Retirement benefit scheme contributions | **14,767** | 13,713 |
| Share-based payment expenses | **—** | 3,107 |
| | **335,382** | 340,216 |
| Capitalised in development costs at the end of the reporting period | **104,884** | 79,666 |
| Capitalised in inventories at the end of the reporting period | **27,716** | 30,981 |
| | **467,982** | 450,863 |
| Auditor's remuneration | **3,469** | 3,425 |
| Depreciation of property, plant and equipment | **60,403** | 59,428 |
| Depreciation of investment properties | **968** | 483 |
| Release of prepaid lease payments | **—** | 2,832 |
| Amortisation of intangible assets (included in selling expenses, administrative expenses and research and development expenses) | **124,890** | 92,176 |
| Depreciation of right-of-use assets | **12,516** | — |
| Total depreciation and amortisation | **198,777** | 154,919 |
| Capitalised in inventories at the end of the reporting period | **4,353** | 5,648 |
| | **203,130** | 160,567 |
| Provision for allowance of inventories | **1,916** | 6,667 |
| Cost of inventories recognised as expense | **2,508,013** | 2,349,035 |

## 11. INCOME TAX EXPENSE

| | Year ended 31.12.2019 RMB'000 | Year ended 31.12.2018 RMB'000 |
|---|---|---|
| The charge comprises: | | |
| PRC Enterprise Income Tax ("EIT") | | |
| — Current year | 75,238 | 58,572 |
| — Overprovision in prior years | (10,362) | (26,667) |
| | 64,876 | 31,905 |
| Deferred taxation (note 34) | | |
| — Current year | (7,620) | (3,130) |
| | 57,256 | 28,775 |

Notes:

(i) Hong Kong

No provision for Hong Kong Profits Tax has been made as the Group did not earn any income that was subject to Hong Kong Profits Tax during both years.

(ii) PRC

PRC EIT was calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC, except that certain PRC subsidiaries which are approved as enterprises that satisfied the condition as high technology development enterprises and obtained the Certificate of High New Technology Enterprise continue to enjoy the preferential tax rate of 15% for a consecutive three years from year 2016 to 2018, year 2017 to 2019 or year 2018 to 2020.

According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC, certain of the subsidiaries established in the PRC are entitled to claim additional 50% to 75% of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year. The qualified PRC subsidiaries can enjoy the additional deduction of 75% of qualified research and development expenses for a consecutive three years from year 2018 to 2020.

(iii) Other jurisdictions

Taxation arising in other jurisdictions was calculated at the rates prevailing in the respective jurisdictions. Under the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, a Macao company incorporated under that Law ("58/99/M Company") is exempted from Macao Complementary Tax as long as the 58/99/M Company does not sell its products to a Macao resident company.

## 11. INCOME TAX EXPENSE (Continued)

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **Year ended 31.12.2019 RMB'000** | Year ended 31.12.2018 RMB'000 |
|---|---|---|
| Profit before taxation | **414,634** | 359,546 |
| Tax at the income tax rate of 25% | **103,659** | 89,887 |
| Tax effect of expenses not deductible for tax purpose | **30,052** | 26,789 |
| Tax effect of income not taxable for tax purpose | **(1,367)** | (1,318) |
| Tax effect of share of results of an associate | **(42)** | 145 |
| Tax effect of share of results of a joint venture | **1,000** | — |
| Tax effect of tax losses not recognised | **4,488** | 5,370 |
| Utilisation of tax losses previously not recognised | **(891)** | (457) |
| Effect of tax concessions/exemption granted to PRC and Macao subsidiaries | **(45,402)** | (43,289) |
| Effect of additional tax deduction on research and development expenses of PRC subsidiaries | **(23,879)** | (21,685) |
| Overprovision in prior years | **(10,362)** | (26,667) |
| Income tax expense for the year | **57,256** | 28,775 |

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' and employees' emoluments

Details of emoluments paid or payable to each of the ten (2018: ten) directors are set out as follows:

**For the year ended 31 December 2019**

| | Directors' fees RMB'000 | Salaries and other benefits RMB'000 | Discretionary bonuses RMB'000 (Note i) | Retirement benefit scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Executive directors:** | | | | | |
| Ji Wei | — | 533 | — | 16 | 549 |
| Cao Zhao Hui (Note ii) | — | 565 | 50 | 20 | 635 |
| Zeng Xin | — | 605 | — | 20 | 625 |
| Zheng Xiao Ping | — | 564 | — | 17 | 581 |
| Tian Zhongping | — | 468 | — | 23 | 491 |
| **Non-executive director:** | | | | | |
| Kat Chit | — | 266 | — | — | 266 |
| **Independent non-executive directors:** | | | | | |
| Hui Wing Kuen | 443 | — | — | — | 443 |
| Huang Jing | 213 | — | — | — | 213 |
| Luan Wenpeng | 106 | — | — | — | 106 |
| Cheng Shi Jie | 161 | — | — | — | 161 |
| | 923 | 3,001 | 50 | 96 | 4,070 |

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

### (a) Directors' and employees' emoluments (Continued)

**For the year ended 31 December 2018**

| | Directors' fees RMB'000 | Salaries and other benefits RMB'000 | Discretionary bonuses RMB'000 (Note i) | Retirement benefit scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Executive directors:** | | | | | |
| Ji Wei | — | 514 | — | 15 | 529 |
| Cao Zhao Hui (Note ii) | — | 557 | 50 | 20 | 627 |
| Zeng Xin | — | 597 | — | 20 | 617 |
| Zheng Xiao Ping | — | 555 | — | 17 | 572 |
| Tian Zhongping | — | 459 | — | 23 | 482 |
| **Non-executive director:** | | | | | |
| Kat Chit | — | 257 | — | — | 257 |
| **Independent non-executive directors:** | | | | | |
| Hui Wing Kuen | 419 | — | — | — | 419 |
| Huang Jing | 205 | — | — | — | 205 |
| Luan Wenpeng | 103 | — | — | — | 103 |
| Cheng Shi Jie | 156 | — | — | — | 156 |
| | 883 | 2,939 | 50 | 95 | 3,967 |

Notes:

(i) Discretionary bonuses are recommended by the Remuneration Committee and is decided by the board of directors having regard to the Group's operating results, individual performance and comparable market statistics.

(ii) Ms. Cao Zhao Hui is also the Chief Executive of the Company and her emoluments disclosed above include those for services rendered by her as the Chief Executive.

No directors waived any emoluments for any of the two years ended 31 December 2019 and 31 December 2018.

The executive director's emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were paid for their services as directors of the Company.

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

### (b) Employees' emoluments

The five highest paid individuals of the Group for the year ended 31 December 2019 included four (2018: four) directors of the Company, details of whose emoluments are included above. The emoluments of the remaining one (2018: one) individual for the year are as follows:

| | Year ended 31.12.2019 RMB'000 | Year ended 31.12.2018 RMB'000 |
|---|---|---|
| Salaries and other benefits | 1,509 | 1,412 |
| Retirement benefit scheme contributions | 16 | 15 |
| | 1,525 | 1,427 |

The number of the highest paid employee who is not the director of the Company whose remuneration fell within the following band is as follows:

| | 2019 No. of employees | 2018 No. of employees |
|---|---|---|
| HK$1,000,001 to HK$1,500,000 | — | 1 |
| HK$1,500,001 to HK$2,000,000 | 1 | — |

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

## 13. DIVIDENDS

| | Year ended 31.12.2019 RMB'000 | Year ended 31.12.2018 RMB'000 |
|---|---|---|
| Dividends recognised as distribution during the year: | | |
| 2019 interim dividend — HK$0.06, equivalent to RMB0.053, per share (2018: nil) | 53,158 | — |
| 2018 final dividend — HK$0.20, equivalent to RMB0.171, per share (2018: 2017 final dividend — HK$0.24, equivalent to RMB0.194, per share) | 168,536 | 202,548 |
| | 221,694 | 202,548 |

## 13. DIVIDENDS (Continued)

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of HK$0.20, equivalent to RMB0.183, per share (2018: final dividend in respect of the year ended 31 December 2018 of HK$0.20, equivalent to RMB0.171, per share), in an aggregate amount of HK$199,176,000, equivalent to RMB181,846,000 (2018: HK$199,992,000, equivalent to RMB170,993,000), has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

| | **Year ended 31.12.2019 RMB'000** | Year ended 31.12.2018 RMB'000 |
|---|---|---|
| **Earnings** | | |
| Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company) | **280,567** | 270,817 |
| | **2019** | 2018 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **988,842,364** | 996,781,538 |
| Effect of dilutive potential ordinary shares in respect of share options | **—** | 5,569 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **988,842,364** | 996,787,107 |

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares repurchased by the Company but not yet cancelled and shares held by the trustee of the share award scheme of the Company as set out in note 36.

The computation of diluted earnings per share for the year ended 31 December 2019 does not assume the exercise of the Company's outstanding share options as the relevant exercise price of those options were higher than the average market price for the year.

## 15. PROPERTY, PLANT AND EQUIPMENT/PREPAID LEASE PAYMENTS

### (a) Property, plant and equipment

| | Owned buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Furniture, fixtures and office equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | |
| At 1 January 2018 | 1,265,782 | 4,615 | 300,667 | 60,231 | 23,262 | 5,336 | 1,659,893 |
| Additions | 682 | 12,887 | 23,722 | 12,394 | 1,806 | 8,775 | 60,266 |
| Transfer | — | 1,230 | 47 | 1,415 | — | (2,692) | — |
| Disposals/written off | — | — | (11,108) | (646) | (286) | — | (12,040) |
| Transfer to investment properties (note 17) | (14,014) | — | — | — | — | — | (14,014) |
| Exchange realignment | — | 98 | — | 25 | 52 | — | 175 |
| At 31 December 2018 | 1,252,450 | 18,830 | 313,328 | 73,419 | 24,834 | 11,419 | 1,694,280 |
| Additions | 346 | 12,124 | 30,364 | 5,782 | 1,222 | 11,611 | 61,449 |
| Additions through acquisition of a subsidiary (note 37) | — | — | 3,177 | 112 | — | 4,062 | 7,351 |
| Transfer | 16,723 | — | 306 | — | — | (17,029) | — |
| Disposals/written off | — | — | (5,867) | (206) | (463) | — | (6,536) |
| Transfer to investment properties (note 17) | (1,420) | — | — | — | — | — | (1,420) |
| Exchange realignment | — | 48 | 117 | 21 | 29 | 131 | 346 |
| At 31 December 2019 | 1,268,099 | 31,002 | 341,425 | 79,128 | 25,622 | 10,194 | 1,755,470 |
| **DEPRECIATION** | | | | | | | |
| At 1 January 2018 | 112,855 | 4,605 | 186,577 | 45,144 | 13,542 | — | 362,723 |
| Provided for the year | 23,035 | 2,935 | 24,370 | 7,362 | 1,726 | — | 59,428 |
| Eliminated on disposals/ written off | — | — | (8,427) | (409) | (267) | — | (9,103) |
| Transfer to investment properties (note 17) | (1,009) | — | — | — | — | — | (1,009) |
| Exchange realignment | — | 98 | — | 24 | 47 | — | 169 |
| At 31 December 2018 | 134,881 | 7,638 | 202,520 | 52,121 | 15,048 | — | 412,208 |
| Provided for the year | 22,187 | 3,583 | 25,112 | 7,628 | 1,893 | — | 60,403 |
| Eliminated on disposals/ written off | — | — | (5,530) | (195) | (259) | — | (5,984) |
| Transfer to investment properties (note 17) | (205) | — | — | — | — | — | (205) |
| Exchange realignment | — | 47 | 4 | 13 | 25 | — | 89 |
| At 31 December 2019 | 156,863 | 11,268 | 222,106 | 59,567 | 16,707 | — | 466,511 |
| **CARRYING VALUES** | | | | | | | |
| At 31 December 2019 | 1,111,236 | 19,734 | 119,319 | 19,561 | 8,915 | 10,194 | 1,288,959 |
| At 31 December 2018 | 1,117,569 | 11,192 | 110,808 | 21,298 | 9,786 | 11,419 | 1,282,072 |

