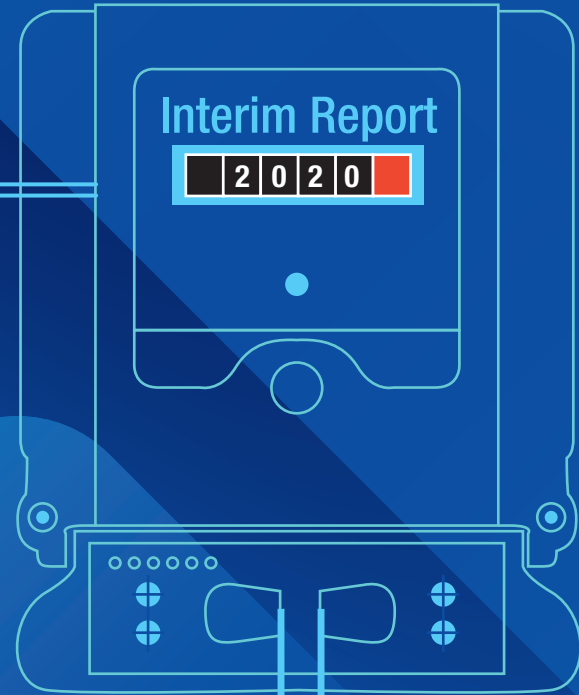
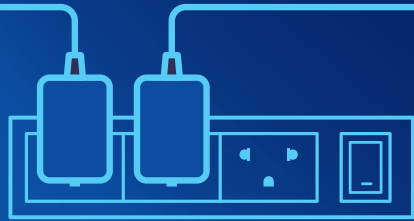




Wasion Holdings Limited
威勝控股有限公司

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



ENERGY
METERING
ENERGY **SAVING** &
EXPERT





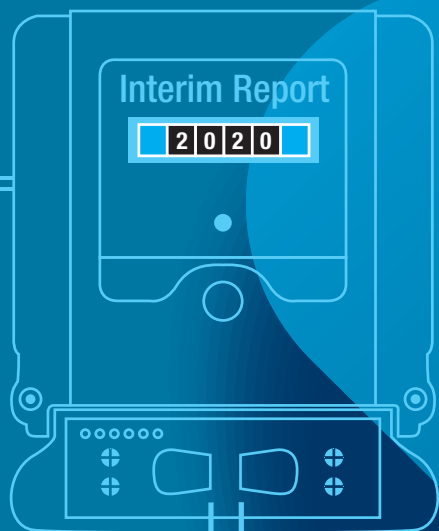
CORPORATE MISSION :
Energy Metering & Energy Saving Expert

CORPORATE VISION :
Continual Innovation Contributing to
Wasion's Centennial History

MOTTOS OF OPERATION :
Perfect Work with Passion, and
Success Achieved with Integrity

CORPORATE SPIRIT :
Be Cohesive, Ambitious, Down-to-Earth
and Creative





CONTENTS

2	Corporate Information
4	Corporate Profile
5	Management Discussion and Analysis
17	Other Information
22	Independent Review Report
24	Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
26	Interim Condensed Consolidated Statement of Financial Position
28	Interim Condensed Consolidated Statement of Changes in Equity
29	Interim Condensed Consolidated Statement of Cash Flows
30	Notes to the Interim Condensed Consolidated Financial Information





CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Ji Wei (*Chairman*)
Ms. Cao Zhao Hui
Mr. Zeng Xin (retired on 18 June 2020)
Ms. Li Hong (appointed on 18 June 2020)
Ms. Zheng Xiao Ping
Mr. Tian Zhongping

NON-EXECUTIVE DIRECTOR

Mr. Kat Chit

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hui Wing Kuen (retired on 18 June 2020)
Mr. Chan Cheong Tat (appointed on 18 June 2020)
Mr. Huang Jing (retired on 18 June 2020)
Mr. Luan Wenpeng
Mr. Cheng Shi Jie
Mr. Wang Yaonan (appointed on 17 July 2020)

COMPANY SECRETARY

Mr. Choi Wai Lung Edward *FCCA, FCPA*

AUTHORISED REPRESENTATIVES

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

AUDIT COMMITTEE

Mr. Chan Cheong Tat (*Chairman*)
Mr. Luan Wenpeng
Mr. Cheng Shi Jie
Mr. Wang Yaonan

NOMINATION COMMITTEE

Mr. Ji Wei (*Chairman*)
Mr. Chan Cheong Tat
Mr. Luan Wenpeng

REMUNERATION COMMITTEE

Mr. Chan Cheong Tat (*Chairman*)
Mr. Ji Wei
Mr. Luan Wenpeng

INTERNAL CONTROL AND RISK MANAGEMENT COMMITTEE

Mr. Chan Cheong Tat (*Chairman*)
Mr. Luan Wenpeng
Mr. Cheng Shi Jie
Mr. Wang Yaonan
Ms. Li Hong
Mr. Kat Chit

PRINCIPAL BANKERS

In Hong Kong:

Hang Seng Bank
Standard Chartered Bank
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



CORPORATE INFORMATION (Continued)

AUDITOR

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

COMPANY WEBSITE

www.wasion.com

STOCK CODE

3393

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

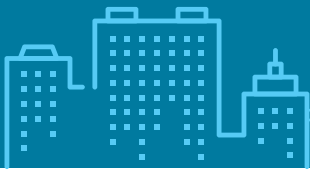
Unit 2605, 26/F, West Tower, Shun Tak Centre
168–200 Connaught Road Central
Sheung Wan
Hong Kong

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



CORPORATE PROFILE

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.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Financial Highlights

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Turnover	1,687,701	1,923,930
Gross profit	542,686	581,271
Profit from operations	258,989	282,267
Net profit attributable to owners of the Company	116,264	170,294
Total assets	10,980,116	9,426,362
Shareholders' equity attributable to owners of the Company	4,364,303	4,175,213
Basic earnings per share (RMB cents)	11.8	17.0
Diluted earnings per share (RMB cents)	11.8	17.0

Key Financial Figures

	Six months ended 30 June	
	2020	2019
Gross profit margin	32%	30%
Operating profit margin	15%	15%
Net profit margin	7%	9%
Trade receivable turnover period (Days)	442	331
Inventory turnover period (Days)	92	69
Trade payable turnover period (Days)	443	316
Gearing ratio (Total borrowings divided by total assets)	21%	20%
Interest coverage (Profit before finance costs and tax divided by finance costs)	5.24	7.33

Revenue

During the period under review, revenue decreased by 12% to RMB1,687.70 million (Period 2019: RMB1,923.93 million).

Gross Profit

The Group's gross profit decreased by 7% to RMB542.69 million for the six months ended 30 June 2020 (Period 2019: RMB581.27 million). The overall gross profit margin is 32% in the first half of 2020 (Period 2019: 30%).

Other Income

The other income of the Group amounted to RMB93.53 million (Period 2019: RMB61.24 million) which was mainly comprised of interest income, government grants and refund of value-added tax.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Other gains and losses

Other losses for the six months ended 30 June, 2020 amounted to RMB2.24 million (Period 2019: other gains of RMB0.67 million) which comprised mainly of net foreign exchange loss.

Operating Expenses

In the first half of 2020, the Group's operating expenses amounted to RMB361.12 million (Period 2019: RMB352.50 million). Operating expenses accounted for 21% of the Group's revenue in the first half of 2020, representing an increase of 3% as compared with 18% in the first half of 2019.

Finance Costs

For the six months ended 30 June 2020, the Group's finance costs amounted to RMB49.43 million (Period 2019: RMB38.00 million). The increase was mainly attributable to the increase of bank borrowings and loan interest rate during the period.

Operating Profit

Earnings before finance costs and tax for the six months ended 30 June 2020 amounted to RMB258.99 million (Period 2019: RMB278.44 million), representing a decrease of 7% as compared with the same period of last year.

Profit Attributable to Equity Shareholders of the Company

The profit attributable to equity shareholders of the Company for the six months ended 30 June 2020 decreased by 32% to RMB116.26 million (Period 2019: RMB170.29 million) as compared with the corresponding period of 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 30 June 2020, the Group's current assets amounted to approximately RMB8,411.10 million (31 December 2019: RMB7,338.16 million), with cash and cash equivalents totaling approximately RMB1,659.93 million (31 December 2019: RMB1,778.09 million).

As at 30 June 2020, the Group's total bank and other borrowings amounted to approximately RMB2,346.98 million (31 December 2019: RMB2,073.87 million), of which RMB2,207.43 million (31 December 2019: RMB1,618.64 million) will be due to repay within one year and the remaining RMB139.55 million (31 December 2019: RMB455.23 million) will be due after one year. In the first half of 2020, the interest rate for the Group's bank borrowings ranged from 2.03% to 6.64% per annum (31 December 2019: 3.06% to 6.64% per annum).

The gearing ratio (total borrowings divided by total assets) on 30 June 2020 is 21% which is the same as that on 31 December 2019.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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 period, the Group did not enter into any foreign exchange forward contracts or other hedging instruments to hedge against fluctuations.

