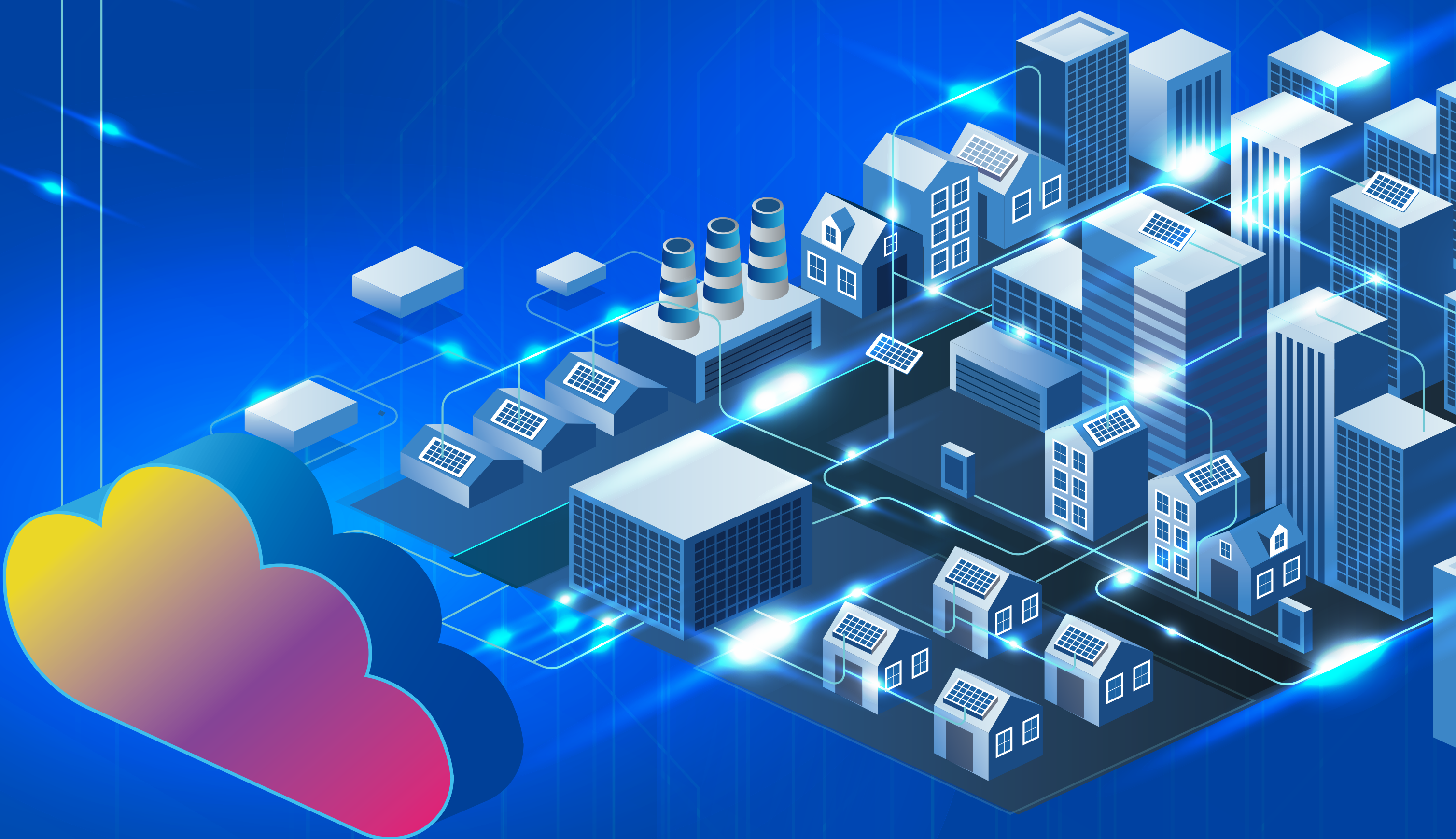
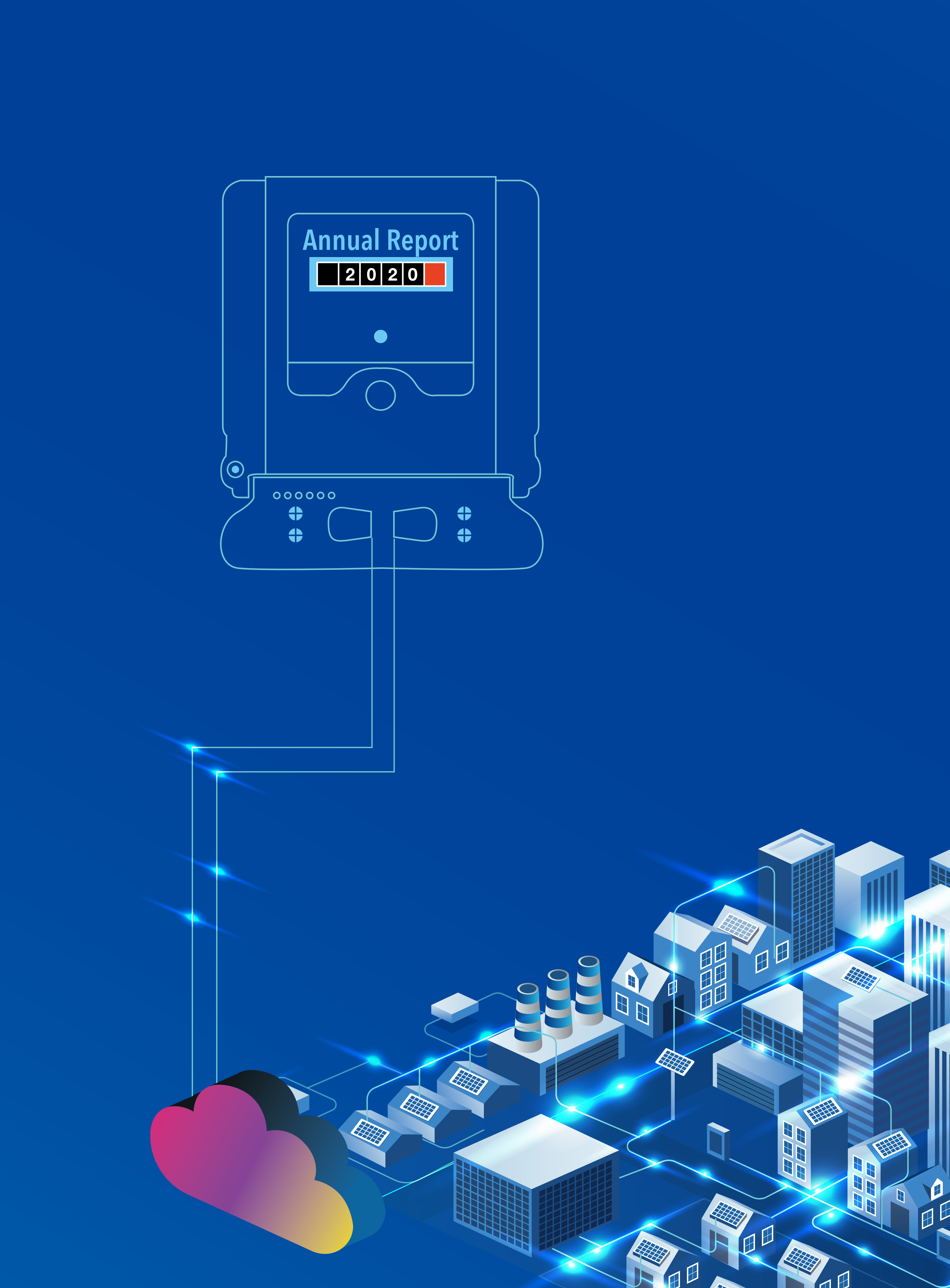
Annual Report
2020