## 15. PROPERTY, PLANT AND EQUIPMENT/PREPAID LEASE PAYMENTS (Continued)

### (a) Property, plant and equipment (Continued)

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis over the following periods:

| | |
|---|---|
| Owned buildings | Over the remaining period of the lease terms of the relevant land on which owned buildings are erected, or 50 years, whichever is the shorter |
| Leasehold improvements | Over the remaining period of the relevant lease, or 5 years, whichever is the shorter |
| Plant and machinery | 5 to 10 years |
| Furniture, fixtures and office equipment | 5 to 10 years |
| Motor vehicles | 10 years |

All of the owned buildings are erected on land with medium-term land use rights outside Hong Kong.

During the year ended 31 December 2019, an office with cost of RMB1,420,000 (2018: RMB14,014,000) and accumulated depreciation of RMB205,000 (2018: RMB1,009,000) is transferred to investment properties upon the commencement of a rental agreement entered into with an independent third party.

### (b) Prepaid lease payments

The Group's prepaid lease payments comprise leasehold land outside Hong Kong held under medium-term leases and analysed for reporting purposes as:

| | 31.12.2018<br>RMB'000 |
|---|---|
| Non-current assets | 148,460 |
| Current assets | 3,541 |
| | 152,001 |

## 16. RIGHT-OF-USE ASSETS

| | Leasehold lands RMB'000 | Leased properties RMB'000 | Total RMB'000 |
|---|---|---|---|
| **As at 1 January 2019** | | | |
| Carrying amount | 152,001 | 3,252 | 155,253 |
| **As at 31 December 2019** | | | |
| Carrying amount | 148,337 | 4,773 | 153,110 |
| **For the year ended 31 December 2019** | | | |
| Depreciation charge | (3,664) | (8,852) | (12,516) |
| Total cash outflow for leases | | | 9,120 |
| Additions to right-of-use assets | | | 10,281 |

For both years, the Group leases various offices for its operations. Lease contracts are entered into for fixed term of 0.2 to 4.5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

## 17. INVESTMENT PROPERTIES

| | RMB'000 |
|---|---|
| **COST** | |
| At 1 January 2018 | 17,246 |
| Transfer from property, plant and equipment (note 15(a)) | 14,014 |
| At 31 December 2018 | 31,260 |
| Transfer from property, plant and equipment (note 15(a)) | 1,420 |
| At 31 December 2019 | 32,680 |
| **DEPRECIATION** | |
| At 1 January 2018 | 1,608 |
| Provided for the year | 483 |
| Transfer from property, plant and equipment (note 15(a)) | 1,009 |
| At 31 December 2018 | 3,100 |
| Provided for the year | 968 |
| Transfer from property, plant and equipment (note 15(a)) | 205 |
| At 31 December 2019 | 4,273 |
| **CARRYING VALUES** | |
| At 31 December 2019 | 28,407 |
| At 31 December 2018 | 28,160 |

## 17. INVESTMENT PROPERTIES (Continued)

The above investment properties are depreciated on a straight-line basis over the remaining period of the lease terms of the relevant land and the buildings erected on land under medium-term land use rights outside Hong Kong.

The Group leases out various offices and warehouses under operating leases with rentals payable monthly. The leases typically run for an initial period of 2 to 5 years.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

The fair values of the Group's investment properties at 31 December 2019 were RMB41,105,000 (2018: RMB37,422,000). The fair values for the year ended 31 December 2019 and 2018 have been arrived at based on valuations carried out by 湖南中和房地產評估諮詢有限公司, an independent valuer not connected with the Group.

The fair values were determined based on the direct comparison approach, which makes reference to the recent transactions for similar properties in the proximity and adjusted for a number of factors, including differences in transaction dates, building ages, floor areas, etc., between the comparable properties and the subject matters. In estimating the fair values of the properties, the highest and best use of the properties is their current use and the fair value measurements for all of the Group's properties are categorised as Level 3 (see note 3 for details). There has been no change from the valuation technique used in the prior year.

## 18. GOODWILL/OTHER INTANGIBLE ASSETS

### (a) Goodwill

| | RMB'000 |
|---|---|
| **COST** | |
| At 1 January 2018 and 31 December 2018 | 297,919 |
| Acquisition of a subsidiary (note 37) | 15,353 |
| At 31 December 2019 | 313,272 |

## 18. GOODWILL/OTHER INTANGIBLE ASSETS (Continued)

### (a) Goodwill (Continued)

For the purposes of impairment testing, goodwill arising on business combinations as set out above was allocated, at acquisition, to individual CGUs and the carrying amounts are as follows:

| | 31.12.2019<br>RMB'000 | 31.12.2018<br>RMB'000 |
|---|---|---|
| Power advanced metering infrastructure CGU | 184,884 | 184,884 |
| Communication and fluid advanced metering infrastructure CGU | 53,495 | 53,495 |
| Advanced distribution operations CGU | 59,540 | 59,540 |
| Brazil power advanced metering infrastructure CGU (note 37) | 15,353 | — |
| | 313,272 | 297,919 |

During the year ended 31 December 2019 and 2018, management of the Group determines that there are no impairments of any of its CGUs or group of CGUs containing goodwill.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. The value-in-use of the CGUs as at 31 December 2019 has been arrived by taking consideration of the key assumptions used in the valuations regarding the suitable discount rates, growth rates, budgeted sales and gross profit margin. The changes in selling prices and costs are based on historical operating records and expectation of future changes in the market. Discount rates applied are able to reflect the current market assessments of the time value of money and the risks specific to the CGUs.

The basis of the value-in-use calculations of the above CGUs or group of CGUs containing goodwill and their major underlying assumptions are summarised below:

For the year ended 31 December 2019 and 2018, the Group determined the value-in-use by preparing cash flow projections of these CGUs based on the most recent financial forecast approved by the management covering a five-year period with a steady growth rate. Cash flows beyond the fifth year are extrapolated using an estimated growth rate. Other key assumptions for the value-in-use calculations relate to the estimation of cash flow projections which include selling price, cost and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The discount rate reflects specific risks relating to the relevant CGUs.

## 18. GOODWILL/OTHER INTANGIBLE ASSETS (Continued)

### (a) Goodwill (Continued)

| | Power advanced metering infrastructure CGU | Communication and fluid advanced metering infrastructure CGU | Advanced distribution operations CGU | Brazil power advanced metering infrastructure CGU |
|---|---|---|---|---|
| Average growth rate of profit for projection period | | | | |
| 2019 | 4% | 8% | 4% | 34% |
| 2018 | 5% | 8% | 5% | N/A |
| Terminal growth rate | | | | |
| 2019 | 3% | 3% | 3% | 3% |
| 2018 | 3% | 3% | 3% | N/A |
| Pre-tax discount rates | | | | |
| 2019 | 12.5% | 12.5% | 15.5% | 15% |
| 2018 | 12.5% | 12.5% | 15.5% | N/A |

As at 31 December 2019, the recoverable amount of the above CGUs exceeds their carrying amounts by 85% to 333%.

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amounts of the goodwill and other intangible assets to exceed their recoverable amounts.

## 18. GOODWILL/OTHER INTANGIBLE ASSETS (Continued)

### (b) Other intangible assets

| | Development costs RMB'000 | Acquired patents, copyrights and trademarks RMB'000 | Acquired technology RMB'000 | Customer relationship and contracts RMB'000 | Premium on land RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| At 1 January 2018 | 769,369 | 84,576 | 95,257 | 63,669 | 46,713 | 1,059,584 |
| Additions | 137,803 | 1,496 | — | — | — | 139,299 |
| At 31 December 2018 | 907,172 | 86,072 | 95,257 | 63,669 | 46,713 | 1,198,883 |
| Additions | 171,757 | 622 | — | — | — | 172,379 |
| At 31 December 2019 | 1,078,929 | 86,694 | 95,257 | 63,669 | 46,713 | 1,371,262 |
| **AMORTISATION** | | | | | | |
| At 1 January 2018 | 408,401 | 72,704 | 93,775 | 48,948 | 9,931 | 633,759 |
| Provided for the year | 84,217 | 3,882 | 817 | 2,326 | 934 | 92,176 |
| At 31 December 2018 | 492,618 | 76,586 | 94,592 | 51,274 | 10,865 | 725,935 |
| Provided for the year | 120,166 | 799 | 665 | 2,326 | 934 | 124,890 |
| At 31 December 2019 | 612,784 | 77,385 | 95,257 | 53,600 | 11,799 | 850,825 |
| **CARRYING VALUES** | | | | | | |
| At 31 December 2019 | 466,145 | 9,309 | — | 10,069 | 34,914 | 520,437 |
| At 31 December 2018 | 414,554 | 9,486 | 665 | 12,395 | 35,848 | 472,948 |

Development costs represent expenses capitalised during development phase of internal projects for development of new technology and new products expected to generate future economic benefits through transfer of goods to customers.

The entire balances of acquired technology, customer relationship and contracts and premium on land, and certain amounts of development costs and acquired patents, copyrights and trademarks were acquired as part of business combinations in prior years.