Employees and Remuneration Policies

As at 30 June 2020, the Group had 3,503 (31 December 2019: 3,460) staff. The staff costs (including other benefits and contributions to defined contribution retirement plan) amounted to RMB159.02 million in the first half of 2020 (Period 2019: RMB162.71 million). Employee remuneration is determined on performance, experience and prevailing market conditions, with compensation policies being reviewed on a regular basis. The aggregate amount of the emoluments of the Company's directors was RMB2.22 million for the six months ended 30 June 2020 (Period 2019: RMB2.15 million).

The Group's employees in the People's Republic of China (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 (the "Share Option Scheme") on 16 May 2016 whereby the Directors are authorised, at their discretion, to invite eligible participants, including directors of any company in the Group, to take up options to subscribe for ordinary shares in the Company.

The exercise price of options granted, as specified in the rules governing the Share Option Scheme, is to be not less 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 the 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 offer of grant of the options and the nominal value of an ordinary share of the company. For acceptance of options granted by the Company, an eligible participant is required to duly sign the duplicate offer document constituting acceptance of the options and remit HK\$1 to the company within 30 days from the date of receiving the offer of the options.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The movements in the Company's share options during the period are as follows:

Name and category of participants	Number of share options				As at 30 June 2020	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 the grant of share options** HK\$
	As at 1 January 2020	Granted during the period	Exercised during the period	Cancelled/lapsed during the period						
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.

The valuation was conducted based on the binomial model with the following data and assumptions:

Grant date	10 February 2014	10 February 2014
Fair value per share option	HK\$1.846	HK\$1.927
Expected volatility	52% per annum	52% per annum
Expected life	6.14 years	6.93 years
Expected dividend	3.3% per annum	3.3% per annum
Risk-free rate of interest	2.23% per annum	2.23% per annum
Rate of leaving service	8% per annum	8% per annum

The binomial model was developed to value option plans which contain vesting and performance conditions. Such option pricing model requires input of highly subjective assumptions, including the expected volatility of the Company's share price which was determined with reference to the historical movements of the share prices of the Company and its comparators. Changes in subjective input assumptions could materially affect the fair value estimate. The binomial model does not necessarily provide a reliable measure of the fair value of share options.

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 scheme 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.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Charge on Assets

As at 30 June 2020, 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. Certain equity instruments designated at fair value through other comprehensive income are pledged as security for other loans to the Group.

Capital Commitments

As at 30 June 2020, the capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial information amounted to RMB19.46 million (31 December 2019: RMB19.18 million).

Contingent Liabilities

As at 30 June 2020, the Group had no material contingent liabilities.

MARKET REVIEW

Macro Environment

Throughout the first half of 2020 ("period under review"), the COVID-19 outbreak brought great uncertainty to the global economy and cast a cloud over China's first-quarter economic performance. Amid a complex and volatile domestic and international environment triggered by the pandemic, China actively resumed work and production through applying strict prevention and control measures, and prudently allowing economic activity to recover. According to data published by the National Bureau of Statistics, China's GDP was RMB45,661.4 billion in the first half of the year, representing a decrease of 1.6% year-on-year ("YoY"). Overall, in the first half of the year China's economy gradually overcame the adverse impact of the epidemic with business operations steadily recovering and growth restored.

Review of Power Grid Industry Data

During the period under review, China's overall electricity consumption was 3.35 trillion KWH, a decrease of 1.3% YoY. The State Grid Corporation of China ("State Grid") successfully invested around RMB165.7 billion in the power grid, an increase of 0.79% YoY, and started constructing 52,000km of new 110 kV and above power transmission lines. In terms of power grid investment, given the impact of the pandemic and seasonal flooding, the total number of smart power meters included in the first tender of the State Grid was around 24.7538 million units, a decrease of 35.2% YoY. Investing in power grids is an important form of economic support for counter-cyclical regulation, and State Grid's mid-year working conference announced that it would increase fixed asset investment to RMB460 billion this year, approximately 10% above the amount planned at the beginning of the year, with the overall total expected to reach RMB1.4 trillion. In terms of investment allocation, no more than 40% of power grid investment was completed in the first half of the year with the remaining 60% expected to be released in the second half. Moreover, during the period under review, China Southern Power Grid Company Limited ("Southern Grid") completed investments worth RMB14.8 billion in the rural power grid, accounting for 67.4% of the central government's budgeted investment. It transmitted a total of 81.1 billion KWH of electricity in the West-to-East Power Transmission Project with 500 million KWH transmitted ahead of schedule. Gradually upgrading systems and equipment related to the smart grid of China's two largest grid companies will bring new opportunities for the Group's three major business lines.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Review of Major Policies of the Power Grid Industry

Regarding power grid market policies, the “New Digital Infrastructure” launched by the State Grid aims to enhance the digitalization, networking and smartization of the power grid, making it highly compatible with the Group’s Internet of Things (“IoT”) power business and comprehensive energy services. In terms of power IoT, the State Grid will build a unified IoT management platform within this year covering five different power system applications: power transmission, power transformation, power distribution, comprehensive energy and supply chain. For comprehensive energy services, the State Grid is building the “Green State Grid” and a provincial-level smart energy service platform to provide various energy efficiency services for customers such as commercial buildings, industrial enterprises and industrial parks. With the further development of the energy industrial cloud network and energy IoT in the field of 5G application, the Group’s IoT power meters, smart sockets, energy routers, intelligent turnover cabinets, electric energy metering and detection devices, intelligent MCBs and other products will have broader application.

Review of the Group’s Overall Performance

During the period under review, the Group, as an expert in energy metering and energy efficiency management, recorded a total turnover of RMB1,687.70 million (first half of 2019: RMB1,923.93 million) in its three main business segments, representing a decrease of 12% YoY; gross profit was RMB542.69 million (first half of 2019: RMB581.27 million), representing a decrease of 7% YoY. The overall gross profit margin of the Group was 32% (first half of 2019: 30%), representing an increase of 2 percentage points YoY. This increase was due to continuous cost-reduction measures undertaken by the Group, such as switching to R&D and smart manufacturing platforms to improve efficiency and optimize product structures, and increasing the proportion of high-margin products in the first half of the year. Net profit attributable to owners of the Company was RMB116.26 million (first half of 2019: RMB170.29 million), representing a decrease of 32% YoY.

BUSINESS REVIEW

Power Advanced Metering Infrastructure (“Power AMI”)

Business Overview

Power AMI business focuses on the research & development, production and sales of smart power meters, and in providing total solutions for energy efficiency management. These products mainly comprise single-phase power meters, three-phase power meters and other smart metering devices. The Group’s power AMI business mainly comprises domestic and overseas power grid customers, and non-power grid customers. Power grid customers include State Grid, Southern Grid and more than 60 local power companies. Non-power grid customers include high energy-consuming units of large-scale public infrastructure, petroleum and petrochemical, transportation, machine manufacturing, metallurgical and chemical fields, and their residents.

Review of Business

During the period under review, the Group’s Power AMI business recorded a turnover of RMB711.19 million (first half of 2019: RMB986.30 million), representing a decrease of 28% YoY, and accounting for 42% of the Group’s total turnover (first half of 2019: 51%). The gross profit was RMB211.83 million (first half of 2019: RMB272.50 million), representing a decrease of 22% YoY and accounting for 39% of the Group’s total gross profit (first half of 2019: 47%). Gross profit margin was 30% (first half of 2019: 28%). The Group’s power grid customers and non-power grid customers accounted for 61% and 39% of turnover respectively (first half of 2019: 69% and 31%).



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Order Data in the Period under Review

During the period under review, the Group's domestic Power AMI business secured orders totaling RMB576.82 million, representing a decrease of 40% YoY. This was mainly due to the sharp decrease in first round tender size for State Grid and Southern Grid in 2020 caused by the pandemic and postponement of tenders for non-power grid customers. However, the Group still maintained number one position in terms of total power meter contracts won in tenders of State Grid and Southern Grid.

Review of Development of Power AMI Business and Relevant Policies

During the period under review, the Group undertook research on State Grid's bluetooth interconnection, DC saturation resistance transformer and key technologies that meet the R46 standard. Relevant products were included in the technical specifications of the State Grid and have entered the testing and operation stage in Jiangsu, Hunan, Henan, Zhejiang, Liaoning and other provinces. At the same time, the Group developed State Grid multicore IoT smart power meters and Southern Grid multi-modular smart power meters that meet both the R46 standard and new national standard, providing smart power meters to the national power market that are safe, reliable, upgradable and have wide range and long life. This provides a solid technical foundation for the Group in competing for future tenders for next-generation smart power meters for State Grid and Southern Grid.

Prospects of Power AMI Business

Looking to the second half of 2020, for the power grid market, State Grid released ten key construction tasks for the "New Digital Infrastructure" in June 2020 as an important step in achieving economic recovery. An estimated total investment of around RMB24.7 billion in 2020 will drive social investment of nearly RMB100 billion. Smart power meters are important devices for data collection in smart power grids, especially the smart power distribution network. Driven by the objective of constructing a "New Digital Infrastructure", tenders for the new generation of smart power meters are expected to be implemented faster, creating new market opportunities for the Group. The Group's new generation of smart power meters also resulted in a pilot programme for Southern Grid in prefecture-level cities in Guangdong Province in January 2020.