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




Annual Report
2020

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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

Auditor

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Registered Office

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

Principal Place of Business

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

Principal Share Registrar and Transfer Office

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3, Building D
P.O. Box 1586
Gardenia Court
Camana Bay
Grand Cayman
KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Company Website

www.wasion.com

Stock Code

3393

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

Wasion Holdings Limited ("Wasion Holdings" 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 Holdings 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, 5G communication, 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.

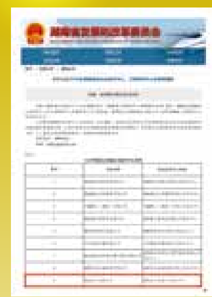
In January 2020, the Group's "Communication and Fluid AMI" business — Willfar Information Technology Company Limited (Stock Code: 688100), a 58.5% owned subsidiary of the Group — received approval from the China Securities Regulatory Commission to become the first company in Hunan Province to list on the STAR Market, and was included in the "STAR 50 Index" in August 2020. The Communication and Fluid AMI business mainly focuses on reshaping the energy management methods of electricity, water, gas and heat with the IoT technology, and provides a full-level integrated solution for the IoT of energy from data perception, network transmission to application management, with communication technology from basic chip design, data perception and data acquisition to high-speed data transmission and stable connection, as well as the capability to provide users with such digital solutions as software management.

For research and development, the Group has 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, and achieved the separation of legal metrology and non-legal metrology, providing smart power meters that are safe, reliable, upgradable and have wide range and long life to accommodate to the power market reform. In addition, 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. The fifth generation of high-speed power-line carrier chip WTZ13 developed by the Group has passed the inspection of the State Grid Metrology Center, which means that the Group can meet the technical requirements of the State Grid and Southern Grid for the new generation of smart power meters, power distribution automation and power operation maintenance. Meanwhile, as for the prospects for prepayment devices in international markets, the overseas research and development team 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 decreased product cost. These products have been successfully marketed in Asian, African and Latin American markets such as South Africa, Côte d'Ivoire, Madagascar, Uganda, Egypt, Nigeria, Uruguay and Russia, and have become a new generation of key products in the international prepayment market. At the same time, based on its in-depth research and system construction of the IEC62056 standard, COSEM/DLMS Blue Book and IDIS specifications, the Group has successively established enterprise function specifications based on the IEC62056 standard, laying a good foundation for a breakthrough in the future power meter market of the Group's new generation of anti-tampering technology.

The goals of "Carbon Neutrality" and "CO^2 Emission Peak" are driving substantial changes in energy production and energy consumption mode in China and even the world. Amidst the material social responsibility and development opportunities arisen from energy saving and carbon reduction as well as the substantial demand arisen from the transformation and upgrading of smart power grids to the internet of energy, Wasion Holdings will adhere to its corporate motto "Energy Metering and Energy Saving Expert" while upholding its core value "Perfect Work with Passion, and Success Achieved with Integrity" by continuous innovation and improvement in order to become the pioneer in smart power grids and smart metering in China, one of the major international smart power grids and smart metering provider and a well-known international brand.