## 18. GOODWILL/OTHER INTANGIBLE ASSETS (Continued)

### (b) Other intangible assets (Continued)

The above intangible assets have finite useful lives and are amortised on a straight-line basis over the following periods:

| | |
|---|---|
| Development costs | 3 to 5 years |
| Acquired patents, copyrights and trademarks | 3 to 10 years |
| Acquired technology | 3 to 5 years |
| Customer relationship and contracts | 10 years |
| Premium on land | Over the remaining period of the lease terms of the relevant land |

## 19. INVESTMENTS IN ASSOCIATES

| | **31.12.2019 RMB'000** | 31.12.2018 RMB'000 |
|---|---|---|
| Cost of unlisted investments in associates | — | 28,750 |
| Share of post-acquisition losses | — | (16,876) |
| Less: effect of elimination of gain on transfer of intangible assets from the Group to an associate to the extent of the Group's interest therein | — | (2,724) |
| | — | 9,150 |

## 19. INVESTMENTS IN ASSOCIATES (Continued)

Details of the Group's associates at the end of the reporting period are as follows:

| Name of entity | Form of entity | Country of establishment/ principal operations | Proportion of ownership interest and voting rights held by the Group 2019 | 2018 | Principal activity |
|---|---|---|---|---|---|
| Smart Metering Solution (Changsha) Co., Ltd. ("Smart Metering") (Note i) | Limited incorporated | PRC | N/A | 40% | Research, development, manufacturing, and selling meter products, meter data management system, smart meter solution system and provide relevant consulting services |
| Chengsha High-tech development Zone Energy Integrated Services Co., Ltd. ("Chengsha Energy") (Note ii) 長沙高新開發區能源綜合服務有限公司 | Limited incorporated | PRC | N/A | 35% | Sales of electricity, design, development and maintenance of electric power information systems, renewable energy generation, energy performance contract, provision of electric power engineering construction and design services |

Notes:

(i) Smart Metering was co-established by the Group and an independent third party and the Group was able to exercise significant influence over Smart Metering because it has power to appoint two out of five directors. During the year ended 31 December 2019, the Group acquired additional interest of 11% through capital injection of RMB4,000,000 (the "Capital Injection"). The Group's interests in Smart Metering has increased from 40% to 51%. There was a change in Memorandum of Association of Smart Metering upon the Capital Injection that major business operating and financing decisions required unanimous consents from all directors. The directors of the Company consider no control is obtained from the Capital Injection and the investments in Smart Metering became investment in a joint venture.

(ii) Chengsha Energy was co-established by the Group and two independent third parties and the Group is able to exercise significant influence over Chengsha Energy because it has power to appoint one out of four directors. Chengsha Energy has been liquidated during the year (the "Liquidation").

## 19. INVESTMENTS IN ASSOCIATES (Continued)

Notes: (Continued)

(ii) (Continued)

The investments in associates are accounted for using equity method in these consolidated financial statements.

Summarised financial information in respect of the Group's associates is set out below. The summarised financial information below represents amount shown in the associates' financial statements prepared in accordance with HKFRSs.

| | Smart Metering | | Chengsha Energy | |
|---|---|---|---|---|
| | **Period ended 29.02.2019 RMB'000 (Note i)** | Year ended 31.12.2018 RMB'000 | **Period ended 31.10.2019 RMB'000 (Note ii)** | Year ended 31.12.2018 RMB'000 |
| *Financial information of statement of profit or loss and other comprehensive income Revenue* | **5,466** | 42,934 | **—** | 25 |
| (Loss) profit and total comprehensive (expense) income for the period/year | **(3,341)** | (36,811) | **479** | 679 |
| (Loss) profit for the period/year attributable to the Group | **(1,336)** | (14,724) | **168** | 238 |
| *Reconciliation to the share of results of associates:* | | | | |
| (Loss) profit for the period/year attributable to the Group | **(91)** | (1,363) | **168** | 238 |
| Amortisation of gain on transfer of intangible assets from the Group to the associate to the extent of the Group's interest therein | **91** | 545 | **—** | — |
| Share of results of associates | **—** | (818) | **168** | 238 |
| Loss allocated in excess of investment cost in current period | **(1,245)** | (13,906) | **—** | — |

## 19. INVESTMENTS IN ASSOCIATES (Continued)

Notes: (Continued)

(ii) (Continued)

(i) The amounts represented the results of Smart Metering from 1 January 2019 to the date of the Capital Injection.

(ii) The amounts represented the results of Chengsha Energy from 1 January 2019 to the date of the Liquidation.

| | Smart Metering | | Chengsha Energy | |
|---|---|---|---|---|
| | **31.12.2019 RMB'000** | 31.12.2018 RMB'000 | **31.12.2019 RMB'000** | 31.12.2018 RMB'000 |
| *Financial information of statement of financial position* | | | | |
| Intangible assets | **N/A** | 6,880 | **N/A** | — |
| Other non-current assets | **N/A** | 35 | **N/A** | — |
| Current assets | **N/A** | 48,914 | **N/A** | 26,168 |
| Current liabilities | **N/A** | (76,553) | **N/A** | (25) |
| Non-current liabilities | **N/A** | (5,867) | **N/A** | — |
| Net (liabilities) assets of the associates | **N/A** | (26,591) | **N/A** | 26,143 |
| *Reconciliation to the carrying amount of investments in associates:* | | | | |
| Net (liabilities) assets attributable to the Group's ownership interests in the associates | **N/A** | (10,637) | **N/A** | 9,150 |
| Effect of share of loss on amortisation of gain on transfer of intangible assets from the Group to the associate to the extent of the Group's interest therein | **N/A** | (545) | **N/A** | — |
| Effect of elimination of gain on transfer of intangible assets from the Group to the associate to the extent of the Group's interest therein | **N/A** | (2,724) | **N/A** | — |
| Accumulated unrecognised share of loss | **N/A** | 13,906 | **N/A** | — |
| Carrying amount of the Group's interests in the associates | **N/A** | — | **N/A** | 9,150 |

| | **Year ended 31.12.2019 RMB'000** | Year ended 31.12.2018 RMB'000 |
|---|---|---|
| The unrecognised share of loss of an associate for the year | **1,245** | 13,906 |
| Cumulative share of loss of an associate | **—** | 13,906 |

## 20. INVESTMENT IN A JOINT VENTURE

| | 31.12.2019<br>RMB'000 | 31.12.2018<br>RMB'000 |
|---|---|---|
| Cost of unlisted investment | 24,000 | — |
| Share of post-acquisition loss and other comprehensive expense | (24,000) | — |
| | — | — |

Particulars of the joint venture as at 31st December, 2019 are as follows:

| Name of company | Form of entity | Country of establishment/ principal operations | Proportion of ownership interest and voting rights held by the Group | | Principal activities |
|---|---|---|---|---|---|
| | | | 2019<br>% | 2018<br>% | |
| Smart Metering | Limited incorporated | PRC | 51 | N/A | Research, development, manufacturing, and selling meter products, meter data management system, smart meter solution system and provide relevant consulting services |

The investment in an associate, Smart Metering became a joint venture during the year. Details are set out in note 19.

The investment in a joint venture is accounted for using equity method in these consolidated financial statements.

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amount shown in the joint venture's financial statements prepared in accordance with HKFRSs.

## 20. INVESTMENTS IN A JOINT VENTURE (Continued)

| | Smart Metering Period from 01.03.2019 to 31.12.2019 RMB'000 |
|---|---|
| *Financial information of statement of profit or loss and other comprehensive income* | |
| Revenue | 84,442 |
| Profit and total comprehensive income for the year | 397 |
| Profit for the year attributable to the Group | 202 |
| *Reconciliation to the share of results of a joint venture:* | |
| Loss for the year attributable to the Group | (712) |
| Share of loss recognised by capital injection | (4,000) |
| Amortisation of gain on transfer of intangible assets from the Group to the joint venture to the extent of the Group's interest therein | 712 |
| Share of results of a joint venture | (4,000) |
| Unrecognised share of profit of a joint venture | 914 |

The amounts represented the results of Smart Metering from the date of the Capital Injection to 31 December 2019.

## 20. INVESTMENTS IN A JOINT VENTURE (Continued)

| | Smart Metering 31.12.2019 RMB'000 |
|---|---|
| *Financial information of statement of financial position* | |
| Intangible assets | 5,249 |
| Other non-current assets | 13 |
| Current assets | 47,392 |
| Current liabilities | (72,469) |
| Non-current liabilities | (5,867) |
| Net liabilities | (25,682) |
| *Reconciliation to the carrying amount of interests in a joint venture:* | |
| Net liabilities attributable to the Group's ownership interests in a joint venture | (13,098) |
| Effect of share of loss on amortisation of gain on transfer of intangible assets from the Group to a joint venture to the extent of the Group's interest therein | (712) |
| Effect of elimination of gain on transfer of intangible assets from the Group to a joint venture to the extent of the Group's interest therein | (4,427) |
| Accumulated recognised share of loss | 4,000 |
| Accumulated unrecognised share of loss | 14,237 |
| Carrying amount of the Group's interests in a joint venture | — |

| | Year ended 31.12.2019 RMB'000 |
|---|---|
| Unrecognised share of profit of a joint venture for the year | 914 |
| Cumulative share of loss of a joint venture | (14,237) |

## 21. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Equity instruments at fair value through other comprehensive income comprise:

| | **31.12.2019 RMB'000** | 31.12.2018 RMB'000 |
|---|---|---|
| Equity securities listed in Hong Kong (Note i) | **54,154** | 89,198 |
| Equity securities listed in the PRC (Note i) | **17,289** | 14,943 |
| Unlisted equity securities (Note ii) | **25,884** | 21,748 |
| | **97,327** | 125,889 |

Notes:

(i) The above listed equity investments represent equity shares of entities listed in Hong Kong or the PRC. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

(ii) The above unlisted equity investments represent the Group's investments in equity interest in private entities established in the PRC. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

## 22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **31.12.2019 RMB'000** | 31.12.2018 RMB'000 |
|---|---|---|
| Equity securities listed in the PRC | **—** | 888 |
| Investments in trust funds (Note) | **200,000** | 230,000 |
| | **200,000** | 230,888 |
| Analysed for reporting purposes as: | | |
| Current | **—** | 30,888 |
| Non-current | **200,000** | 200,000 |
| | **200,000** | 230,888 |

Note: Amounts represent investments in trust funds made by the Group through security houses. The trust funds invest in a ranges of debt instrument products which are generally government bonds and corporate loans. Included in the amount is RMB200,000,000 which has a maturity period of 3 years and therefore classified under non-current assets. At 31 December 2018, the remaining amount of RMB30,000,000 had a maturity period of 90 days and therefore classified under current assets.

## 23. OTHER NON-CURRENT ASSETS

| | 31.12.2019 RMB'000 | 31.12.2018 RMB'000 |
|---|---|---|
| Consideration receivable for disposal of subsidiaries (Note i) | **77,000** | 77,000 |
| Consideration receivable for disposal of unlisted equity instruments (Note ii) | **—** | 29,700 |
| Life insurance products (Note iii) | **58,870** | 35,357 |
| | **135,870** | 142,057 |

Notes:

(i) The balance of RMB77,000,000 as at 31 December 2019 carries fixed interest at 4.75% per annum, and is repayable in 2022.