In the non-power grid market, as "New Infrastructure" is given new meaning, the Group's smart sockets, energy routers and traditional AMI products and services will be widely applied to: (I) information infrastructure such as 5G base stations, charging stations for electric vehicles, and rail transit infrastructure, etc.; (II) converged infrastructure such as smart parks, and intelligent buildings, etc; (III) infrastructure such as airports, campuses, hospitals, etc. The Group has collaborated with China Telecom, China Mobile, China Unicom and China Tower to provide services such as energy efficiency control and management of base stations to reduce energy consumption. In terms of industrial internet, the Ministry of Industry and Information Technology issued the 2020 Work Plan of the Industrial Internet Task Force in July 2020, setting a goal of completing the five-year plan for industrial internet by the end of this year. With power metering systems being such an important element in the development of the industrial internet, the Group's products such as intelligent MCBs and transformers will benefit from the market's rapid expansion.

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

Business Overview

In January 2020, the Group's Communication and Fluid AMI business — Willfar Information Technology Company Limited (Stock Code: 688100), a 58.5% owned subsidiary of the Group — received approval from the China Securities Regulatory Commission to become the first company in Hunan Province to list on the STAR Market of Shanghai Stock Exchange.

The Communication and Fluid AMI business mainly focuses on integrated IoT application solutions in the field of smart utilities (water, gas, heat, and communication), and will gradually extend to smart park integrated management systems such as smart parks, smart water supply, smart homes, smart fire protection, and smart street lights. Products mainly include power monitoring terminals; sensing terminals for water, gas and heat; telecommunications gateways; and telecommunications modules. Customers fall into two broad categories — power grid customers (including State Grid and Southern Grid) and non-power grid customers (including metro, rail transit, hospitals, internet data centre, sewage treatment plants and new energy).



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Review of Business

During the period under review, the Group's Communication and Fluid AMI business recorded a turnover of RMB636.49 million (first half of 2019: RMB584.94 million), representing an increase of 9% YoY, and accounting for 38% of the Group's total turnover (first half of 2019: 31%). The gross profit was RMB220.04 million (first half of 2019: RMB201.97 million), representing an increase of 9% YoY, and accounting for 41% of the Group's total gross profit (first half of 2019: 35%). The gross profit margin was 35% (first half of 2019: 35%). The Group's power grid customers and non-power grid customers accounted for 66% and 34% of the turnover respectively (first half of 2019: 49% and 51%).

Order Data in the Period under Review

During the period under review, new contracts totalled approximately RMB1,089.75 million worth of orders, representing an increase of 4% YoY.

Review of Development of Communication and Fluid AMI Business and Relevant Policies

(i) *Communication Business*

In April 2020, the National Development and Reform Commission promoted the scope of "New Infrastructure" covering such different fields as 5G, IoT, industrial internet, data centers, artificial intelligence, smart transportation, smart energy, and smart parks. As an essential component of the IoT, advanced microchips have transformed information communication and signal sensing sampling from the bottom to the top of IoT architecture, and play an integral role in system construction of the "Cloud-Pipe-Side-End" of the IoT. The development of "domestic microchips" is a major national strategy and the Group will continue to pursue independent research and development of microchip to enhance its core competitiveness.

During the period under review, revenue from the communication modules amounted to RMB206.48 million, representing a YoY growth of 97.77%. Meanwhile, the Group won first prize for scientific and technological progress in Hunan Province, and was selected for a number of benchmark projects such as the "Key Projects of Hunan Province's Big Data and Blockchain Industry Development in 2020", "Hunan Province Green Manufacturing System Creation Plan in 2020", and "Hunan Province Mobile Internet Industry Development Focus Project in 2020". A comprehensive management platform for smart industrial parks was also shortlisted in the 2020 provincial industrial internet platform construction plan. At the same time, the Group received the CMMI-ML5 certificate, marking the completion of its software maturity optimization level certification.

(ii) *Water Business*

Leveraging China's strong support for the renovation in smart water meters under the trend of ageing residential districts renovation, and after being shortlisted by water companies in Taiyuan, Lanzhou, Urumqi, and Luzhou last year, the Group was successfully shortlisted by prefecture-level water companies in Hangzhou, Jinan, Changji, Enshi, and Changde. This helped further expand the Group's customer base. During the period under review, the Group's smart water meters received a number of awards including being recognized as the leading quality brand by the national smart water meter industry.

Prospects of Communication and Fluid AMI

Regarding smart city development in China featuring smart grids based on existing perception layer products and focused on edge computing, the Group will integrate with Alibaba Cloud's AI capabilities to expand into cloud applications and provide professional technologies, products and services to accelerate the development of power IoT. According to IDC's forecast, global smart city expenditure will reach US\$124 billion in 2020, a YoY increase of 18.9%. The scale of Chinese market investment will reach US\$26.6 billion. IDC predicts that by 2020, investment in government industrial park smart parks, residential real estate smart parks, commercial real estate smart parks and industrial real estate smart parks will be RMB75.43 billion, RMB27.96 billion, RMB32.76 billion and RMB22.26 billion respectively. Addressing the trend of developing smart cities in China, the Group will engage in vertical application activities in areas such as smart municipal administration, smart parks, smart fire protection and smart water management, and integrate with Alibaba Cloud's IoT platform to jointly build smart cities.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

According to “Guiding Opinions on Comprehensively Promoting the Reconstruction of Old Urban Communities” issued by The General Office of the State Council, renovation activities for 39,000 ageing urban communities commenced in 2020, involving nearly seven million residents. Water, gas and heat supply are important elements in renovating ageing communities. These renovation programs will therefore create growing demand for the Group’s water, gas and heat sensing terminals. According to the CCID report, China’s investments in smart water are expected to total RMB25.69 billion in 2020. In terms of smart water services, the Group opened the door to smart water meters with the IoT while following up on the pipeline network inspection and water quality monitoring platform business to provide customers with total turn-key solutions. In addition, according to the “Thirteenth Five-Year Plan for Fire Informatization”, emerging information technologies such as the IoT, cloud computing, big data, and mobile Internet must be comprehensively utilized to accelerate the construction of “smart fire protection.” During the period under review, the Group actively expanded the integrated management system of smart parks, such as smart fire protection and smart parks, and further expanded its vertical industries.

In looking at the size of the domestic IoT industry, the rise of the Internet of Everything means that the total IoT market is also growing. McKinsey & Company estimates that IoT technology will be worth US\$11.1 trillion by 2025. The Ministry of Industry and Information Technology of China predicts that IoT in China will be worth RMB1.83 trillion by 2020 with a total of 28.1 billion IoT terminals connected. IoT technology is a cornerstone of national strategies such as “Network Power” and “Made in China 2025”, and an important element in upgrading the national industrial infrastructure. The Group’s solutions cover the application, network and perception layers of IoT. With “Ubiquitous Power IoT” and “Smart City IoT” as the core, the Group will accelerate its planning in the IoT industry chain.

Advanced Distribution Operations (“ADO”)

Business Overview

The ADO business focuses on advanced distribution products and solutions. As the last link in the power grid, the distribution network mainly provides users with corresponding terminal distribution solutions (including technical requirements/hardware replacement for power transmission, distribution, and consumption in the construction of smart power grids). Customers primarily fall into three major categories: power grid customers (including State Grid and Southern Grid), key industry customers (including metro, rail transit, hospitals, and internet data centre), and new energy industry customers.

Review of Business

In the period under review, the Group’s ADO business recorded a turnover of RMB340.02 million (first half of 2019: RMB352.69 million), representing a decrease of 4% YoY, and accounting for 20% of the Group’s total turnover (first half of 2019: 18%). The gross profit was RMB110.81 million (first half of 2019: RMB106.80 million), representing an increase of 4% YoY, and accounting for 20% of the Group’s total gross profit (first half of 2019: 18%). The gross profit margin was 33% (first half of 2019: 30%). The Group’s power grid customers and non-power grid customers accounted for 42% and 58% of the turnover respectively (first half of 2019: 22% and 78%).

Order Data in the Period under Review

In the period under review, the Group’s ADO business secured approximately RMB778.75 million worth of orders, representing an increase of 20% YoY.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Review of ADO Business and Relevant Policies

The distribution network is a significant public infrastructure for national economic and social development. “The Institutional Reform of State Grid (2020) No. 8,” issued by the State Grid, proposes accelerating the construction of the national unified power market and the reform of power transmission and distribution. Power marketization puts forward new requirements for the safe and stable operation and smartization of the power grid. To meet the distribution requirements of the new generation power system, the Group introduced smart power distribution primary, secondary and primary together with secondary integration products for the power system, smart power distribution package solutions, and “new energy +” smart energy services.

For key industry customers, the Group established a new business unit in the second quarter dedicated to 5G construction and application to better seize opportunities arising from the development of 5G. Other policies favorable to ADO business include: (I) The Ministry of Industry and Information Technology and the State-owned Assets Supervision and Administration Commission of the State Council issued “Implementation Opinions on Promoting the Co-construction and Sharing of Telecom Infrastructure to Support the Accelerated Construction and Development of 5G Network.” This spells out the new rules for the four major telecom carriers to jointly construct and share 5G communication base stations. The construction of these stations will generate new demand for the Group’s smart power distribution solutions; (II) The State Council issued “Several Policies to Promote the High-quality Development of the Integrated Circuit Industry and the Software Industry in the New Era,” and related policies such as tax exemption for enterprises to promote the rapid development of integrated circuit and data center industries.