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

QUALIFICATIONS, AWARDS AND MILESTONES

January

Willfar Information Technology Company Limited ("Willfar Information") (Stock Code: 688100) was successfully listed on the STAR Market of Shanghai Stock Exchange through an initial public offering and became the first company in Hunan Province to list on the STAR Market, marking another milestone in the development history of the Company.

February

Willfar Information received Wi-SUN accreditation for its comprehensive wireless communication products (including modules, repeaters and gateway, etc.) and passed Antel accreditation in Brazil for the same.

March

The subsidiary of Wasion Group Limited (威勝集團有限公司) ("Wasion Group") in Brazil won the bidding for a power meter project with the contractual amount exceeding RMB100 million.

April

The collection terminal 1600U of Willfar Information passed the accreditation of G3-PLC Alliance while obtaining the software maturity certification of CMMI-ML5 level (the highest level).

Wasion Electric Limited ("Wasion Electric") was accredited as "Pilot Enterprise for Implementing Standards of Management System of Integration of Informatization and Industrialization in Hunan Province (湖南省兩化融合管理體系貫標試點企業)" and "Industrial Design Center of Hunan Province (湖南省工業設計中心)" by the Industry and Information Technology Department of Hunan Province.

May

Wasion Electric was awarded the "Advanced Unit of Quality Control 2019 (2019年度品質管制先進單位)" by Hunan Association of Power Transmission and Distribution Equipment Industry (湖南省輸配電設備行業協會).

The Academician and Expert Workstation of Wasion Group was granted annual excellent assessment, awarded the model academician and expert workstation of Hunan Province again.

June

Wasion Group expanded its new business in the surrounding market of Tanzania, successfully winning the bidding for supply of electricity measurement product project in the construction project of distribution network in Ugan.

Wasion Group launched a total solution of NB-IoT system which integrated the application of power meters, sockets, water meters and other products; it has been currently applied in Wanbang Logistic Park (萬邦物流園) in Henan, Baiyun Airport (白雲機場) in Guangdong and other places.

The "High-precision Real-time Monitoring Technique of Power Distribution Network Faults and its Application (配電網故障高精度即時監控技術及應用)" project of Willfar Information was awarded the first prize for scientific and technological progress in Hunan Province.

July

Wasion Electric and Yipuji System Integration (Shanghai) Co., Ltd. (易普集系統集成(上海)有限公司) formally announced a strategic cooperation on "distribution prefabrication" to promote the optimization and improvement of product quality and system solutions based on each other's strengths in respect of prefabricated power distribution cabinets and modules.

August

The detection devices developed by Wasion Group in cooperation with the State Grid Metrology Center was successfully launched, and was exclusively approved and put on trial by the State Grid. It successively won the bids for power company projects in Beijing, Tianjin, Guangdong and etc., thus expanding to the detection device market.

The new generation of IoT smart power meters provided by Wasion Group to Southern Grid was successfully launched, being the new generation of smart power meters first approved by the market supervision department in China. It is also the first smart power meter applying sub-component separation technology, and the first in the industry complying with IR46, IEC and GB17215 national standards in China.

The smart power meters in line with State Grid 2020 standards provided by Wasion Group were successfully launched, and all 8 products proposed to China Electric Power Research Institute passed the one-time inspection, being the only company in the industry.

Willfar Information has signed contracts with Southern Grid, Tsinghua University and other units for the "Key Technologies of Digital Grid" innovation consortium, and participated in the application of national key R&D projects to achieve industry-university-research collaboration and seize a commanding height in the field of science and technology.

September

The tender for new generation of IoT smart power meters was first launched in Guangzhou, Guangdong Province. Wasion Group was the first company to win the tender in batches in China and was the only company that achieved batch operation, representing a leading market position.

Wasion Group's shared power system solution was awarded the "Excellent Solution Award" of the software and information technology service industry in Hunan Province in 2020.

Willfar Information was awarded the "Top 50 Software and Information Technology Service Enterprises in Hunan Province".

October

Wasion Electric was awarded by the Development and Reform Commission of Hunan Province as the "Integrated Development Pilot of First Batch of Provincial-Level Advanced Manufacturing and Modern Service Industry".

November

Wasion Group was awarded "Top 100 Private Enterprises in Hunan Province".

December

Wasion Group ranked first in respect of tender amount for Xinjiang high-precision gateway power meters bidding project, which further expanded its market share and promoted the process of localization of the gateway meters.

Wasion Group was awarded the Top Ten Brands of Power Meter in China's Power and Electrical Industry in 2020, the 2020 Hunan Benchmarking Enterprise of Integration of Industrialization and Informatization (2020年湖南省兩化融合管理體系貫標標桿企業), the Best Employer Enterprise in Hunan Province in 2020, etc.

Willfar Information was awarded the "Top 50 Internet Enterprises in Hunan Province".

The high-speed power-line carrier chip WTZ13 of Zhuhai Zhonghui Microelectronics Co. Ltd., a subsidiary of Willfar Information, passed the inspection of the State Grid Metrology Center.

Willfar Information cooperated with Chinese Society for Urban Studies to establish a smart city joint laboratory to jointly seek the top standard design of smart towns.

Wasion Electric was awarded the "2020 Hunan Enterprise Technology Center" by the Development and Reform Commission of Hunan Province.

TO ALL SHAREHOLDERS,

On behalf of the board of directors of Wasion Holdings Limited (the "Group"), I am pleased to present the operating results of the Group for the financial year ended 31 December 2020.

During the year under review, the Group recorded turnover of RMB3,949 million, representing an increase of 8.0% over last year. Net profit attributable to owners of the parent amounted to RMB231 million, representing a decrease of 17.6% year-on-year ("YoY"). Earnings per share stood at RMB0.235. The board of directors proposed to pay a final dividend of HK$0.20 per share.