(ii) The balance in 2018 carries fixed interest at 4.35% per annum and is repayable in 2020. This balance is reclassified under current assets as at 31 December 2019.

(iii) In prior years, the Company entered into two life insurance policies with an insurance company to insure two executive directors. In March 2019, the Company entered into a new life insurance policy with an insurance company to insure another executive director. Under these policies, the beneficiary and policy holder is the Company. The Company is required to pay an upfront payment for each policy. The Company may request a partial surrender or full surrender of the policy at any time and receive cash back based on the value of the policy at the date of withdrawal, which is determined by the gross premium paid at inception plus accumulated guaranteed interest earned and minus insurance premium charged. If such withdrawal is made at any time during the first to the fifteen or eighteenth policy year, as appropriates, a pre-determined specified surrender charge would be imposed on the Company.

Particulars of the policies are as follows:

| Policy | Insured sum | Upfront payment | Guaranteed interest rates First year | Guaranteed interest rates Second year and onward |
|---|---|---|---|---|
| Policy A | US$7,557,000 (equivalent to RMB49,005,000) | US$3,421,000 (equivalent to RMB21,762,000) | 4.25% per annum | 3% per annum |
| Policy B | US$10,000,000 (equivalent to RMB60,961,000) | US$1,771,000 (equivalent to RMB10,799,000) | 4% per annum | 2% per annum |
| Policy C | US$13,741,418 (equivalent to RMB93,979,000) | US$3,229,513 (equivalent to RMB21,669,000) | 4.25% per annum | 2% per annum |

The entire balance of the life insurance policies is denominated in United States Dollar ("USD"), being a currency other than the functional currency of the relevant group entities.

## 24. INVENTORIES

| | 31.12.2019<br>RMB'000 | 31.12.2018<br>RMB'000 |
|---|---|---|
| Raw materials | 222,740 | 203,543 |
| Work in progress | 182,551 | 140,934 |
| Finished goods | 136,054 | 151,045 |
| | 541,345 | 495,522 |

## 25. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

| | 31.12.2019<br>RMB'000 | 31.12.2018<br>RMB'000 |
|---|---|---|
| Trade receivables from contract with customers, gross | 3,306,182 | 2,762,303 |
| Less: Allowance for expected credit loss | (67,737) | (45,830) |
| Trade receivables, net (Note i) | 3,238,445 | 2,716,473 |
| Purchase deposits (Note ii) | 480,252 | 88,631 |
| Bidding deposits | 29,238 | 35,256 |
| Other receivables, other deposits and prepayments | 188,906 | 169,671 |
| Consideration receivable for disposal of unlisted equity instruments (Note iii) | 27,700 | — |
| Loan receivable from a former subsidiary (Note iv) | — | 51,000 |
| Loan receivable from a joint venture/an associate (Note v) | 18,000 | 18,000 |
| VAT receivables | 76,018 | 50,566 |
| | 4,058,559 | 3,129,597 |

Notes:

(i) As at 1 January 2018, trade receivables from contract with customers amounted to RMB2,716,473,000.

Included in the Group's trade receivables is trade balance with a joint venture (2018: an associate) of RMB46,839,000 (2018: RMB39,925,000). Due to the nature of business, the settlement terms of trade receivables are based on the achievement of certain milestones of each sales transaction, and, accordingly, the Group generally allows credit periods ranging from 90 days to 365 days to its trade customers, except for certain customers, the credit periods maybe beyond 365 days. The following is an aged analysis of trade receivables net of allowance for expected credit loss, presented based on the revenue recognition dates at the end of the reporting period:

## 25. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

Notes: (Continued)

(i) (Continued)

| | 31.12.2019 RMB'000 | 31.12.2018 RMB'000 |
|---|---|---|
| 0–90 days | 1,231,287 | 1,219,657 |
| 91–180 days | 483,195 | 382,137 |
| 181–365 days | 834,862 | 508,310 |
| Over 1 year | 689,101 | 606,369 |
| | 3,238,445 | 2,716,473 |

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. 97% (2018: 96%) of the trade receivables that are neither past due nor impaired have good credit rating.

The Group's trade and other receivables denominated in currencies other than functional currency of the relevant group entities are set out as follows:

| | 31.12.2019 RMB'000 | 31.12.2018 RMB'000 |
|---|---|---|
| Hong Kong dollars ("HKD") | 11,785 | 10,884 |
| USD | 149,630 | 214,581 |

(ii) During the year ended 31 December 2019, the Group entered into certain purchase contracts with certain suppliers to stabilise material supply. The purchase deposits will be utilised within one year from the end of reporting period.

(iii) The balance is unsecured, non-guaranteed, carrying fixed interest at 4.35% per annum and is repayable in 2020.

(iv) Upon disposal of a subsidiary in 2017, the former subsidiary agreed to repay a shareholder's loan of RMB138,869,000 to the Company. During the year ended 31 December 2018, an amount of RMB87,869,000 has been settled and the remaining amount of RMB51,000,000 has been fully settled during the year ended 31 December 2019.

(v) The amount represents an unsecured, non-guaranteed short-term loan to a joint venture (31 December 2018: an associate) which carry fixed interests at 4.71% per annum which is repayable within one year from the end of the reporting period.

## 26. CONTRACT ASSETS

| | **31.12.2019** **RMB'000** | 31.12.2018 RMB'000 |
|---|---|---|
| Contract assets due from customers | **583,497** | 437,638 |

As at 1 January 2018, contract assets amounted to RMB327,021,000.

The contract assets primarily relate to the Group's right to consideration for goods delivered and not billed for the sales contracts entered. Details of the typical payment terms are disclosed in note 5. The contract assets are transferred to trade receivables when the rights become unconditional. This amount is expected to be realised after twelve months from the end of the reporting period, which is under the Group's normal operating cycle and therefore are presented as current asset.

## 27. LOAN RECEIVABLE

| | **31.12.2019** **RMB'000** | 31.12.2018 RMB'000 |
|---|---|---|
| Fixed-rate loan receivable | **105,000** | 105,000 |
| Analysed as: | | |
| Current | **105,000** | — |
| Non-current | **—** | 105,000 |

The amounts represent loan advanced by the Group to an independent third party under entrusted loan contracts with a principal amount of RMB105,000,000. The maturing date of the loan receivable is September 2020.

The entrusted loan of RMB105,000,000 carries fixed interests at 12% (2018: 12%) per annum and are repayable within twelve months from the end of the reporting period.

## 28. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

### (a) Pledged bank deposits

The pledged bank deposits are pledged to banks to secure credit facilities granted to the Group. The deposits were pledged to secure bills payables and short-term bank borrowings and are therefore classified as current assets. The deposits carry fixed interest rate ranging from 0.35% to 1.50% (2018: 0.35% to 1.50%) per annum and will be released upon settlement of the relevant borrowings.

## 28. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH (Continued)

### (b) Bank balances and cash

Bank balances and cash comprise cash held by the Group and bank balances that carry interest rates ranging from 0.35% to 1.50% (2018: 0.35% to 1.10%) per annum and have original maturity of three months or less.

The Group's bank balances and cash denominated in currencies other than functional currency of the relevant group entities are set out as follows:

| | 31.12.2019 RMB'000 | 31.12.2018 RMB'000 |
|---|---|---|
| HKD | 10,197 | 704 |
| USD | 36,106 | 122,206 |

## 29. TRADE AND OTHER PAYABLES

The credit term of 0–90 days is normally granted. For some suppliers with long business relationship, credit term of 181–365 days is granted. The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

| | 31.12.2019 RMB'000 | 31.12.2018 RMB'000 |
|---|---|---|
| Trade and bills payables | | |
| 0–90 days | 1,506,420 | 1,761,118 |
| 91–180 days | 728,603 | 224,373 |
| 181–365 days | 565,036 | 115,260 |
| Over 1 year | 80,587 | 72,642 |
| | 2,880,646 | 2,173,393 |
| Other payables | 121,251 | 98,454 |
| | 3,001,897 | 2,271,847 |

The Group's trade and other payables denominated in currency other than functional currency of the relevant group entities are set out as follows:

| | 31.12.2019 RMB'000 | 31.12.2018 RMB'000 |
|---|---|---|
| HKD | 2,850 | 3,932 |

## 30. CONTRACT LIABILITIES

The Group receives advance payments from customers for products. The entire amount of contract liabilities will be recognised as revenue once the products are delivered and accepted by the customers. The balance will be recognised as revenue within one year.

During the year, the amount of contract liabilities of RMB102,259,000 as at 1 January 2019 (2018: RMB87,173,000) was fully recognised as revenue.

## 31. BORROWINGS

| | **31.12.2019 RMB'000** | 31.12.2018 RMB'000 |
|---|---|---|
| Bank loans | **1,878,203** | 1,327,918 |
| Trust receipt loans | **195,666** | 90,249 |
| | **2,073,869** | 1,418,167 |
| Analysed as: | | |
| Current | **1,618,639** | 1,069,864 |
| Non-current | **455,230** | 348,303 |
| | **2,073,869** | 1,418,167 |
| Secured | **181,624** | 170,400 |
| Unsecured | **1,892,245** | 1,247,767 |
| | **2,073,869** | 1,418,167 |

## 31. BORROWINGS (Continued)

The carrying amounts of bank loans that does not contain a repayable on demand clause and repayable:

| | 31.12.2019 | | | 31.12.2018 | | |
|---|---|---|---|---|---|---|
| | **Fixed-rate borrowings RMB'000** | **Floating-rate borrowings RMB'000** | **Total RMB'000** | Fixed-rate borrowings RMB'000 | Floating-rate borrowings RMB'000 | Total RMB'000 |
| Within one year | **245,666** | **1,372,973** | **1,618,639** | 323,964 | 745,900 | 1,069,864 |
| More than one year, but not exceeding two years | **—** | **400,488** | **400,488** | — | 348,303 | 348,303 |
| More than two years, but not exceeding five years | **—** | **54,742** | **54,742** | — | — | — |
| | **245,666** | **1,828,203** | **2,073,869** | 323,964 | 1,094,203 | 1,418,167 |
| Less: Amounts due within one year shown under current liabilities | **(245,666)** | **(1,372,973)** | **(1,618,639)** | (323,964) | (745,900) | (1,069,864) |
| Amounts due after one year | **—** | **455,230** | **455,230** | — | 348,303 | 348,303 |

The floating-rate borrowings carry interest at either the benchmark lending rate offered by the People's Bank of China or London Interbank Offered Rate plus certain percentages. The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

| | **2019** | 2018 |
|---|---|---|
| Effective interest rate: | | |
| Fixed-rate borrowings | **3.06% to 5.66% per annum** | 3.50% to 5.25% per annum |
| Floating-rate borrowings | **3.68% to 6.64% per annum** | 3.50% to 6.64% per annum |

At 31 December 2019, borrowings of the Group amounting to RMB45,274,000 (2018: RMB3,039,000) were denominated in USD, being a currency other than the functional currency of the relevant group entities.