As for the new energy market, the pandemic has affected production and delivery across the entire industry. With the reduction in exports of photovoltaic products, photovoltaic enterprises in China have shifted their focus to the domestic market. This excess capacity has accelerated the pace for photovoltaic power to come on the grid at a price comparable to that of conventional electricity generation method. At the same time, guided by relevant policies and grid-connected power generation policies, large-scale energy storage power plants saw exponential growth in the first half of the year. Since the new energy market, as a whole, has shown greater directional adjustments, the Group has actively responded to market changes by further promoting “New Energy +” business layout to better seize market opportunities. In addition, “Guiding Opinions on Energy Work in 2020,” formulated by the National Energy Administration, makes it clear that in 2020, the installed capacity of non-fossil energy power generation will reach around 900 million KWh, with electricity accounting for about 27% of terminal energy consumption, further promoting the development of the Group’s new energy business.

Prospects of ADO Business

Benefiting from the successful market development of Southern Grid and the increased competitiveness of primary and secondary integration products, the Group’s share of the power grid market is expected to increase. As for key industry customers, the New Infrastructure has generated strong demand from the Group’s key development industries such as 5G and internet data centre. According to “China IDC Industry Development Research Report 2019–2020”, the compound growth rate of China’s big data center business market will be 27.8% from 2020 to 2022, and the total value of big data centers will reach RMB320 billion in 2022. With the continuous improvement of the Group’s product structure and service capabilities, these industries will become a new focus of growth for the Group’s ADO business. As for the new energy industry, the Group will continue to actively develop “New Energy +” solutions, e.g. combining new energy with different application scenarios such as energy storage, 5G, agricultural irrigation, monitoring, operation and maintenance, to enhance the comprehensive value of the overall businesses.

International Markets

Global Smart Power Meter Data

Data prepared by Markets and Markets reveals that the global smart power meter market is expected to increase from US\$20.7 billion in 2020 to US\$28.6 billion in 2025 with a compound annual growth rate of 6.7%. At present, regions across the world vary widely in the adoption of power meters, though all are experiencing growing demand for metering equipment such as prepaid meters and smart meters.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Results Review

During the period under review, overseas turnover was RMB93.14 million (first half of 2019: RMB199.57 million), representing a decrease of 53% YoY. The main reasons for this were: (I) In February, production in China came to a near standstill due to the pandemic. At the same time, suppliers were unable to produce raw materials, preventing factories from resuming mass production in March; (II) From the end of March, the pandemic has impacted international markets such as Indonesia, Bangladesh, Austria, Mexico, South Africa and Egypt. The procurement and installation of power meters were suspended, and supply chain logistics were significantly stretched, causing business to sharply decline during the first half of the year.

Order Data in the Period under Review

During the period under review, the Group secured approximately RMB648.68 million worth of orders from overseas, representing an increase of 110% YoY.

Market Development of Each Country

In Asian markets, the Group was added to the supplier list for single-phase power metering products for residents in Indonesia, and secured orders from local procurement for smart three-phase industrial and commercial metering equipment. In Malaysia, the Group is now a qualified supplier of communication solutions for an AMI transformation project from Tenaga Nasional Berhad (TNB). In Bangladesh, the Group won a bid for smart power meters for an AMI project from Dhaka Power Distribution Company (DPDC).

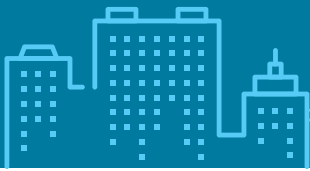
In African markets, the Group's first power AMI project in Egypt was successfully connected to the grid and commenced operations. In addition, the Group's smart water meters received local accreditation in Egypt. The Group also secured the contract for an Egyptian water services renovation project, a breakthrough in the water meter business in Egypt. Following the successful launch of the power AMI pilot program based on the G3-PLC communication platform in 2019, the Group was added to the supplier list of power company in Côte d'Ivoire's, completing batch delivery of 50K G3-PLC communication modules and other products in 2020.

In South America, during the period under review, the Group received INMETRO accreditation for five models of smart power meters including single-phase and three-phase meters in Brazil, as well as ANATEL accreditation for its WiSUN wireless network communication package equipment (including modules, repeaters and gateway), laying a strong foundation for the Group's development in the Brazilian market. In Ecuador and Colombia, the Group signed a strategic cooperation agreement with Trilliant to further develop the South American market.

In Europe, the Group continues to collaborate with Siemens and Itron. During the period under review, the Group's WSG project in Austria performed well and gained acceptance, which was highly appreciated by our customer. In Sweden, the Group successfully won the tender for a S1 smart power meter project.

Future Development of International Markets

The Group rigorously adheres to an international market expansion strategy which centers on a designated core market, gradually assembling a local team and then expanding into surrounding markets. In the Asian market, the Group has chosen Indonesia as its base from which it can gradually develop new markets in Malaysia, Bangladesh, Pakistan and India. The Group will also actively explore new markets in North and South Africa, and the Middle East. In South Africa, the Group will adopt Tanzania as its business center from where it will extend its reach into Kenya and Uganda. In North Africa and the Middle East, the Group considers Egypt as its operational base from which to gradually expand into Saudi Arabia and other nearby countries. In South America, the Group has chosen Brazil as its base from which to extend its business offerings into Mexico, Chile and Colombia. In Russian-speaking regions, the Group has embraced Russia as its operational center from where it can expand into Uzbekistan, Tajikistan, Kazakhstan and other nearby countries. The Group's business in international markets is expected to gradually recover in the second half of 2020, and annual overseas turnover in 2020 should recover to that of 2019.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Research and Development (“R&D”)

The Group continuously pursues R&D-driven innovations to closely match market positioning and customer needs. It takes advantage of new developments in smart energy, intelligent manufacturing and the internet of energy, and actively promotes technological advances. During the period under review, the Group was granted 41 patents and authorized 52 software copyrights, boosting the number of patents and software copyrights for innovative new products and energy efficiency services to 1,325 and 1,156 respectively.

Power AMI Business

In the period under review, the Group successfully developed a multi-core IoT smart meter for the State Grid and a multi-modular smart meter for the Southern Power Grid, complying with the R46 and new national standards. Furthermore, based on NB-IoT communication technology, the Group developed and launched a NB-IoT smart metering cloud platform system and a NB-IoT smart meter, which can be widely deployed in hospitals, colleges and universities, airports, and non-power companies.

Communication and Fluid AMI Business

Smart water management and smart gas management are key elements in smart city construction. Remote meter reading is developing rapidly with advances in NB-IoT and other IoT technologies. The Group is focused on developing of NB-IoT water meters and gas meters given the increasing demand from the renovation of ageing residential districts. In the period under review, the Group received qualification from the State Grid Metrology Center for its power line loss module and passed the pre-qualification process of the State Grid in bidding for fault indicators for distribution terminal units (DTU), feeder terminal units (FTU) and transformer terminal units (TTU).

ADO Business

In the period under review, the Group developed a new-generation smart circuit breaker with plastic case, addressing State Grid's for digitalization requirements. This is expected to be deployed at the end of July in a pilot program in Chongqing and Shandong. Moreover, in response to the new IoT fee control system proposed by the State Grid, the Group successfully developed a new Bluetooth micro-disconnect product in June. The Group also launched smart products and solutions to address the needs of users in the power distribution industry for digitalization and smartization, in order to explore more vertical industrial application opportunities.

International Markets

As for the prospects for prepayment devices in international markets, the Group has worked to create a new series of smart prepayment products based on the new FM33A0 platform, achieving a unified upgrade of the platform and improved cost control. These products have been successfully marketed in Asian, African and Latin American markets such as South Africa, Côte d'Ivoire, Madagascar, Uganda, and Egypt. In the smart meter sector, new-generation smart meters based on the new FM33A0 platform have been fully updated, and we have successively secured orders in markets such as Saudi Arabia and Brazil. Technologies such as UC3, 500mT strong magnet and 5NM have greatly enhanced the global competitiveness of the Group's smart power meter products. In addition, the Group is in the process of acquiring REACH certification which will inject new vitality into the high-end segment and further improve the Group's penetration of international markets.



OTHER INFORMATION

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. The Group will continue to pay close attention to epidemic development, make every effort to ensure the health of employees 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.

The Board considered that the spin-off would enable the Group to have a more focused development, strategic planning and better allocation of resources with respect to its different segments of business. The spin-off can enable Willfar Information Technology to build its identity as a separately listed group, and have a separate fund-raising platform, gain direct access to the capital market for equity and/or debt financing to fund its existing operations and future expansion, thereby accelerating its expansion and improving its operating and financial performance, which in turn will provide better reward to the shareholders of the Company. After the spin-off, Willfar Information Technology will also be able to further build on its reputation and be in a better position to negotiate and solicit more businesses, and the Group will in turn be able to benefit from the growth of Willfar Information Technology through its shareholdings.