In terms of the performance of the three major businesses, due to fewer tender invitations on centralized procurement from the State Grid and the Southern Grid amid the pandemic in 2020, revenue from the Power AMI business decreased by 4.7% YoY, of which, revenue for the first and second half of the year decreased by 27.9% and increased by 26.8%, respectively on a YoY basis. The total value of newly-signed contracts for the Communication and Fluid AMI business increased by 14% YoY. The ADO business also made an effective breakthrough in the market of the Southern Grid and won contracts worth RMB350 million, increasing by more than 2.4 times over 2019. During the year under review, the Group stepped up efforts in expanding into international market and recorded revenue from overseas market of RMB381 million despite the global pandemic, representing a significant increase of 81.4% against a global decline.

For years, the Group has focused on the advanced metering sector. While consolidating its leading role in the power grid market, the Group has also proactively expanded the power metering technology into non-power grid sectors in order to diversify income stream. On one hand, with the power market revolution and the launch of new IR46-compliance meters, another transition period for new meters is about to begin. China's "dual circulation economy" strategy is also promoting the localization of high-end manufacturing industry. Benefitted from the above, the gateway energy meters offer considerable room for import substitution. On the other hand, the Group's launch of intelligent power solutions and products for new infrastructures is expected to promote the construction of information infrastructure and facilitate the transformation and upgrading of traditional infrastructure. Given the strong demand for 5G, data centers and healthcare brought by new infrastructure, the Group has established a data centre business unit to further identify new industrial opportunities while consolidating existing market shares. In terms of the renewable energy industry, the Group will develop "New energy +" solutions that combine renewable energy with various applications such as energy storage, transportation electrification, and peak emissions to enhance the overall value of its business.

Looking forward, in achieving "CO^2 Emission Peak" and "Carbon Neutrality", the State Grid will invest over USD70 billion annually during the next five years to transform its power grid into the Internet of Energy. At the same time, the Southern Grid is working toward a digitalized Southern Grid. The large-scale grid integration of renewable energy, such as photovoltaics, wind power and charging stations, will bring great opportunities to different power subsectors, such as power storage, and energy monitoring and protection. The explosive expansion in new infrastructures such as 5G and data centers, are presenting new challenges to the power distribution networks and power utilization links. Furthermore, State Grid's increasing efforts in footing its overseas layout will also bring new business opportunities to the overseas expansion of domestic power equipment.

In terms of Power AMI business, the Group will follow the development trend of the State Grid and the Southern Grid, stick to technological innovation, continue to optimize and improve cost efficiency and product quality so as improve its core competitive edge. In the non-power grid market, it will explore the development potential of rail stations, white appliances and charging stations.

For the Communication and Fluid AMI business, the Group will continue building a product matrix of vertically-coordinated microchips, modules, gateways, monitoring terminals and software systems, etc. It will gradually enhance its competitive edge to meet the hardware-upgrade demands of power users, thereby maintaining its leading market share with the State Grid and the Southern Grid.

For ADO business, the Group will continue to optimize the solutions to the advanced power distribution operations to consolidate its leading role in the power sector. In the meantime, it will expand customers in key industries and invest resources in new infrastructure, such as 5G and data centers. Besides, the Group will provide more valuable integrated solutions to customers adapted to different application scenarios of the “New energy +” solutions.

For the international market, the Group is actively expanding in overseas markets, selecting appropriate development strategies according to local market policies — selling components and providing technical guidance in countries with high barriers to build factories; and building factories in countries with high tariffs, in order to mitigate policy and tax risks.

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

Yours faithfully,
Ji Wei
Chairman

Hong Kong, 30 March 2021

MOTTOS OF OPERATION :

PERFECT WORK
WITH PASSION
AND SUCCESS
ACHIEVED WITH
INTEGRITY

Financial Review

Financial Highlights

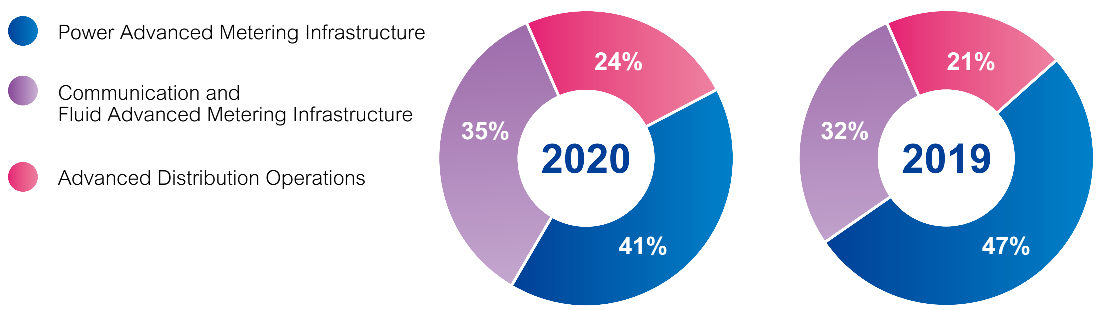
	2020 RMB'000	2019 RMB'000
Revenue	**3,948,750**	3,655,646
Gross profit	**1,246,565**	1,147,633
Profit attributable to owners of the Company	**231,190**	280,567
Total assets	**11,270,083**	10,096,774
Equity attributable to owners of the Company	**4,523,301**	4,216,317
Basic earnings per share (RMB)	**0.235**	0.284
Diluted earnings per share (RMB)	**0.235**	0.284