## 32. SHARE CAPITAL

Ordinary shares of HK$0.01 each:

| | Number of shares | Nominal value HK$000 |
|---|---|---|
| **Authorised** | | |
| At 1 January 2018, 31 December 2018 and 31 December 2019 | 100,000,000,000 | 1,000,000 |

| | Number of shares | Amount RMB'000 |
|---|---|---|
| **Issued and fully paid** | | |
| At 1 January 2018 | 1,004,721,675 | 9,988 |
| Share repurchased and cancelled (Note) | (2,260,000) | (19) |
| At 31 December 2018 | 1,002,461,675 | 9,969 |
| Share repurchased and cancelled (Note) | (2,500,000) | (22) |
| At 31 December 2019 | 999,961,675 | 9,947 |

Note:

The Company repurchased its own shares through the Stock Exchange as follows:

**Year ended 31 December 2019**

| Month of repurchase | Number of ordinary shares of HK$0.01 each of the Company | Price per share Highest HK$ | Lowest HK$ | Aggregate consideration paid RMB'000 |
|---|---|---|---|---|
| January 2019 | 1,000,000 | 3.80 | 3.70 | 3,337 |
| April 2019 | 1,400,000 | 4.10 | 3.95 | 4,980 |
| May 2019 | 2,682,000 | 3.91 | 3.32 | 8,794 |
| | 5,082,000 | | | 17,111 |

Out of 5,082,000 ordinary shares repurchased during the current year, 1,000,000 shares together with 1,500,000 repurchased on December 2018 were cancelled during the year ended 31 December 2019.

## 32. SHARE CAPITAL (Continued)

Note: (Continued)

**Year ended 31 December 2018**

| Month of repurchase | Number of ordinary shares of HK$0.01 each of the Company | Price per share Highest | Lowest | Aggregate consideration paid |
|---|---|---|---|---|
| | | HK$ | HK$ | RMB'000 |
| October 2018 | 1,960,000 | 3.89 | 3.60 | 6,361 |
| November 2018 | 300,000 | 4.05 | 3.99 | 1,037 |
| December 2018 | 1,500,000 | 3.95 | 3.75 | 4,961 |
| | 3,760,000 | | | 12,359 |

Out of 3,760,000 ordinary shares repurchased, 2,260,000 shares were cancelled during the year ended 31 December 2018 while the remaining 1,500,000 shares were cancelled in 2019.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## 33. LEASE LIABILITIES

| | 31.12.2019 RMB'000 |
|---|---|
| Lease liabilities payable: | |
| Within one year | **3,048** |
| Within a period of more than one years but not more than two years | **207** |
| Within a period of more than two years but not more than five years | **1,593** |
| | **4,848** |
| Less: Amount due for settlement with 12 months shown under current liabilities | **(3,048)** |
| Amount due for settlement after 12 months shown under non-current liabilities | **1,800** |

## 34. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | 31.12.2019 RMB'000 | 31.12.2018 RMB'000 |
|---|---|---|
| Deferred tax assets | 21,230 | 17,111 |
| Deferred tax liabilities | (18,615) | (18,712) |
| | 2,615 | (1,601) |

The following are the deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior years:

| | Fair value adjustments of prepaid lease payments/ right-of-use assets and property, plant and equipment arising on business combination RMB'000 | Fair value adjustments of intangible assets on business combinations RMB'000 | Fair value adjustments of equity instruments at FVTOCI RMB'000 | ECL provision RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2018 | 1,169 | 16,083 | 2,116 | (3,454) | 15,914 |
| Credit to profit or loss | (126) | (2,258) | — | (746) | (3,130) |
| Credit to other comprehensive income | — | — | (11,183) | — | (11,183) |
| At 31 December 2018 | 1,043 | 13,825 | (9,067) | (4,200) | 1,601 |
| Credit to profit or loss | (126) | (1,215) | — | (6,279) | (7,620) |
| Charge to other comprehensive income | — | — | 3,404 | — | 3,404 |
| At 31 December 2019 | 917 | 12,610 | (5,663) | (10,479) | (2,615) |

## 34. DEFERRED TAXATION (Continued)

As at 31 December 2019, the Group had unused tax losses of RMB158,665,000 (2018: RMB144,277,000) available for offset against future profits. No deferred tax asset has been recognised in respect of any of the tax losses due to the unpredictability of future profit streams. The tax losses may be carried forward for a period of five years from the respective year of assessment.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries amounting to approximately RMB2,873 million (2018: RMB2,432 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

There was no other significant unprovided deferred taxation for the year or at the end of the reporting period.

## 35. RELATED PARTY DISCLOSURES

### (a) Transactions

| Relationship | Transaction | **Year ended 31.12.2019 RMB'000** | Year ended 31.12.2018 RMB'000 |
|---|---|---|---|
| A joint venture | Sales of goods by the Group | **63,376** | 34,464 |
| (2018: An associate) | Rental income received by the Group | **474** | 474 |

### (b) Balances

The balances with a joint venture (2018: an associate) as at 31 December 2019 and 2018 are set out in note 25.

(c) The remuneration of key management (including the directors) during the year were as follows:

| | **Year ended 31.12.2019 RMB'000** | Year ended 31.12.2018 RMB'000 |
|---|---|---|
| Short-term benefits | **5,483** | 5,284 |
| Retirement benefit scheme contributions | **112** | 110 |
| | **5,595** | 5,394 |

The remuneration of key management is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

## 36. SHARE-BASED PAYMENT TRANSACTIONS

### Share option scheme

The Company's share option scheme (the "Scheme") was adopted for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity"). Eligible participants of the Scheme include directors and employees of the Company, its subsidiaries or any Invested Entity, suppliers and customers of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity, and any shareholder of any members of the Group or any Invested Entity or any holder of any securities issued by any members of the Group or any Invested Entity. The Scheme became effective on 16 May 2016 and, unless otherwise terminated or amended, will remain in force for 10 years.

As at 31 December 2019, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 18,000,000 (2018: 18,000,000), representing approximately 1.8% (2018: 1.8%) of the then issued share capital of the Company.

The following table discloses movements of the Company's share options held by employees and consultants during the current and prior year under the Scheme:

| Category | Date of grant | Vesting period | Exercisable period | Exercise price HK$ | Outstanding at 1.1.2018 | Exercised during the year | Outstanding at 31.12.2018 | Exercise during the year | Outstanding at 31.12.2019 |
|---|---|---|---|---|---|---|---|---|---|
| Employees/ | 10.2.2014 | 10.2.2014 to 9.2.2017 | 10.2.2017 to 9.2.2024 | 4.680 | 9,000,000 | — | 9,000,000 | — | 9,000,000 |
| Consultants | 10.2.2014 | 10.2.2014 to 9.2.2018 | 10.2.2018 to 9.2.2024 | 4.680 | 9,000,000 | — | 9,000,000 | — | 9,000,000 |
| Total | | | | | 18,000,000 | — | 18,000,000 | — | 18,000,000 |
| Exercisable at year end | | | | 18,000,000 | | 18,000,000 | | 18,000,000 | |
| Weighted average exercise price (HK$) | | | | 4.680 | N/A | 4.680 | N/A | 4.680 | |

No share-based payment expenses has been recognised in profit or loss for the both years as the share option has fully vested in 2017.

## 36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

### Share option scheme (Continued)

The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the Company's shares in issue as at the first date of listing. The limit may be increased to 20% of the then issued share capital of the Company from time to time upon shareholders' approval at a general meeting of the shareholders. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Group shall not exceed such number of Company's shares as equal to 30% of the issued share capital of the Company from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time unless prior approval has been obtained from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 30 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. There is no minimum period for which an option must be held before the exercise of the subscription right attaching hereto except otherwise imposed by the board of directors. The exercise price is specified in the rules governing the share option scheme and shall not be lower than the highest of the official closing price of the ordinary shares of the Company on the Stock Exchange on the date of the offer of grant of options, the average of the official closing price of the ordinary shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options and the nominal value of an ordinary share of the Company.

### Share award scheme

The Company's share award scheme (the "Share Award Scheme") was adopted pursuant to a resolution passed on 3 May 2016. Pursuant to the Share Award Scheme under which eligible employees are entitled to participate. The purpose of the Share Award Scheme is to recognise the contributions by certain employees and to provide them with incentives in order to retain them for the continual operation and development of the Group and also to attract suitable personnel for further development of the Group. The Share Award Scheme became effective on 3 May 2016 and, unless otherwise terminated or amended, will remain in force for 10 years.

The Share Award Scheme is operated through a trustee which is independent to the Group and has the right to, among other conditions, in its sole discretion, determine whether the shares are to be purchased on or off the Stock Exchange from time to time, unless during the year at which the directors of the Company are prohibited by the Listing Rules or any corresponding codes or securities dealing restrictions adopted by the Company. In any given financial year of the Company, the maximum number of shares to be purchased by the trustee for the purpose of the Share Award Scheme shall not exceed 10% of the total number of issued shares as at the beginning of that financial year.

The directors would notify the trustee of the Share Award Scheme in writing upon the making of any award to any participants. Upon the receipt of such notice, the trustee would set aside the appropriate number of awarded shares in the pool of shares. No new shares would be allotted and issued to satisfy the awards made under the Share Award Scheme.

During the year ended 31 December 2019, 5,686,000 ordinary shares of the Company have been acquired at an aggregate cost of HK$19,650,000 (equivalent to RMB17,409,000). On 16 March 2018, 11 employees have been awarded under the Share Award Scheme and 900,000 ordinary shares of the Company were distributed. The fair value of the shares awards amounting to RMB3,107,000 is recognised as staff cost in the profit or loss for the year ended 31 December 2018. As at 31 December 2019, 12,286,000 (2018: 6,600,000) ordinary shares of the Company were held by trustee of the Share Award Scheme.

## 37. ACQUISITION OF A SUBSIDIARY

In November 2019, the Group completed its acquisition of 100% equity interest in Dowertech Electronic Instrument Industry of Amazon S.A. ("Dowertech") from certain independent third parties at a cash consideration of Brazilian Real 4, equivalent to RMB8.