OTHER INFORMATION (Continued)

In the initial public offering of shares of Willfar Information Technology (“IPO”), 50,000,000 Renminbi ordinary A shares with nominal value of RMB1 per share (“IPO shares”) were issued with an aggregate nominal value of RMB50,000,000. The issue price and net price of each IPO share were RMB13.78 and RMB12.22 respectively. The IPO shares were issued to two strategic investors and public investors who subscribed the new shares online and offline. The IPO shares were listed on the STAR Market on 21 January 2020 and the closing price on the same date was RMB40.30. The net proceeds from the IPO after deduction of listing expenses was approximately RMB610.83 million and the below table sets out the use of the net proceeds from the listing date up to 30 June 2020:

Intended use of net proceeds	Net proceeds RMB'000	Amount utilised RMB'000	Amount remaining RMB'000
(1) Expansion of production capacity and technological upgrade of monitoring equipment applied in the perception layer of IoT	60,292	3,975	56,317
(2) Expansion of production capacity and technological upgrade of fluid sensing equipment applied in the perception layer of IoT	62,940	3,786	59,154
(3) Expansion of production capacity and technological upgrade of products applied in the network layer of IoT	204,873	13,406	191,467
(4) Construction of comprehensive research and development centre for IoT	146,951	6,234	140,717
(5) Replenishment of working capital	135,778	127,469	8,309
	610,834	154,870	455,964

The net proceeds were used in accordance with the intentions previously disclosed by Willfar Information Technology.

CHANGE OF AUDITOR

Deloitte Touche Tohmatsu (“Deloitte”) resigned as auditor of the Company from 9 July 2020 for the reason that the Company and Deloitte failed to reach agreement on the audit fees for the financial year of 2020. Deloitte stated in their resignation letter that they decided to tender their resignation as the auditor of the Company, after taking into account many factors including the professional risk associated with the audit, level of audit fees and their available internal resources in light of their work flows. Deloitte have confirmed in their resignation letter that there are no matters that need to be brought to the attention of holders of securities or creditors of the Company.

The Board and the audit committee of the Company (the “Audit Committee”) have also confirmed that there is no disagreement between the Company and Deloitte, and that there are no other matters in respect of the resignation of auditor of the Company which need to be brought to the attention of the holders of securities or creditors of the Company.

Ernst & Young has been appointed as the auditor of the Company on 9 July 2020 to fill the casual vacancy left by the resignation of Deloitte and to hold office until the next annual general meeting of the Company.



OTHER INFORMATION (Continued)

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (Period 2019: HK6 cents per ordinary share).

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2020, 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 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)	530,286,888	53.25%
Cao Zhao Hui	Beneficial owner	2,000,000	0.20%
Li Hong	Beneficial owner	350,000	0.04%
Zheng Xiao Ping	Beneficial owner (Note 2)	3,682,000	0.37%
Chan Cheong Tat	Beneficial owner	120,000	0.01%

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 30 June 2020.



OTHER INFORMATION (Continued)

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2020, 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	530,286,888	53.25%
Star Treasure	Beneficial owner	530,286,888	53.25%
Edgbaston Asian Equity Trust	Beneficial owner	49,634,000	4.98%
Edgbaston Investment Partners LLP	Investment manager	59,226,000	5.95%

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 30 June 2020.

AUDIT COMMITTEE

The Audit Committee is responsible for assisting the Board in safeguarding the Group’s assets by providing an independent review of the effectiveness of the financial reporting process and the internal controls and risk management systems of the Group. It also performs other duties as assigned by the Board.

All the members of the Audit Committee are independent non-executive directors of the Company.

The interim results of the Group for the six months ended 30 June 2020 have been reviewed by the auditors of the Company, Ernst & Young, and the Audit Committee.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “LISTING RULES”)

During the six months ended 30 June 2020, save for Code Provision A.6.7, the Company has applied the principles of and has complied with all code provisions of the Corporate Governance Code as set forth in Appendix 14 of the Listing Rules.

Code Provision A.6.7 provides that independent non-executive directors and non-executive directors of the Company should attend general meetings of the Company. Mr. Huang Jing, Mr. Luan Wenpeng and Mr. Cheng Shi Jie, who are independent non-executive directors of the Company, failed to attend the annual general meeting of the Company held on 18 June 2020 due to conflicts with their schedules.

Save as disclosed, there has been no deviation from the code provisions of the Corporate Governance Code as set forth in the Appendix 14 of the Listing Rules for the six months ended 30 June 2020.



OTHER INFORMATION (Continued)

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 with all the directors and the directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2020.

The Company has also established written guidelines on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2020, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the listed securities of the Company.

APPRECIATION

The Board would like to take this opportunity to express gratitude to our shareholders, customers, banks, professional parties and employees for their continuous patronage and support.

By order of the Board

Ji Wei
Chairman

Hong Kong, 28 August 2020



INDEPENDENT REVIEW REPORT



Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the board of directors of Wasion Holdings Limited

威勝控股有限公司

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 24 to 54, which comprise the condensed consolidated statement of financial position of Wasion Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) as at 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



INDEPENDENT REVIEW REPORT (Continued)

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants
Hong Kong

28 August 2020



INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Revenue	4	1,687,701	1,923,930
Cost of sales		(1,145,015)	(1,342,659)
Gross profit		542,686	581,271
Other income, gains and losses, net	4	91,286	61,905
Administrative expenses		(85,337)	(84,923)
Selling expenses		(148,812)	(151,660)
Research and development expenses		(126,967)	(115,920)
Impairment losses on financial assets and contract assets		(13,867)	(8,406)
Finance costs	5	(49,433)	(38,002)
Share of results of a joint venture		—	(4,000)
Share of results of associates		—	171
Profit before tax	6	209,556	240,436
Income tax expense	7	(35,664)	(28,544)
PROFIT FOR THE PERIOD		173,892	211,892
Profit for the period attributable to			
— Owners of the parent		116,264	170,294
— Non-controlling interests		57,628	41,598
		173,892	211,892
OTHER COMPREHENSIVE (LOSS)/INCOME:			
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Change in fair value		(11,026)	11,528
Tax effect		2,549	(2,459)
		(8,477)	9,069
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences:			
Exchange differences on translation of foreign operations		(14,376)	(4,453)
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX		(22,853)	4,616



INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		151,039	216,508
Attributable to:			
Owners of the parent		93,411	174,910
Non-controlling interests		57,628	41,598
		151,039	216,508
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	RMB11.8 cents	RMB17.0 cents



INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,286,436	1,288,959
Right-of-use assets		185,942	188,024
Investment properties		28,108	28,407
Goodwill		313,272	313,272
Other intangible assets		504,022	485,523
Investment in a joint venture	11	—	—
Equity investments designated at fair value through other comprehensive income	12	86,330	97,327
Financial assets at fair value through profit or loss	13	—	200,000
Prepayments, other receivables and other assets	17	137,027	135,870
Deferred tax assets		27,882	21,230
		2,569,019	2,758,612
CURRENT ASSETS			
Inventories		611,559	541,345
Trade and bills receivables	14	3,737,689	3,238,445
Contract assets	15	628,866	583,497
Loans receivables	16	105,000	105,000
Prepayments, other receivables and other assets	17	641,634	820,114
Financial assets at fair value through profit or loss	13	200,000	—
Structured deposits	18	543,558	—
Pledged deposits		282,861	271,673
Cash and cash equivalents		1,659,930	1,778,088
		8,411,097	7,338,162
CURRENT LIABILITIES			
Trade and bills payables	19	2,687,660	2,880,646
Other payables and accruals	20	482,617	221,813
Interest-bearing bank and other borrowings	21	2,207,434	1,618,639
Lease liabilities		3,166	3,048
Tax payable		62,113	50,583
		5,442,990	4,774,729
NET CURRENT ASSETS		2,968,107	2,563,433
TOTAL ASSETS LESS CURRENT LIABILITIES		5,537,126	5,322,045



INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 30 June 2020

	Notes	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	21	139,547	455,230
Lease liabilities		1,867	1,800
Deferred tax liabilities		18,385	18,615
Total non-current liabilities		159,799	475,645
Net assets		5,377,327	4,846,400
EQUITY			
Equity attributable to owners of the parent			
Issued capital	22	9,906	9,947
Reserves		4,354,397	4,206,370
Non-controlling interests		4,364,303	4,216,317
		1,013,024	630,083
Total equity		5,377,327	4,846,400