Key Financial Indexes

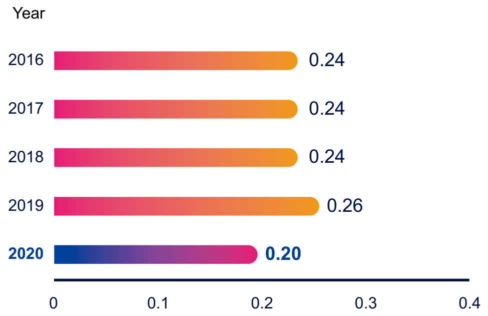
	2020	2019
Gross profit margin	**32%**	31%
Operating profit margin	**12%**	14%
Net profit margin	**9%**	10%
Return on equity of the shareholders (Note)	**5%**	7%
Current ratio	**1.69**	1.54
Quick ratio (Current assets excluding inventories divided by current liabilities)	**1.59**	1.42
Inventory turnover period (Days)	**70**	75
Trade receivable turnover period (Days)	**328**	297
Trade payable turnover period (Days)	**395**	368
Gearing ratio (Total borrowings divided by total assets)	**20%**	21%
Interest coverage (Operating profit divided by finance costs)	**5.11**	5.79

Note: Profit attributable to owners of the parent divided by equity attributable to owners of the parent.

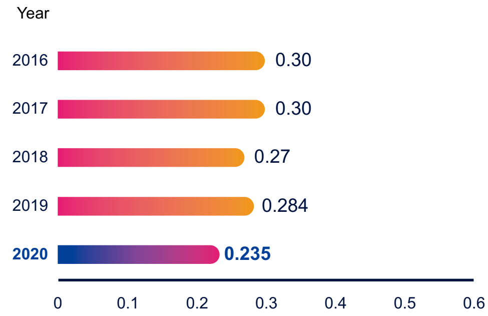
Revenue Breakdown by Business Segments



Dividend (HKD)

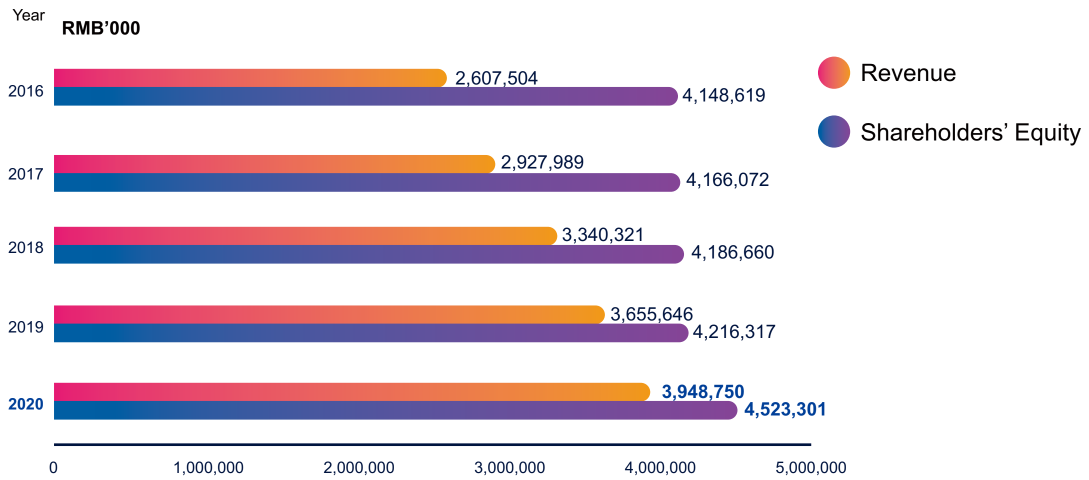


EPS (RMB)



Five Years' Financial Summary

Five Years' Financial Information



	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**3,948,750**	3,655,646	3,340,321	2,927,989	2,607,504
Profit for the year attributable to owners of the Company	**231,190**	280,567	270,817	301,575	307,265
Total assets	**11,270,083**	10,096,774	8,608,295	7,884,054	7,493,091
Total liabilities	**5,593,625**	5,250,374	3,866,011	3,224,104	3,315,377
Equity attributable to owners of the Company	**4,523,301**	4,216,317	4,186,660	4,166,072	4,148,619

Financial Review

Revenue

During the year under review, revenue increased by 8% to RMB3,948.75 million (2019: RMB3,655.65 million).

Gross Profit

The Group's gross profit increased by 9% to RMB1,246.57 million for the year ended 31 December 2020 (2019: RMB1,147.63 million). The overall gross profit margin is 32% in 2020 (2019: 31%).

Other Income

The other income of the Group amounted to RMB166.81 million (2019: RMB130.55 million) which was mainly comprised of interest income, government grants and refund of value-added tax.

Other gains and losses

Other losses for the year ended 31 December 2020 amounted to RMB0.46 million (2019: other gains of RMB6.56 million) which comprised mainly of net foreign exchange loss and loss on disposal of property, plant and equipment.

Operating Expenses

In 2020, the Group's operating expenses, including selling expenses, administrative expenses and research and development expenses amounted to RMB864.86 million (2019: RMB754.64 million). Operating expenses accounted for 22% of the Group's revenue in 2020, representing an increase of 1% as compared with 21% in 2019.

Finance Costs

For the year ended 31 December 2020, the Group's finance costs amounted to RMB96.26 million (2019: RMB86.52 million). The increase was mainly attributable to the increase of bank borrowings during the year.