Dowertech is a company established in the Federative Republic of Brazil which is principally engaged in the manufacture and sale of electronic electricity meters.

| | RMB'000 |
|---|---|
| **Fair value of assets acquired and liabilities recognised at the date of acquisition:** | |
| Property, plant and equipment | 7,351 |
| Trade and other receivables | 9,148 |
| Inventories | 10,744 |
| Bank balances and cash | 1,015 |
| Trade and other payables | (1,038) |
| Bank borrowings | (42,573) |
| | (15,353) |
| **Goodwill arising on the acquisition:** | |
| Consideration transferred | — |
| Add : net liabilities acquired | 15,353 |
| | 15,353 |
| **Net cash inflow arising from the acquisition:** | |
| Cash consideration paid | — |
| Bank balances and cash acquired | 1,015 |
| | 1,015 |

Notes:

(i) The acquisition of Dowertech facilitates future business development and expansion of the Group in the region. In the opinion of the directors of the Company, the above are the key factors leading to the recognition of goodwill of RMB15,353,000.

(ii) The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

(iii) The aggregate acquisition-related costs amounting to RMB2,132,000 have been excluded from the consideration transferred and have been recognised as an expense during the year ended 31 December 2019, within the administrative expenses line item in the consolidated statement of profit or loss and other comprehensive income.

(iv) Included in the profit for the year ended 31 December 2019 were revenue of RMB2,745,000 and loss of RMB1,182,000 attributable to the additional business generated by Dowertech.

Had the acquisition been completed on 1 January 2019, total group revenue for the year ended 31 December 2019 would have been RMB3,704,216,000, and profit for the year would have been RMB344,060,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

## 38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 31, and equity attributable to owners of the Company, comprising issued share capital, various reserves and retained profits as disclosed in the consolidated statement of changes in equity.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

## 39. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | **31.12.2019**<br>**RMB'000** | 31.12.2018<br>RMB'000 |
|---|---:|---:|
| **Financial assets** | | |
| Amortised cost | **5,605,345** | 4,702,080 |
| Financial assets at FVTPL | **200,000** | 230,888 |
| Equity instruments at FVTOCI | **97,327** | 125,889 |
| | **5,902,672** | 5,058,857 |
| **Financial liabilities** | | |
| Financial liabilities at amortised cost: | | |
| Trade and other payables | **2,979,759** | 2,239,722 |
| Borrowings | **2,073,869** | 1,418,167 |
| | **5,053,628** | 3,657,889 |

### (b) Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, trade receivables, other receivables, other non-current assets, loan receivable, pledged bank deposits, bank balances and cash, trade and other payables and borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no change to the policies on how to mitigate these risks.

## 39. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

Market risk

*(i) Currency risk*

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB, the functional currency of the relevant group entities. Certain entities in the Group have foreign currencies transactions, trade and other receivables, life insurance products, bank balances and cash, trade and other payables and borrowings which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **31.12.2019 RMB'000** | 31.12.2018 RMB'000 | **31.12.2019 RMB'000** | 31.12.2018 RMB'000 |
| HKD | **41,620** | 14,761 | **691,879** | 590,559 |
| USD | **187,968** | 260,860 | **47,610** | 3,039 |
| | **229,588** | 275,621 | **739,489** | 593,598 |

One of the Group's subsidiaries, Gam Sheng Macao Commercial Offshore Limited, whose functional currency is USD, has an aggregate amount of intra-group receivables of RMB4,249,000 (2018: RMB3,252,000) which are denominated in RMB as at 31 December 2019.

**Sensitivity analysis**

The Group's foreign currency risk is mainly concentrated on the fluctuation of HKD and USD.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit where RMB strengthen 5% against the relevant foreign currencies. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the profit for the year.

| | HKD | | USD | |
|---|---|---|---|---|
| | **Year ended 31.12.2019 RMB'000** | Year ended 31.12.2018 RMB'000 | **Year ended 31.12.2019 RMB'000** | Year ended 31.12.2018 RMB'000 |
| Increase (decrease) in post-tax profit for the year | **32,513** | 28,790 | **(5,263)** | (9,668) |

## 39. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

*(i) Currency risk (Continued)*

**Sensitivity analysis (Continued)**

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

*(ii) Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 28(b)) and floating-rate borrowings (see note 31). Management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate consideration receivable for disposal of subsidiaries (see note 23), fixed-rate loan receivable from a joint venture/an associate (note 25), fixed-rate loan receivable (see note 27), pledged bank deposits (see note 28(a)) and fixed-rate borrowings (see note 31).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the benchmark lending rate offered by the People's Bank of China and London Interbank Offered Rate arising from the Group's bank balances, RMB borrowings and USD borrowings.

Total interest income from financial assets that are measured at amortised cost or at FVTPL is as follows:

| | **Year ended 31.12.2019 RMB'000** | Year ended 31.12.2018 RMB'000 |
|---|---|---|
| Other income | | |
| Financial assets at amortised cost | **42,486** | 40,355 |
| Financial assets at FVTPL | **18,304** | 15,331 |
| Total interest income | **60,790** | 55,686 |

## 39. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

#### Market risk (Continued)

*(ii) Interest rate risk (Continued)*

**Sensitivity analysis**

The sensitivity analyses below have been determined based on the exposure to interest rates of bank balances and borrowings. the analysis is prepared assuming the amount of the outstanding at the end of the reporting period was outstanding for the whole year. A 10 basis points (2018: 10 basis points) increase or decrease for bank balances and 50 basis points (2018: 50 basis points) increase or decrease for borrowings are used and represent management's assessment of the reasonably possible change in interest rates for the year ended 31 December 2019.

If interest rates had been 10 or 50 basis points higher/lower, as appropriate, and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2019 would decrease/increase by RMB7,313,000 (2018: RMB3,305,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances and floating-rate borrowings.

*(iii) Equity price risk*

The Group is exposed to equity price risk through its equity securities listed in Hong Kong and the PRC and investment in trust fund, which are accounted for as FVTPL and FVTOCI (see note 21 and 22). The Group's equity price risk is mainly concentrated on equity instrument which operates in the public utility service provider industry sector quoted on the Stock Exchange. The management is closely monitoring the equity price risk and will consider hedging the risk exposure should the need arise.

**Sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure to equity price risk at the end of the reporting period. For the year ended 31 December 2019, if the prices of the equity securities listed in Hong Kong and PRC and unlisted trust fund had been 5% higher/lower, investment revaluation reserve would increase/decrease by RMB3,356,000 (2018: RMB4,284,000) and the profit for the year would be increase/decrease by RMB7,500,000 (2018: RMB8,658,000) as a result of the changes in fair value of the equity instrument and unlisted trust fund held by the Group. In the management's opinion, the sensitivity analysis is unrepresentative of the inherent equity price risk as the year end exposure does not reflect the exposure during the year.

#### Credit risk and impairment assessment

As at 31 December 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which covered over 96% (2018: over 96%) of its total receivables as at 31 December 2019. There is no significant concentration of credit risk on trade receivables.

The Group's customer base is diverse and the trade receivables consist of a large number of customers.

## 39. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

#### Credit risk and impairment assessment (Continued)

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade balances individually or based on provision matrix. The Group does not hold any collateral over there balance.

The credit risks on pledged bank deposits and bank balances are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

For loan receivable, loan receivable from an associate/joint venture, other receivables and deposits, the directors of the Company make periodic individual assessment on the adequacy of ECL of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information including the use of projected Purchasing Manager's Index ("PMI"), Nonfarm Payrolls and Volatility Index ("VIX") using regression model. The directors of the Company believe that there is no significant increase in credit risk of these amounts since initial recognition and the Group provides impairment based on 12m ECL. For the year ended 31 December 2019 and 2018, the Group assessed that the ECL for loan receivable, loan receivable from an associate/a joint venture, other receivables and deposits was insignificant and thus no loss allowance was recognised.

The Group has concentration of credit risk on liquid funds, which are deposited with several banks with good reputation. The loan receivables disclosed in note 25 are also concentrated in certain independent third parties, and the directors consider the credit risk is significantly reduced as there were history of continuous repayment. Other than the above, the Group does not have any other significant concentration of credit risk.

The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Trade receivables/ contract assets | Other financial assets/ other items |
|---|---|---|---|
| Low risk | The counterparty has a low risk of default and does not have any past-due amounts | Lifetime ECL — not credit-impaired | 12–month ECL |
| Watch list | Debtor frequently repays after due dates but usually settle in full | Lifetime ECL — not credit-impaired | 12–month ECL |
| Doubtful | There have been significant increases in credit risk since initial recognition through information developed internally or external resources | Lifetime ECL — not credit-impaired | Lifetime ECL — not credit-impaired |
| Loss | There is evidence indicating the asset is credit-impaired | Lifetime ECL — credit-impaired | Lifetime ECL — credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off | Amount is written off |

## 39. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

#### Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's trade receivables, bills receivables, other receivables, contract assets, loan receivable, loan receivable from an associate/a joint venture, pledged bank deposits and bank balances, which are subject to ECL assessment:

| | Note | Internal credit rating | 12–month or lifetime ECL | Gross carrying amount | |
|---|---|---|---|---|---|
| | | | | **2019 RMB'000** | 2018 RMB'000 |
| **Financial assets at amortised cost** | | | | | |
| Trade receivables | 25 | (Note 2) | Lifetime ECL (provision matrix) | **3,054,673** | 2,608,882 |
| | | Loss | Credit-impaired | **38,081** | 28,649 |
| | | (Note 1) | 12–month ECL | **213,428** | 124,772 |
| | | | | **3,306,182** | 2,762,303 |
| Loan receivable form a former subsidiary | 25 | (Note 1) | 12–month ECL | **—** | 51,000 |
| Loan receivable from a joint venture/an associate | 25 | (Note 1) | 12–month ECL | **18,000** | 18,000 |
| Loan receivable | 27 | (Note 1) | 12–month ECL | **105,000** | 105,000 |
| Pledged bank deposits | 28(a) | (Note 3) | 12–month ECL | **271,673** | 280,981 |
| Bank balances | 28(b) | (Note 3) | 12–month ECL | **1,778,088** | 1,401,362 |
| Other receivables | 25 | (Note 1) | 12–month ECL | **194,139** | 129,264 |
| **Other Item** | | | | | |
| Contract assets | 26 | (Note 2) | Lifetime ECL (provision matrix) | **589,341** | 440,271 |

## 39. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

#### Credit risk and impairment assessment (Continued)

Notes:

1. There are no past due amounts for loan receivable from a former subsidiary, loan receivables from a joint venture/an associate and other receivables and the Group assesses that there has been no significant increase in credit risk since initial recognition.

2. For trade receivables, retentions held by trade customers and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for those which had been determined as credit-impaired under HKFRS 9, the Group determines the expected credit losses on these items by using a provision matrix based on a combination of groupings of various debtors that shared similar credit risk characteristics and past due status.