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the parent													
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 (Note 23(ii))	Exchange reserve RMB'000	PRC statutory reserves RMB'000 (Note 23(iii))	Share option reserve RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Shares held for share award scheme RMB'000 (Note 23(iii))	Share repurchase reserve RMB'000	Other reserve RMB'000 (Note 23(iv))	Retained profits RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
At 1 January 2020 (audited)	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
Profit for the period	—	—	—	—	—	—	—	—	—	—	116,264	116,264	57,628	173,892
Other comprehensive income for the period:														
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	(8,477)	—	—	—	—	(8,477)	—	(8,477)
Exchange differences on translation of foreign operations	—	—	—	(14,376)	—	—	—	—	—	—	—	(14,376)	—	(14,376)
Total comprehensive income for the period	—	—	—	(14,376)	—	—	(8,477)	—	—	—	116,264	93,411	57,628	151,039
Transfer to PRC statutory reserves	—	—	—	—	18,903	—	—	—	—	—	(18,903)	—	—	—
Acquisition of non-controlling interests (Note 23(v))	—	—	—	—	—	—	—	—	—	(10,924)	—	(10,924)	(3,547)	(14,471)
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	—	—	—	—	—	—	(273)	—	—	—	273	—	—	—
Shares cancelled	(41)	(13,814)	—	—	—	—	—	—	13,855	—	—	—	—	—
Deemed partial disposal of interest in a subsidiary (Note 23(v))	—	—	—	(499)	—	—	—	—	—	(3,030)	249,203	245,674	365,160	610,834
Dividend paid to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	—	(36,300)	(36,300)
Dividend recognised as distribution	—	(180,175)	—	—	—	—	—	—	—	—	—	(180,175)	—	(180,175)
At 30 June 2020 (unaudited)	9,906	1,011,659*	49,990*	(77,373)*	445,852*	27,730*	(43,983)*	(39,421)*	—*	(28,955)*	3,008,898*	4,364,303	1,013,024	5,377,327
At 1 January 2019 (audited)	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 period	—	—	—	—	—	—	—	—	—	—	170,294	170,294	41,598	211,892
Other comprehensive income for the period:														
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	9,069	—	—	—	—	9,069	—	9,069
Exchange differences on translation of foreign operations	—	—	—	(4,453)	—	—	—	—	—	—	—	(4,453)	—	(4,453)
Total comprehensive income for the period	—	—	—	(4,453)	—	—	9,069	—	—	—	170,294	174,910	41,598	216,508
Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	—	(648)	—	(648)	(2,352)	(3,000)
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	—	—	—	—	—	—	(2,113)	—	—	—	2,113	—	—	—
Shares cancelled	(22)	(8,263)	—	—	—	—	—	—	8,285	—	—	—	—	—
Shares repurchased	—	—	—	—	—	—	—	—	(17,111)	—	—	(17,111)	—	(17,111)
Transaction costs attributable to shares repurchase and cancellation	—	(12)	—	—	—	—	—	—	(50)	—	—	(62)	—	(62)
Dividend recognised as distribution	—	(168,536)	—	—	—	—	—	—	—	—	—	(168,536)	—	(168,536)
At 30 June 2019 (unaudited)	9,947	1,258,806	49,990	(57,275)	381,537	27,730	(42,169)	(22,012)	(13,855)	(15,001)	2,597,515	4,175,213	594,870	4,770,083

* These reserve accounts comprise the consolidated other reserves of RMB4,607,808,000 in the interim condensed consolidated statement of financial position.



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash used in operations	(197,953)	(67,557)
PRC taxes paid	(28,467)	(48,457)
Net cash flows used in operating activities	(226,420)	(116,014)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of items of property, plant and equipment	(30,564)	(20,953)
Additions to other intangible assets	(86,881)	(86,921)
Proceeds from disposal of equity investments designated at fair value through other comprehensive income	17,549	29,884
Purchase of financial assets at fair value through profit or loss	—	(705,000)
Proceeds from disposals of financial assets at fair value through profit or loss	—	736,722
Payment for a life insurance product	—	(17,497)
Acquisition of additional interest in a joint venture	—	(4,000)
Investment in structured deposits	(540,000)	—
Placement in bank deposits with maturity over 3 months	(170,000)	—
(Increase)/decrease in pledged deposits	(11,188)	67,700
Other investing cash flows	34,559	(29,828)
Net cash flows used in investing activities	(786,525)	(29,893)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	991,926	825,248
Repayment of bank loans	(777,724)	(380,469)
Dividend paid	—	(168,536)
Dividend paid to non-controlling shareholders	(36,300)	—
Payment for repurchase of shares	—	(17,111)
Principal portion of lease payments	(2,531)	(4,399)
Transaction costs attributable to shares repurchase and cancellation	—	(62)
Proceeds from Willfar Spin-Off	610,834	—
Acquisition of non-controlling interests	(14,471)	(3,000)
Other financing cash flows	(49,433)	(37,836)
Net cash flows from financing activities	722,301	213,835
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at the beginning of period	1,778,088	1,401,362
Effect of foreign exchange rate changes, net	1,483	(2,551)
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	1,488,927	1,466,739
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,488,927	1,466,739
Time deposits	171,003	—
Cash and cash equivalents as stated in the consolidated statement of financial position	1,659,930	—
Less: Time deposits with original maturity over three months	(171,003)	—
Cash and cash equivalents as stated in the statement of cash flows	1,488,927	1,466,739



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

1. GENERAL INFORMATION AND BASIS OF PREPARATION

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 interim report.

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019. They have been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income and financial assets at fair value through profit or loss which have been measured at fair value. The interim financial information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any leases' payments being reduced or waived during the period ended 30 June 2020.

- (d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- Power advanced metering infrastructure segment, which engages in the development, manufacture and sale of smart power meters and provision of respective system solution;
- 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
- Advanced distribution operations segment, which engages in the manufacture and sale of smart power distribution devices and provision of smart power distribution solution and energy efficiency solution.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, finance costs, fair value gains on financial assets at fair value through profit or loss ("FVTPL"), share of results of a joint venture and associates as well as unallocated corporate gains and expenses are excluded from this measurement.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

3. OPERATING SEGMENT INFORMATION (Continued)

Six months ended 30 June 2020 (unaudited)

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Consolidated RMB'000
Segment revenue (Note 4):				
Sales to external customers	711,187	636,494	340,020	1,687,701
Intersegment sales	6,551	32,190	63	38,804
	717,738	668,684	340,083	1,726,505
<i>Reconciliation:</i>				
Elimination of intersegment sales				(38,804)
				1,687,701
Segment results	73,062	128,547	46,103	247,712
<i>Reconciliation:</i>				
Bank interest income				12,836
Finance costs				(49,433)
Unallocated corporate gains and expenses				(1,559)
				209,556
Profit before tax				209,556



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

3. OPERATING SEGMENT INFORMATION (Continued)

Six months ended 30 June 2019 (unaudited)

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Total RMB'000
Segment revenue (Note 4):				
Sales to external customers	986,302	584,938	352,690	1,923,930
Intersegment sales	13,648	24,953	52	38,653
	999,950	609,891	352,742	1,962,583
<i>Reconciliation:</i>				
Elimination of intersegment sales				(38,653)
				1,923,930
Segment results	118,163	121,061	45,152	284,376
<i>Reconciliation:</i>				
Bank interest income				9,788
Finance costs				(38,002)
Fair value gains on financial assets at FVTPL				835
Share of results of a joint venture and associates				(3,829)
Unallocated corporate gains and expenses				(12,732)
Profit before tax				240,436

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

4. REVENUE, OTHER INCOME, GAINS AND LOSSES, NET

An analysis of revenue is as follows:

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Revenue from contracts with customers	1,687,701	1,923,930

Revenue from contracts with customers

(i) Disaggregated revenue information

For the six months ended 30 June 2020 (unaudited)

Segments	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Total RMB'000
Types of goods or services				
Smart power meters	711,187	—	—	711,187
Communication terminals, water, gas and heat metering products	—	636,494	—	636,494
Smart power distribution devices	—	—	340,020	340,020
	711,187	636,494	340,020	1,687,701
Geographic markets				
PRC	642,748	611,795	340,020	1,594,563
South America	43,786	—	—	43,786
Africa	16,278	16,076	—	32,354
Asia, except for PRC	1,326	7,051	—	8,377
Europe	5,023	—	—	5,023
Others	2,026	1,572	—	3,598
Total revenue from contracts with customers	711,187	636,494	340,020	1,687,701
Timing of revenue recognition				
Goods transferred at a point in time	711,187	636,494	340,020	1,687,701



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

4. REVENUE, OTHER INCOME, GAINS AND LOSSES, NET (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

For the six months ended 30 June 2019 (unaudited)

Segments	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Total RMB'000
Types of goods or services				
Smart power meters	986,302	—	—	986,302
Communication terminals, water, gas and heat metering products	—	584,938	—	584,938
Smart power distribution devices	—	—	213,644	213,644
System solution services	—	—	139,046	139,046
Total revenue from contracts with customers	986,302	584,938	352,690	1,923,930
Geographic markets				
PRC	853,194	518,470	352,690	1,724,354
Africa	8,376	26,697	—	35,073
Asia, except for PRC	93,300	37,810	—	131,110
Europe	29,788	—	—	29,788
Other	1,644	1,961	—	3,605
Total revenue from contracts with customers	986,302	584,938	352,690	1,923,930
Timing of revenue recognition				
Goods transferred at a point in time	986,302	584,938	213,644	1,784,884
Services rendered over time	—	—	139,046	139,046
Total revenue from contracts with customers	986,302	584,938	352,690	1,923,930

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

4. REVENUE, OTHER INCOME, GAINS AND LOSSES, NET (Continued)

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Other income		
Bank interest income	12,836	9,788
Interest income from structured deposits	8,844	2,445
Interest income from loans receivables	6,951	7,239
Interest income from consideration receivable for disposal of a subsidiary	2,287	2,603
Interest income on financial assets at FVTPL	7,357	7,481
Dividend income from equity investment designated at fair value through other comprehensive income ("FVTOCI")	845	90
Refund of value-added tax	20,479	15,926
Government grants*	29,933	12,164
Gross rental income	1,837	731
Others	2,159	2,773
	93,528	61,240
Gains and losses, net		
Loss on disposal of items of property, plant and equipment	(80)	(97)
Foreign exchange losses, net	(2,162)	(484)
Fair value gains on financial assets at FVTPL	—	835
Others	—	411
	(2,242)	665
	91,286	61,905

* There are no unfulfilled conditions or contingencies relating to these grants.