Operating Profit

Earnings before finance costs and tax for the year ended 31 December 2020 amounted to RMB492.17 million (2019: RMB501.15 million), representing a decrease of 2% as compared with last year.

Profit Attributable to Equity Shareholders of the Company

The profit attributable to equity shareholders of the Company for the year ended 31 December 2020 decreased by 18% to RMB231.19 million (2019: RMB280.57 million) as compared with last year.

Liquidity and Financial Resources

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

As at 31 December 2020, the Group's current assets amounted to approximately RMB8,557.84 million (2019: RMB7,338.16 million), with cash and cash equivalents totaling approximately RMB2,255.47 million (2019: RMB1,778.09 million).

As at 31 December 2020, the Group's total borrowings amounted to approximately RMB2,290.12 million (2019: RMB2,073.87 million), of which RMB1,787.99 million (2019: RMB1,618.64 million) will be due to repay within one year and the remaining RMB502.13 million (2019: RMB455.23 million) will be due after one year. In 2020, the interest rate for the Group's bank borrowings ranged from 2.20% to 5.55% per annum (2019: 3.00% to 6.64% per annum).

The gearing ratio (total borrowings divided by total assets) decreased by 1% from 21% in 2019 to 20% in 2020.

Emolument Policy

As at 31 December 2020, the Group had 3,222 (2019: 3,460) staff members. The staff costs (including other benefits and contributions to defined contribution retirement plan) amounted to RMB384.78 million (2019: RMB335.38 million) in 2020. Employee remuneration is determined on performance, experience and prevailing market conditions of the employees, with compensation policies being reviewed on a regular basis. The aggregate amount of the emoluments of the Company's directors was RMB3.69 million (2019: RMB4.07 million) in 2020.

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

Share Option Scheme

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

Share Award Scheme

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

Exchange Rate Risk

Most of the businesses of the Group are settled in Renminbi while businesses in foreign currencies are mainly settled in USD. The fluctuation of exchange rate of both currencies will have certain impact on the Group's businesses 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.

Charge on Assets

As at 31 December 2020, the pledged deposits are denominated in Renminbi and are pledged to banks as security for bills facilities granted to the Group. In addition, the Group's certain bills receivable and buildings are pledged to banks as security for bank loans to the Group.

Capital Commitments

As at 31 December 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 RMB38.80 million (2019: RMB19.18 million).

Contingent Liabilities

As at 31 December 2020, the Group had no material contingent liabilities.

Market Review

Macro Environment

During 2020 ("the year under review"), the global economy experienced moderate recovery from the severe impact of the COVID-19 outbreak with manufacturing output steadily recovering. Amid such a complex and volatile domestic and international environment triggered by the pandemic, China enforced strict prevention and control measures to ensure production activities to resume and economic activities to recover in a prudent manner. According to the National Bureau of Statistics, China's GDP in 2020 exceeded RMB100 trillion for the first time, showing an increase of 2.3% year-on-year ("YoY"), making China the world's only major economy to achieve positive growth in such a downtime.

Review of the Power Grid Industry

During the year under review, China's overall electricity consumption increased by 3.1% YoY to 7.5 trillion kWh. The State Grid Corporation of China ("State Grid") completed 100.3% of its annual infrastructure investment plan and started constructing 48,600 km of alternating current projects (of 110 kV and above), totalling 310 million kVA. In terms of smart power meter tenders, its installation was delayed due to the pandemic and the next-generation smart power meters were still undergoing trials. Comprehensive replacement of power meters has yet to be implemented in certain areas. In 2020, State Grid invited tenders for 52.07 million metering products, a 30% decrease from 2019. Currently, the first batch of next-generation smart power meter samples that offer improved design and performance are undergoing its pilot programmes for various provincial power grids, and it is expected that the penetration will increase in the future. During the year under review, the consumption of electricity by China Southern Power Grid Company Limited ("Southern Grid") increased 5.0% over last year to 1,305.6 billion kWh across five provinces. In 2020, its West-to-East Power Transmission Project also transmitted a total of 230.5 billion kWh's electricity, an increase of 1.8% over last year. During the year under review, State Grid and Southern Grid proposed the objectives of constructing "New Digital Infrastructure" and "Digital Southern Grid", respectively, such upgradings in smart grid systems and related equipment will bring new opportunities to the Group.

Review of Major Policies for the Power Grid Industry

In achieving “Peak Emissions” and “Carbon Neutrality”*, State Grid will invest over USD70 billion annually during the next five years to transform its power grid into the Internet of Energy, in order to promote clean energy services, meet diverse energy needs and improve energy efficiency. At the same time, Southern Grid is seeking transformation in three major areas to becoming a smart power-grid operator, energy value chains integrater, and energy-ecosystem service provider, as well as to upgrade and transform traditional power grids through digitalization, smartization and Internet of Things (“IoT”) technologies. The large scale grid integration of renewable energy, such as photovoltaics, wind power and charging stations, will bring great opportunities to different power subsectors, such as power electronics, energy storage, and energy monitoring and protection. The explosive expansion in new infrastructures such as 5G and data centres, are presenting new challenges to the power distribution networks and power utilization links. Furthermore, State Grid’s increasing efforts in footing its overseas layout will also bring new business opportunities to the overseas business arms for domestic power-equipment companies.