3. The management of the Group considers pledged bank deposits and bank balances that are deposited with state-owned banks or financial institutions with high-credit-rating to be low credit risk financial assets. The management of the Group also considers these assets are short-term in nature and the probability of default is negligible on the basis of high-credit-rating issuers.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated. The contract assets have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Group has therefore concluded that the loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables and contract assets under the simplified approach.

| | Contract assets lifetime ECL (not credit-impaired) RMB'000 | Trade receivables lifetime ECL (not credit-impaired) RMB'000 | Trade receivables lifetime ECL (credit-impaired) RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **As at 1 January 2018** | — | 13,816 | 26,624 | 40,440 |
| Changes due to financial instruments recognised as at 1 January: | | | | |
| — Credit losses recognised | 2,633 | 3,365 | 2,025 | 8,023 |
| **As at 31 December 2018** | 2,633 | 17,181 | 28,649 | 48,463 |
| Changes due to financial instruments recognised as at 1 January: | | | | |
| — Transfer to credit-impaired | — | (9,432) | 9,432 | — |
| — Credit losses recognised | 2,903 | 24,443 | — | 27,346 |
| — Credit losses reversed | — | (5,472) | — | (5,472) |
| New financial instruments originated | 308 | 2,936 | — | 3,244 |
| **As at 31 December 2019** | 5,844 | 29,656 | 38,081 | 73,581 |

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

As at 31 December 2019 and 2018, the Group does not hold any collateral or other credit enhancements to cover its credit risks associated with the perpetual bonds classified as financial assets at FVTPL. Accordingly, its carrying amount of HK$200,000,000 represents the maximum exposure to credit risk at 31 December 2019 and 2018.

## 39. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table for non-derivative financial liabilities has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from the interest rate at the end of the reporting period.

*Liquidity risk tables*

| | Weighted average interest rate | Less than 90 days RMB'000 | 91 to 180 days RMB'000 | 181 to 365 days RMB'000 | 1 to 2 years RMB'000 | 2 to 5 years RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount at 31 December 2019 RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **2019** | | | | | | | | |
| Trade and other payables | — | 1,602,533 | 728,603 | 565,036 | 80,587 | — | 2,976,759 | 2,976,759 |
| Borrowings | 4.82% | 609,665 | 357,927 | 697,813 | 442,883 | 63,662 | 2,171,950 | 2,073,869 |
| Lease liabilities | 4.43% | 555 | 345 | 2,181 | 208 | 1,611 | 4,900 | 4,848 |
| | | 2,212,753 | 1,086,875 | 1,265,030 | 523,678 | 65,273 | 5,153,609 | 5,055,476 |

| | Weighted average interest rate | Less than 90 days RMB'000 | 91 to 180 days RMB'000 | 181 to 365 days RMB'000 | 1 to 2 years RMB'000 | 2 to 5 years RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount at 31 December 2018 RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | | |
| Trade and other payables | — | 2,070,602 | 76,422 | 36,798 | 55,900 | — | 2,239,722 | 2,239,722 |
| Borrowings | 4.43% | 443,655 | 246,058 | 408,112 | 382,542 | — | 1,480,367 | 1,418,167 |
| | | 2,514,257 | 322,480 | 444,910 | 438,442 | — | 3,720,089 | 3,657,889 |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

## 39. FINANCIAL INSTRUMENTS (Continued)

### (c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets.

Some of the Group's financial instruments are measured at fair value for financial reporting purposes.

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

#### (i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

**Fair value hierarchy as at 31 December 2019**

| | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| **Financial assets at FVTPL** | | | | |
| Investments in trust funds (note 22) | — | 200,000 | — | 200,000 |
| **Equity instruments at FVTOCI** | | | | |
| Equity securities listed in Hong Kong (note 21) | 54,154 | — | — | 54,154 |
| Equity securities listed in the PRC (note 21) | 17,289 | — | — | 17,289 |
| Unlisted equity securities (note 21) | — | — | 25,884 | 25,884 |

**Fair value hierarchy as at 31 December 2018**

| | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| **Financial assets at FVTPL** | | | | |
| Equity securities listed in the PRC (note 22) | 888 | — | — | 888 |
| Investments in trust funds (note 22) | — | 230,000 | — | 230,000 |
| **Equity instruments at FVTOCI** | | | | |
| Equity securities listed in Hong Kong (note 21) | 89,198 | — | — | 89,198 |
| Equity securities listed in the PRC (note 21) | 14,943 | — | — | 14,943 |
| Unlisted equity securities (note 21) | — | — | 21,748 | 21,748 |

## 39. FINANCIAL INSTRUMENTS (Continued)

### (c) Fair value measurements of financial instruments (Continued)

#### (i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

| Financial assets | Fair value as at 31 December 2019 | Fair value as at 31 December 2018 | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) |
|---|---|---|---|---|---|
| (1) Listed equity securities of FVTPL | **N/A** | Listed equity securities in PRC: RMB888,000 | Level 1 | Quoted bid prices in an active market | N/A |
| (2) Unlisted investments in trust funds at FVTPL | **RMB200,000,000** | RMB230,000,000 | Level 2 | Redemption price provided by fund manager, which was based on net assets value of the fund | N/A |
| (3) Listed equity securities at FVTOCI | **Listed equity securities in Hong Kong — RMB54,154,000 Listed equity securities in the PRC — RMB17,289,000** | Listed equity securities in Hong Kong: RMB89,198,000 Listed equity securities in PRC: RMB14,943,000 | Level 1 | Quoted bid prices in an active market. | N/A |
| (4) Unlisted equity investments at FVTOCI | **17.42% equity investment in a PRC company engaged in development of electronic meters — RMB22,884,000; 15% in a PRC company engaged in energy supplies services — RMB3,000,000** | 17.42% equity investment in a PRC company engaged in development of electronic meters — RMB18,748,000; 15% in a PRC company engaged in energy supplies services — RMB3,000,000 | Level 3 | Asset approach | Fair market value of assets and liabilities as at valuation date. The higher the fair value of assets, the higher the fair value. |

There were no transfers among Level 1, 2 and 3 during the year.

## 39. FINANCIAL INSTRUMENTS (Continued)

### (c) Fair value measurements of financial instruments (Continued)

#### (ii) Reconciliation of Level 3 fair value measurements

| | **Equity instruments at FVTOCI** RMB'000 |
|---|---|
| At 1 January 2018 | 15,200 |
| Gains recognised in other comprehensive income | 3,548 |
| Purchases | 3,000 |
| At 31 December 2018 | 21,748 |
| Gains recognised in other comprehensive income | 4,136 |
| At 31 December 2019 | 25,884 |

The only financial assets subsequently measured at fair value based on Level 3 fair value measurement represents unlisted equity securities in PRC companies (see note 21).

Included in other comprehensive income is an amount of RMB4,136,000 gain relating to unlisted equity securities classified as equity instruments at FVTOCI held at the end of the current reporting period and is reported as changes of 'investment revaluation reserve'.

#### (iii) Fair value of financial instruments that are recorded at amortised cost

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

## 40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | **Lease liabilities** RMB'000 | **Bank borrowings** RMB'000 | **Dividend payable** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|
| At 1 January 2018 | — | 908,907 | — | 908,907 |
| Financing cash flows | — | 480,685 | (202,548) | 278,137 |
| Foreign exchange translation | — | 28,575 | — | 28,575 |
| Declaration of dividend | — | — | 202,548 | 202,548 |
| At 31 December 2018 | — | 1,418,167 | — | 1,418,167 |
| Adjustment upon application of HKFRS 16 | 3,252 | — | — | 3,252 |
| At 1 January 2019 | 3,252 | 1,418,167 | — | 1,421,419 |
| Finance cost recognised (note 8) | 343 | 86,175 | — | 86,518 |
| Additions | 10,281 | — | — | 10,281 |
| Acquisition of a subsidiary (note 37) | — | 42,573 | — | 42,573 |
| Financing cash flows | (9,120) | 519,350 | (221,694) | 288,536 |
| Foreign exchange translation | 92 | 7,604 | — | 7,696 |
| Declaration of dividend | — | — | 221,694 | 221,694 |
| At 31 December 2019 | 4,848 | 2,073,869 | — | 2,078,717 |

## 41. CAPITAL COMMITMENTS

| | **31.12.2019** **RMB'000** | 31.12.2018 RMB'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of | | |
| — acquisition of property, plant and equipment | **18,197** | 23,532 |
| — additions of construction in progress | **987** | 121 |
| | **19,184** | 23,653 |

## 42. OPERATING LEASES

### (a) The Group as lessee

| | 31.12.2018<br>RMB'000 |
|---|---|
| Minimum lease payments paid under operating leases during the year in respect of rented premises | 8,889 |

The Group has commitments for future minimum lease payments for rented premises under non-cancellable operating leases which fall due as follows:

| | 31.12.2018<br>RMB'000 |
|---|---|
| Within one year | 3,154 |
| In the second to fifth year inclusive | 207 |
| | 3,361 |

Operating lease payments represent rentals payable by the Group for certain of its premises. Leases are negotiated for a term ranging from one to five years with fixed rentals.

### (b) The Group as lessor

Certain properties held have committed tenants for the next two years (2018: two years).

Minimum lease payments receivable on leases are as follows:

| | **31.12.2019**<br>**RMB'000** |
|---|---|
| Within one year | **2,718** |
| In the second year | **1,638** |
| In the third year | **869** |
| | **5,225** |

## 42. OPERATING LEASES (Continued)

### (b) The Group as lessor (Continued)

The Group had contracted with tenants for the following future minimum lease payments:

| | 31.12.2018<br>RMB'000 |
|---|---|
| Within one year | 2,057 |
| In the second to fifth year inclusive | 1,779 |
| | 3,836 |

## 43. RETIREMENT BENEFIT PLANS

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group also participates a Mandatory Provident Fund Scheme ("MPF Scheme") for all its qualifying employees in Hong Kong. The assets of the MPF Schemes are held separately from those of the Group, in funds under the control of trustees. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rate specified in the rules.

The total cost of RMB14,767,000 (2018: RMB13,713,000) charged to profit or loss represents contribution paid or payable to the above retirement benefit plans by the Group for the year.

At the end of the reporting period, the Group had no significant obligation apart from the contribution as stated above.