5. FINANCE COSTS

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Interests on borrowings	49,318	37,836
Interests on lease liabilities	115	166
	49,433	38,002



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Cost of inventories sold	1,145,015	1,249,855
Cost of services rendered	—	92,804
Depreciation of property, plant and equipment	31,233	29,074
Depreciation of right-of-use assets	4,797	4,289
Depreciation of investment properties	299	690
Amortisation of other intangible assets*	3,393	4,211
Research and development costs:		
Deferred expenditure amortised*	64,987	46,994
Research cost	61,980	68,926
	126,967	115,920
Provision/(reversal) of impairment losses on financial assets and contract assets, net:		
Trade receivables	14,407	8,259
Contract assets	(540)	147
	13,867	8,406
Write-down of inventories to net realisable value**	3,126	—
Foreign exchange losses, net	2,162	484

* Amortisation of deferred development costs and other intangible assets for the period are included in "Selling expenses", "Administrative expenses" and "Research and development expenses" in the consolidated statements of profit or loss and other comprehensive income.

** Included in "Cost of inventories sold".



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

7. INCOME TAX

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 each of the six months ended 30 June 2019 and 2020.

Tax on profits assessable in the PRC has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% (30 June 2019: 25%), 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 can continue to enjoy the preferential tax rate of 15% for a consecutive three years from year 2017 to 2019, year 2018 to 2020 or year 2019 to 2021.

In addition, according to relevant laws and regulations promulgated by the State Administration of Tax of the PRC, certain of the subsidiaries established in the PRC engaging in research and development activities 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 period. 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.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Current		
Charge for the period	42,706	38,416
Overprovision in prior periods	(2,709)	(5,379)
	39,997	33,037
Deferred tax	(4,333)	(4,493)
Total tax charge for the period	35,664	28,544

No deferred taxation has been provided in respect of the undistributed earnings of the Group's PRC subsidiaries arising on or after 1 January 2008 as the directors consider that the impact is insignificant.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

8. DIVIDENDS

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Final declared — HK20 cents, equivalent to RMB18 cents, per ordinary share	180,175	—
Final declared and paid — HK20 cents, equivalent to RMB17.1 cents, per ordinary share	—	168,536
	180,175	168,536

The directors of the Company did not recommend the payment of a dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: declared an interim dividend of HK6 cents, equivalent to RMB5.4 cents per ordinary share, amounting to a total of approximately RMB53,158,000).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic and diluted earnings per share attributable to owners of the parent is based on the following data:

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Earnings		
Profit attributable to owners of the parent, used in the basic earnings per share calculation	116,264	170,294

	Six months ended 30 June	
	2020 Number of shares (unaudited)	2019 Number of shares (unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	982,593,675	1,000,376,040



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

Note:

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award scheme of the Company as set out in note 24.

The Group had no potentially dilutive ordinary shares in issue during the periods ended 30 June 2020 and 2019 because the exercise price of those share options was higher than the average market price of the Company's share during the periods.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired assets with a cost of RMB30,564,000 (30 June 2019: RMB20,953,000).

Assets with a net book value of RMB80,000 (30 June 2019: RMB623,000) were disposed of by the Group during the six months ended 30 June 2020, resulting in a net loss on disposal of RMB80,000 (30 June 2019: RMB97,000).

At 30 June 2020, the Group's property, plant and equipment with a carrying amount of RMB123,134,000 (31 December 2019: RMB118,045,000) were pledged as security for the Group's bank loans, as further detailed in note 21 to the interim condensed consolidated financial information.

11. INVESTMENT IN A JOINT VENTURE

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Cost of investment	24,000	24,000
Cumulative share of post-acquisition losses and other comprehensive expenses	(24,000)	(24,000)
	—	—



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

12. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Equity instruments at fair value through other comprehensive income comprise:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Equity investments designated at FVTOCI		
Equity investments listed in Hong Kong, at fair value	51,215	54,154
Equity investments listed in the PRC, at fair value	9,231	17,289
Unlisted equity investments, at fair value — A	3,000	3,000
Unlisted equity investments, at fair value — B	22,884	22,884
	86,330	97,327

The above equity investments were irrevocably designated at FVTOCI as the Group considers these investments to be strategic in nature.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Unlisted investments in trust funds, at fair value (Note)	200,000	200,000

Note: Amounts represent investments in trust funds made by the Group through a financial institution. The trust funds invest in ranges of debt instrument products which are generally government bonds and corporate loans. The trust funds investments will expire between April and May 2021 and the balances are reclassified to current assets as at 30 June 2020.

They are mandatorily classified as financial assets at FVTPL as their contractual cash flows are not solely payments of principal and interest.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

14. TRADE AND BILLS RECEIVABLES

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Trade receivables	3,679,080	3,092,754
Bills receivables	140,753	213,428
	3,819,833	3,306,182
Less: impairment loss on trade receivables	(82,144)	(67,737)
	3,737,689	3,238,445

Due to the nature of business, the settlement terms of trade receivables are based on the achievement of certain milestones of each sales transaction. There were no credit terms granted to customers, but the Group allows credit periods ranging from 90 days to 365 days to its customers, except for certain customers, where the credit periods may be beyond 365 days.

Included in the Group's trade receivables are amounts due from the Group's joint venture of RMB52,446,000 (2019: RMB46,839,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the revenue recognition date and net of loss allowance, is as follows:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
0-90 days	1,270,967	1,231,287
91-180 days	400,239	483,195
181-365 days	1,091,676	834,862
Over 1 year	974,807	689,101
	3,737,689	3,238,445



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

15. CONTRACT ASSETS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Contract assets	634,171	589,342
Less: impairment loss on contract assets	(5,305)	(5,845)
	628,866	583,497

The contract assets primarily relate to the Group's right to consideration for goods delivered and not billed for the sales contracts because the rights are conditional on the completion of the retention period. The contract assets are transferred to trade receivables when the rights become unconditional. The balance will be settled in accordance with the terms of the respective contracts. The terms and conditions in relation to the release of retention vary from contract to contract, which is subject to practical completion, the expiry of the defect liability period or a pre-agreed time period.

16. LOANS RECEIVABLES

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Loans receivables	105,000	105,000

The amounts represent loans advanced by the Group to an independent third party under entrusted loan contracts. These entrusted loans carry fixed interests at 12% per annum and are repayable in September 2020.

As at 30 June 2020, the Group's loan receivables amounted to RMB43,400,000 (31 December 2019: RMB43,400,000) were secured by certain properties, and the Group is not permitted to sell these assets in the absence of default of the borrowers. The pledge will be released upon settlement of the relevant loans.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

17. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Consideration receivables for disposal of subsidiaries (Note (i))	77,000	77,000
Life insurance products (Note (ii))	60,027	58,870
Non-current portion	137,027	135,870
Purchase deposits (Note (iii))	248,613	480,252
Bidding deposits	36,409	29,238
Other receivables, other deposits and prepayments	277,944	188,906
Consideration receivable for disposal of unlisted equity instruments (Note (iv))	23,652	27,700
Loan receivable from a joint venture (Note (v))	20,400	18,000
VAT recoverable	34,616	76,018
Current portion	641,634	820,114
	778,661	955,984

Notes:

- (i) The balance of RMB77,000,000 carries fixed interest at 4.75% per annum and is repayable in 2022.
- (ii) In prior years, the Company entered into three life insurance policies with an insurance company to insure three executive directors. Under these policies, the beneficiary and policy holder are 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 fifteenth or eighteenth policy year, as appropriate, a pre-determined specified surrender charge would be imposed on the Company.
- (iii) During the six months ended 30 June 2020, 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.
- (iv) The balance is unsecured, non-guaranteed, carrying fixed interest at 4.35% per annum and is repayable in 2020.
- (v) The amount represents an unsecured, non-guaranteed short-term loan to a joint venture which carries fixed interests at 4.71% per annum and is repayable within one year from the end of the reporting period.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

18. STRUCTURED DEPOSITS

Structured deposits were stated at fair value and represented several deposits placed with banks. The Group designated the structured deposits as investments at fair value through profit or loss. As at 30 June 2020, the aggregate fair value of the structured deposits was approximately RMB543,558,000 (31 December 2019: nil) and total interest income of approximately RMB8,844,000 (six months ended 30 June 2019: RMB2,445,000) was recognised by the Group during the period.

The fair value was based on the market values provided by financial institutions at the end of the reporting period.

19. TRADE AND BILLS PAYABLES

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Trade and bills payables	2,687,660	2,880,646

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
0–90 days	1,588,940	1,506,420
91–180 days	828,222	728,603
181–365 days	181,076	565,036
Over 1 year	89,422	80,587
	2,687,660	2,880,646



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

20. OTHER PAYABLES AND ACCRUALS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Accruals	6,654	15,390
Dividend payable (Note)	181,927	—
Other payables	221,014	105,861
Contract liabilities	73,022	100,562
	482,617	221,813

Note: The dividend was paid on 8 July 2020.