Review of the Group’s Overall Performance

As an expert in energy metering and energy-efficiency management, the Group recorded a total turnover of RMB3,948.75 million (2019: RMB3,655.65 million) in its three main business segments in 2020, representing an increase of 8% YoY; gross profit was RMB1,246.57 million (2019: RMB1,147.63 million), representing an increase of 9% YoY. The Group’s overall gross profit margin was 32% (2019: 31%), representing an increase of 1 percentage points (pp) YoY. These increases were due to ongoing cost-reduction measures undertaken by the Group in 2020 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. Net profit attributable to the owners of the Company was RMB231.19 million (2019: RMB280.57 million), representing a decrease of 18% YoY.

Business Review

Power Advanced Metering Infrastructure (“Power AMI”)

Business Overview

Power AMI business focuses on the R&D, production and sale of smart power meters, as well as the provision of total energy-efficiency management solutions, with products mainly include single-phase and three-phase power meters and other smart metering devices. Major customers of power AMI business are mainly power grid and non-power grid customers. Power grid customers are State Grid, Southern Grid and more than 60 local power companies, while non-power grid customers are from large-scale public infrastructures with high level of energy-consumption, petroleum & petrochemical, transportation, machine manufacturing, metallurgical and chemical industries to residential users.

* “Peak Emissions” means that at a certain point in time, carbon dioxide emissions will finally peak and then gradually reduce. “Carbon neutrality” means that within a certain period, re-forestation, energy saving and emission reductions, etc, will fully offset the carbon dioxide emissions being generated and “zero emission” of carbon dioxide will be achieved.

Review of Business

During the year under review, the Group's Power AMI business recorded a turnover of RMB1,633.61 million (2019: RMB1,713.89 million), representing a decrease of 5% YoY, and accounting for 41% of the Group's total turnover (2019: 47%). Gross profit was RMB490.81 million (2019: RMB518.65 million), representing a decrease of 5% YoY and accounting for 39% of the Group's total gross profit (2019: 45%). Gross profit margin was 30% (2019: 30%). The Group's power grid customers and non-power grid customers accounted for 47% and 53% of turnover, respectively (2019: 72% and 28%).

Order Data in the Year under Review

During the year under review, the Group's Power AMI business secured orders totaling RMB1,408 million, representing a 12% decrease YoY mainly due to fewer tender invitations on centralized procurement under the pandemic from State Grid and Southern Grid. While, the value of contracts won through tenders from non-power grid customers recorded a 32% increase to RMB481 million (2019: RMB364 million). This was mainly due to the launch of NB-IoT metering/power consumption solutions and emergence of sales opportunities in logistics, airports, white goods and other industries. During the year under review, the Group won a contract of RMB387 million from centralized tender organized by State Grid, being the first among peers in terms of contract sum. The Group also ranked the first in the overall ranking of a centralized procurement tender by Southern Grid by winning a contract worth RMB233 million.

Review of Developments in Power AMI Business and Relevant Policies

In terms of power-grid business, during the year under review, the Group ranked above its competitors by value of contracts won through the centralized procurements from State Grid and Southern Grid. In terms of non-power grid business: (I) Responding to the new infrastructure market opportunities, the Group launched a new generation of NB-IOT metering/power consumption solutions and smart sockets which have been successfully installed in airports, rail stations, logistics parks and commercial complexes. (II) Responding to developments in industrial IoT, the Group launched various new products such as in-device metering modules and industrial-equipment monitoring solutions. (III) The Group cooperated with leading white-goods manufacturers to measure and monitor the energy consumption of their products, and jointly export them. (IV) The "New Energy Automobile Industry Development Plan (2021–2035)" released by the State Council, proposes both further enhancing the construction and replacement of charging infrastructure, and increasing financial support. Tapping into the market trends, the Group launched new products such as slow-charging stations for automobile AC to help increase its share of the rapidly-growing market for charging stations.

Prospects for Power AMI Business

In the power grid market: With reform of the power market and release of the GB/T17215 series of national standards that align with IR46 international recommendations, a new generation of energy meters will usher in technological innovation and upgrades. The "domestic and international dual circulation" national strategy champions "import substitution" for high-end manufacturing equipment. As an area where equipment has long been imported, gateway energy meters offer considerable room for import substitution. The Group has participated in relevant pilot programmes for gateway energy meters with State Grid and Southern Grid, making good progress in Xinjiang, Shandong and Guangdong.

In the non-power grid market: (I) New infrastructure in the form of 5G base stations, big data centres, and industrial Internet continues to drive the next phase of industrial transformation. NB-IoT metering/power consumption solutions, smart sockets, AC charging devices, and in-device metering modules launched by the Group for new infrastructure will promote information-infrastructure construction and support the upgrading and transformation of traditional infrastructure. (II) In September 2020, 14 government departments including the National Development and Reform Commission, issued the "Implementation Plan for Promoting the Deep Integration and Innovative Development of the Logistics Industry and the Manufacturing Industry" to transform these sectors. The Group is providing integrated intelligent power solutions for the intelligent transformation of logistics parks that cover power utilisation safety, power metering, collection, fee control, analysis and so on.

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

Business Overview

Our Communication and Fluid AMI business mainly focuses on reshaping energy management for power, water, gas and heat — with technologies ranging from chip substrate design to data perception and data acquisition. It also includes communication technologies that ensure high-speed data transmission and stable connections, providing a fully-integrated energy IoT solution — from data perception and network transmission to application management and providing users with digital solutions such as software management. In the power IoT field, the Group is committed to improving efficiencies within the existing power grid and providing key technological support for power grid generation, transmission, transformation, distribution, and power consumption. This will gradually extend to smart water services, smart fire protection, smart streetlights, smart charging and other smart city applications. In January 2020, the Group's Communication and Fluid AMI business, Willfar Information Technology Company Limited (a 65% shareholding 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 the Shanghai Stock Exchange. In August 2020, it was also shortlisted for the "STAR Market 50 Index".