## 44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at 31 December 2019 and 2018 are as follows:

| Name of subsidiary | Place of incorporation or registration/ operation | Paid up/issued/ registered capital | Proportion of nominal value of issued/registered capital held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | Directly | | Indirectly | | |
| | | | 2019 | 2018 | 2019 | 2018 | |
| Oceanbase Group Limited | BVI/ Hong Kong | US$1,000,000 | 100% | 100% | — | — | Investment holding |
| Power Well Creation Limited | Hong Kong | HK$2 | 100% | 100% | — | — | Investment holding |
| Weisheng Energy Industrial Technology Co., Ltd. ("Weisheng Energy") (Note i) | The PRC | RMB200,000,000 | — | — | 100% | 100% | Development, manufacturing and sale of energy saving products |
| Changsha Weisheng Import and Export Trading Company Limited ("Weisheng Import and Export") (Note ii) | The PRC | RMB10,000,000 | — | — | 100% | 100% | Trading of power meters |
| Willfar Information Technology Company Limited ("Willfar Information Technology") (Note i) | The PRC | RMB450,000,000 | — | — | 65% | 65% | Development, manufacturing and sale of data collection terminals and related services |
| Changsha Vitae Plastic Technology Co., Ltd ("Vitae") (Note iii) | The PRC | RMB20,000,000 | — | — | 100% | 100% | Development, manufacturing and sale of parts of power meters, data collection terminals and related services |
| Gam Sheng Macao Commercial Offshore Limited | Macao | MOP1,000,000 | — | — | 100% | 100% | Trading of electronic components |
| Hunan Weike Power Meters Company Limited ("Hunan Weike") (Note i) | The PRC | HK$100,000,000 | — | — | 100% | 100% | Development, manufacturing and sale of power meters |

## 44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

| Name of subsidiary | Place of incorporation or registration/ operation | Paid up/issued/ registered capital | Proportion of nominal value of issued/registered capital held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | Directly | | Indirectly | | |
| | | | 2019 | 2018 | 2019 | 2018 | |
| Hunan Weiming Technology Co., Ltd. ("Hunan Weiming") (Note i) | The PRC | RMB50,000,000 | — | — | 65% | 65% | Development, manufacturing and sale of water, gas and heat meters |
| Wasion Electric Limited ("Wasion Electric") (Note iii) | The PRC | RMB300,000,000 | — | — | 100% | 100% | Development, manufacturing and sale of smart distribution devices |
| Wasion Group Limited ("Changsha Weisheng") (Note iii) | The PRC | RMB1,480,000,000 | — | — | 100% | 100% | Development, manufacturing and sale of power meters |
| Wasion Technology Shenzhen Company Limited ("Wasion Shenzhen") (Note ii) | The PRC | RMB10,000,000 | — | — | 100% | 100% | Trading of power meters |
| Hunan Switchgear Co. Ltd. ("Hunan Switchgear") (Note ii) | The PRC | RMB100,000,000 | — | — | 65% | 65% | Development, manufacturing and sale of switchgears |
| Zhuhai Zhonghui Microelectronics Co., Ltd ("Zhuhai Zhonghui") (Note iii) | The PRC | RMB34,700,000 | — | — | 61% | 61% | Development, manufacturing and sale of electronic components |

Notes:

(i) Weisheng Energy, Willfar Information Technology, Hunan Weike and Hunan Weiming are sino-foreign enterprises.

(ii) Weisheng Import and Export, Wasion Shenzhen and Hunan Switchgear are limited liability companies established in the PRC.

(iii) Vitae, Wasion Electric, Changsha Weisheng, and Zhuhai Zhonghui are wholly foreign owned enterprises established in the PRC.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the reporting period.

## 44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

### Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

| Name of subsidiary | Place of registration and principal place of business | Proportion of ownership interest and voting rights held by non-controlling interest | | Profit (loss) allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **2019** | 2018 | **2019 RMB'000** | 2018 RMB'000 | **2019 RMB'000** | 2018 RMB'000 |
| Willfar Information Technology | The PRC | **35%** | 35% | **78,124** | 60,415 | **598,442** | 520,318 |
| Individually immaterial subsidiaries with non-controlling interests | | | | **(1,313)** | (461) | **31,641** | 35,306 |
| | | | | **76,811** | 59,954 | **630,083** | 555,624 |

## 44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

### Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

| | Willfar Information Technology | |
|---|---|---|
| | **31.12.2019** | 31.12.2018 |
| | **RMB'000** | RMB'000 |
| Current assets | **2,090,149** | 1,546,015 |
| Non-current assets | **502,241** | 531,604 |
| Current liabilities | **(870,792)** | (579,305) |
| Non-current liabilities | **(11,764)** | (11,690) |
| Net asset value | **1,709,834** | 1,486,624 |
| Equity attributable to owners of Willfar Information Technology | **1,702,367** | 1,479,346 |
| Non-controlling interests of the Company | **598,442** | 520,318 |
| Non-controlling interests of Willfar Information Technology | **7,467** | 7,278 |
| Revenue | **1,312,699** | 1,144,791 |

## 44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

### Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

| | Willfar Information Technology | |
|---|---|---|
| | **Year ended 31.12.2019 RMB'000** | Year ended 31.12.2018 RMB'000 |
| Profit and total comprehensive income attributable to owners of Willfar Information Technology | **145,869** | 112,200 |
| Profit and total comprehensive income attributable to the non-controlling interests | **78,124** | 60,415 |
| Profit and total comprehensive income for the year | **223,993** | 172,615 |

## 45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

| | 31.12.2019<br>RMB'000 | 31.12.2018<br>RMB'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Investments in subsidiaries | 1,210,918 | 1,206,304 |
| Other non-current assets | 85,366 | 71,630 |
| | 1,296,284 | 1,277,934 |
| **CURRENT ASSETS** | | |
| Other receivables | 10,076 | 10,776 |
| Amounts due from subsidiaries | 245,680 | 709,685 |
| Bank balances and cash | 23,505 | 12,428 |
| | 279,261 | 732,889 |
| **CURRENT LIABILITIES** | | |
| Other payables | 3,876 | 4,936 |
| Borrowings — due within one year | 72,988 | 165,453 |
| | 76,864 | 170,389 |
| **NET CURRENT ASSETS** | 202,397 | 562,500 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | 1,498,681 | 1,840,434 |
| **CAPITAL AND RESERVES** | | |
| Share capital | 9,947 | 9,969 |
| Reserves | 1,291,734 | 1,570,162 |
| **TOTAL EQUITY** | 1,301,681 | 1,580,131 |
| **NON-CURRENT LIABILITIES** | | |
| Borrowings — due after one year | 197,000 | 260,303 |
| **TOTAL EQUITY AND NON-CURRENT LIABILITIES** | 1,498,681 | 1,840,434 |

## 45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(Continued)*

| | Share premium RMB'000 | Merger reserve RMB'000 | Share option reserve RMB'000 | Share held for share award scheme RMB'000 | Other reserve RMB'000 | Share repurchase reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2018 | 1,645,571 | 198,399 | 27,730 | (25,119) | 33,164 | — | (98,811) | 1,780,934 |
| Profit and total comprehensive expense for the year | — | — | — | — | — | — | 1,054 | 1,054 |
| Shares repurchased and cancelled | (7,379) | — | — | — | — | — | — | (7,379) |
| Transaction costs attributable to subscription of shares | (27) | — | — | — | — | (18) | — | (45) |
| Share repurchased and yet to be cancelled | — | — | — | — | — | (4,961) | — | (4,961) |
| Distribution of shares under share award scheme | — | — | — | 3,107 | — | — | — | 3,107 |
| Dividends recognised as distribution | (202,548) | — | — | — | — | — | — | (202,548) |
| At 31 December 2018 | 1,435,617 | 198,399 | 27,730 | (22,012) | 33,164 | (4,979) | (97,757) | 1,570,162 |
| Loss and total comprehensive expense for the year | — | — | — | — | — | — | (22,174) | (22,174) |
| Shares repurchased and cancelled | (8,263) | — | — | — | — | 8,285 | — | 22 |
| Transaction costs attributable to subscription of shares | (12) | — | — | — | — | (50) | — | (62) |
| Share repurchased and yet to be cancelled | — | — | — | — | — | (17,111) | — | (17,111) |
| Purchase of shares under share award scheme | — | — | — | (17,409) | — | — | — | (17,409) |
| Dividends recognised as distribution | (221,694) | — | — | — | — | — | — | (221,694) |
| At 31 December 2019 | 1,217,388 | 198,399 | 27,730 | (39,421) | 33,164 | (13,855) | (119,931) | 1,291,734 |

## 46. EVENTS AFTER REPORTING PERIOD

(i) On 21 January 2020, a non-wholly owned subsidiary of the Company, Willfar Information Technology issued 50,000,000 new shares at RMB13.78 per share as part of its scheme to list its shares on the Shanghai Stock Exchange the Science and Technology Innovation Board (the "Spin-off"). The Company's retained control over Willfar Information Technology while its effective interest was diluted from 65% to 58.5%.

(ii) The outbreak of the 2019 novel coronavirus ("COVID-19") in the world and the subsequent quarantine measures imposed by the Chinese government as well as the travel and other restrictions imposed by other countries in early 2020 have had a negative impact on the operations of the Group since January 2020, as most of the Group's operations are located in the PRC. The Group has assessed the overall impact of the situation on the entirety of its operations and taken all possible effective measures to limit the adverse effects of the rapidly spreading virus on people and activities. The Group is paying continuous attention to the ever-changing situation in order to respond appropriately with speed in a proactive manner. The outbreak of COVID-19 is expected to have negative impact on the global economic environments as well as the Group's revenue and profit in 2020; however, the Group is not able to estimate the financial effect at the date of issuance of these consolidated financial statements.

# FINANCIAL SUMMARY

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2015<br>RMB'000 | 2016<br>RMB'000 | 2017<br>RMB'000 | 2018<br>RMB'000 | **2019**<br>**RMB'000** |
| Revenue | 2,969,033 | 2,607,504 | 2,927,989 | 3,340,321 | **3,655,646** |
| Profit (loss) for the year attributable to: | | | | | |
| Owners of the Company | 423,533 | 307,265 | 301,575 | 270,817 | **280,567** |
| Non-controlling interests | (1,714) | 640 | 36,221 | 59,954 | **76,811** |
| | 421,819 | 307,905 | 337,796 | 330,771 | **357,378** |

## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2015<br>RMB'000 | 2016<br>RMB'000 | 2017<br>RMB'000 | 2018<br>RMB'000 | **2019**<br>**RMB'000** |
| Total assets | 7,223,094 | 7,493,091 | 7,884,054 | 8,608,295 | **10,096,774** |
| Total liabilities | (3,083,522) | (3,315,377) | (3,224,104) | (3,866,011) | **(5,250,374)** |
| | 4,139,572 | 4,177,714 | 4,659,950 | 4,742,284 | **4,846,400** |
| Equity attributable to: | | | | | |
| Owners of the Company | 4,101,160 | 4,148,619 | 4,166,072 | 4,186,660 | **4,216,317** |
| Non-controlling interests | 38,412 | 29,095 | 493,878 | 555,624 | **630,083** |
| | 4,139,572 | 4,177,714 | 4,659,950 | 4,742,284 | **4,846,400** |

Wasion Holdings Limited
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