21. INTEREST-BEARING BANK AND OTHER BORROWINGS

During the period, the Group obtained bank borrowings of RMB991,926,000 (six months ended 30 June 2019: RMB825,248,000) and repaid bank borrowings of RMB772,802,000 (six months ended 30 June 2019: RMB380,469,000). The loans carry interests at market rates ranging from 2.03% to 6.64% (31 December 2019: 3.00% to 6.64%) per annum and are repayable in instalments over a period of three years. The proceeds were used for general working capital purposes.

During the period, the Group purchased the listed equity investments through margin loan accounts of RMB16,795,000. As at 30 June 2020, the margin loan amounted of RMB11,873,000 with secured equity investments designated at fair value through other comprehensive income of RMB14,751,000 carries interests at 4.00% per annum (31 December 2019: nil).



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

22. SHARE CAPITAL

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Authorised: 100,000,000,000 ordinary shares of HK\$0.01 each	1,000,000	1,000,000
	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Issued and fully paid: 995,879,675 (2019: 999,961,675) ordinary shares	9,906	9,947

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000
At 1 January 2019	1,002,461,675	9,969
Shares cancelled	(2,500,000)	(22)
At 30 June 2019, 31 December 2019 and 1 January 2020	999,961,675	9,947
Shares cancelled (note)	(4,082,000)	(41)
At 30 June 2020	995,879,675	9,906

Note: The Company repurchased 5,082,000 of its own shares on the Hong Kong Stock Exchange for a total consideration of RMB17,111,000 between January and May 2019. The Company has cancelled 1,000,000 shares together with 1,500,000 repurchased in prior periods in January 2019. During the six months ended 30 June 2020, the Company has cancelled 4,082,000 shares of which RMB13,855,000 was credited to share repurchase reserve. As at 30 June 2020, there were no outstanding repurchased shares not yet cancelled.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

23. RESERVES

- (i) Merger reserve represents the difference between the nominal value of shares of the subsidiaries acquired over the nominal value of the shares used by the Company in exchange thereafter.
- (ii) The PRC statutory reserve is non-distributable and the transfer to this reserve is determined by the board of directors of the subsidiaries established in the People's Republic of China (the "PRC") in accordance with the relevant laws and regulations of the PRC. According to the relevant rules and regulations in PRC applicable to wholly foreign-owned enterprises, a wholly foreign-owned enterprise is required to transfer at least 10% of its profit after taxation, as determined under the PRC Accounting Regulations, to a reserve fund until the reserve fund balance reaches 50% of the relevant enterprise's registered capital. This reserve can be used to offset accumulated losses or to increase capital upon approval from the relevant authorities.
- (iii) Shares held for share award scheme represent the own shares of the Company repurchased by a trustee for an employees' share award scheme. During the period ended 30 June 2019, a total of 900,000 ordinary shares of the Company at a fair value of RMB3,107,000 were granted to the employees of the Company.
- (iv) In prior years, an amount of RMB33,164,000 representing the excess of the balance of share award plan assets 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 credited to the other reserve and an amount of RMB62,119,000 representing the equity transactions debited to the other reserve.
- (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 period ended 30 June 2020, the Group has completed the spin-off of its Communication and Fluid AMI business through a separate listing of a then non-wholly-owned subsidiary, Willfar Information Technology Company Limited ("Willfar") and its subsidiaries (together as "Willfar Group") on the Science and Technology Innovation Board of the Shanghai Stock Exchange (the "Spin-Off"). The Spin-Off involved the offering of 50,000,000 new ordinary shares of RMB1 each, equivalent to 10% of the original share capital, by Willfar at an issue price of RMB13.78 per share, which raised a total net cash proceeds of approximately RMB610,834,000. Immediately following the completion of the Spin-Off, the Group's effective equity interest in Willfar was diluted from 65.0% to 58.5%. The difference between the non-controlling interests recognised and the consideration is recognised in equity and accumulated in retained profits.

During the period ended 30 June 2020, the Group acquired 2,020,100 ordinary shares, equivalent to 5.8% equity interests, in a non-wholly owned subsidiary from its non-controlling shareholder at a consideration of RMB7.15 per share, for a total consideration, net of transaction cost of RMB27,000, of approximately RMB14,444,000. The difference between the non-controlling interests derecognised and the net consideration is recognised in equity and accumulated in other reserve.

During the period ended 30 June 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 derecognised and the consideration is recognised in equity and accumulated in other reserve.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

24. SHARE-BASED PAYMENT TRANSACTION

Share award scheme

The Company's share award scheme (the "Scheme") was adopted pursuant to a resolution passed on 3 May 2016. Pursuant to the Scheme under which eligible employees are entitled to participate. The purpose of the 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 Scheme became effective on 3 May 2016 and, unless otherwise terminated or amended, will remain in force for 10 years.

The Scheme is operated through a trustee which is independent of 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 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 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 Scheme.

As at 30 June 2020, 12,328,000 ordinary shares of the Company were held by trustee of the Scheme.

25. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Contracted, but not provided for: Property, plant and equipment	19,460	19,184



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

26. RELATED PARTY DISCLOSURES

(a) The Group had the following transactions with related parties during the period:

	Notes	Six months ended 30 June	
		2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Sales of goods to a joint venture	(i)	23,610	19,856
Interest received from a joint venture	(ii)	492	—

Notes:

- (i) The sales to the joint venture were made according to the prices and conditions offered to the major customers of the Group.
- (ii) The loan to the joint venture is unsecured and interest-bearing at 4.71% per annum and repayable in 2021.

(b) The remuneration of directors and other members of key management of the Group during the period were as follows:

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Short-term benefits	2,691	2,985
Retirement benefit scheme contributions	22	16
	2,713	3,001

The remuneration of key management is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Financial assets				
Equity investments designated at FVTOCI	86,330	97,327	86,330	97,327
Financial assets at FVTPL	200,000	200,000	200,000	200,000
Structured deposits	543,558	—	543,558	—
	829,888	297,327	829,888	297,327
Financial liabilities				
Interest-bearing bank and other borrowings	2,346,981	2,073,869	2,032,250	1,904,481

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. Management reports directly to the executive directors and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by management. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments, which were classified as equity investment designated at FVTOCI, have been estimated using income approach or asset approach based on assumptions that are not supported by observable market prices or rates. For income approach, the valuation requires the directors to determine the expected future cash flows of the investment and also to choose a suitable discount rate in order to calculate the present value of those cash flows. For asset approach, the valuation requires the directors to determine the fair value of the assets and liabilities of the underlying investment. The directors of the Company believe that the estimated fair values resulting from the valuation technique, which are recorded in the interim condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The fair value of the unlisted investments in trust funds are measured using valuation techniques by discounted cash flow method. The valuation requires the directors to determine a suitable discount rate in order to calculate the present value of those cash flows. The directors of the Company believe that the estimated fair values which are recorded in the interim condensed consolidated statement of financial position with net changes in fair value recognised in the interim condensed consolidated statement of profit or loss are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair values of structured deposits were based on the market values provided by the bank at the end of the reporting period. They are estimated with the principal plus estimated interest income based on expected annual rate of return.

The fair values of other financial assets and financial liabilities carried at amortised cost approximate to their carrying amounts.

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2020 and 31 December 2019:

	Valuation/ technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments designated at FVTOCI — B	Income approach	Revenue growth rate	5%–40% (31 December 2019: 5%–13%)	5% (31 December 2019: 5%) increase/(decrease) in growth rate would result in increase/(decrease) in fair value by RMB1,380,000/RMB(1,349,000) (31 December 2019: RMB1,666,000/RMB(1,625,000))
		Terminal growth rate	3% (31 December 2019: 3%)	1% (31 December 2019: 1%) increase/(decrease) in growth rate would result in increase/(decrease) in fair value by RMB1,876,000/(RMB1,610,000) (31 December 2019: RMB1,701,000/RMB(1,460,000))
		Discount rate	16.08% (31 December 2019: 16.08%)	1% (31 December 2019: 1%) increase/(decrease) in discount rate would result in (decrease)/increase in fair value by RMB(2,406,000)/RMB2,810,000 (31 December 2019: RMB(2,208,000)/RMB2,575,000)



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

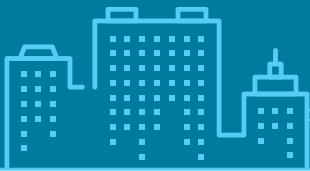
The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
As at 30 June 2020 (unaudited)				
Equity investments designated at FVTOCI	60,446	—	25,884	86,330
Financial assets at FVTPL	—	200,000	—	200,000
Structured deposits	—	829,888	—	829,888
	60,446	1,029,888	25,884	1,116,218
As at 31 December 2019 (audited)				
Equity investments designated at FVTOCI	71,443	—	25,884	97,327
Financial assets at FVTPL	—	200,000	—	200,000
	71,443	200,000	25,884	297,327

Liabilities for which fair values are disclosed:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
As at 30 June 2020 (unaudited)				
Interest-bearing bank and other borrowings	—	2,032,250	—	2,032,250
As at 31 December 2019 (audited)				
Interest-bearing bank and other borrowings	—	1,904,481	—	1,904,481



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

During the period, there were no movement for the fair value measurements within Level 3 (six months ended 30 June 2019: nil).

During the period, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (31 December 2019: Nil).

28. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The interim condensed consolidated financial information was approved and authorised for issue by the board of directors on 28 August 2020.