Review of Business

During the year under review, the Group's Communication and Fluid AMI business recorded a turnover of RMB1,366.09 million (2019: RMB1,167.55 million), representing an increase of 17% YoY, and accounting for 35% of the Group's total turnover (2019: 32%). Gross profit was RMB466.70 million (2019: RMB388.26 million), representing an increase of 20% YoY, and accounting for 38% of the Group's total gross profit (2019: 34%). The gross profit margin was 34% (2019: 33%). The Group's power grid customers and non-power grid customers accounted for 56% and 44% of turnover, respectively (2019: 54% and 46%).

Order Data in the Year under Review

In the year under review, the total value of newly-signed contracts for the Communication and Fluid AMI business reached RMB2,270 million, an increase of 14% YoY.

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

During the year under review, to build a new power grid for clean energy is a key measure in achieving "Peak Emissions" and "Carbon Neutrality". Power IoT is ushering in a boom cycle, providing strong support for smart grid and digital grid. Although intelligent control capabilities have already in place in the traditional power grid, they are insufficient to fulfill future needs. Digitalisation is an important driver for the Internet of Energy, with digital solutions improving every aspect of source-network-load-storage. Informatisation and intelligentisation of power distribution and consumption will become the prime investment focus for the power IoT. During the "14th Five-Year Plan" period, investment in power grids and relevant industries is expected to exceed RMB6 trillion. Xin Baoan, Chairman of State Grid, said, "State Grid will invest more than US$70 billion (over RMB2 trillion) annually to transform the power grid into the Internet of Energy over the next five years. According to the "Basic Ideas of China Southern Power Grid's Fourteenth Five-Year Development Plan", the digital power grid will be fully completed by 2025, effectively creating a smart grid."

In view of this, the Group has continuously optimised its product structure to keep pace with technological developments and comprehensively transform the power grid to meet smart and mainstream demand. (I) Power IoT business: To date, the Group has won contracts in every section of State Grid and Southern Grid's centralized procurement bidding process for power-grid information collection materials, ranking number one in terms of overall performance. Its products and technologies have been well recognized by the market. (II) Smart City IoT: The Group has increased its Power IoT technical edge and application experience in the field of Smart City IoT. Its IoT technology has helped reshape the city's water, power, gas, heat and other energy management systems, providing intelligent construction of operation and maintenance services for customers. Across different industries such as water, gas, communications and firefighting, the Group provides integrated and comprehensive Smart City IoT energy solutions and services — from hardware to system SaaS. (III) Partnering with technology giants. Currently, the Group is partnering with several IoT giants to create a "true Internet" via "total integration" to improve both the "consumer Internet of things" and the "industrial Internet". This includes launching a new development cooperation model with BAT companies such as Tencent, and deploying smart municipal administration solutions for water, power, gas, heating, fire protection, and charging. All this will pave the way into the energy digital industry and smart cities, thereby accelerating development.

Prospects for Communication and Fluid AMI Business

The Internet of Energy requires a robust smart grid that fully integrates advanced information, communication, control and energy technology applications. As State Grid's best path to "increasing income and reducing expenditure", informatisation perfectly complements the company's mid- to long-term strategic goal of becoming a "leading international energy Internet enterprise with Chinese characteristics." The Group will continue building a product matrix of vertically-coordinated microchips, modules, gateways, monitoring terminals and software systems, etc. It will gradually enhance its competitive edge to meet the hardware-upgrade demands of the domestic power distribution industry and power users, thereby maintaining its leading market share with State Grid and Southern Grid.

IDC has forecast that investment in smart city technology will grow to USD189.46 billion globally in 2023, with the China market being worth USD38.92 billion. In recent years, the Group's development strategy with smart energy at its core, has gradually expanded into smart-city applications such as smart water, smart fire protection, smart streetlights and smart charging piles. According to a report from Zhiyan Consulting, the market value of China's smart water services is expected to reach RMB10.44 billion in 2020. Based on the report from the China Business Industry Research Institute, the Chinese market for gas meters is expected to reach 60 million units in 2022. Under the new infrastructure guidelines and the 14th Five-Year Plan, various smart public-utility subsectors will undergo accelerated development. Currently, the Group has successfully established vertical application capabilities in key industries including smart parks, smart security and smart water services, laying a solid customer foundation for water companies, gas companies, and overseas partners such as Siemens. Looking ahead, the Group will focus on smart-city applications and developing "chips-to-terminal" products to benefit from ongoing growth in smart cities.

Advanced Distribution Operations ("ADO")

Business Overview

The ADO business focuses on advanced distribution products and solutions, and smart energy services with distributed new energy applications at their core. With power distribution network as the final link in power grids, the ADO business primarily provides users with corresponding terminal distribution solutions (including technical requirements/hardware replacement for power generation, distribution, and consumption in constructing smart power grids). They also offer smart electrical components, medium- and low-voltage complete-electrical sets, smart-power distribution/consumption system solutions, as well as products and technical services covering the entire life cycle of smart-energy development including design, construction, and operational & maintenance services. Customers primarily fall into three categories: power grid customers (including State Grid and Southern Grid); key industry customers (including data centres, communications, metros, rail stations, hospitals, and sewage treatment); and renewable energy customers.

Review of Business

During the year under review, the Group's ADO business recorded a turnover of RMB949.05 million (2019: RMB774.21 million), representing an increase of 23% YoY, and accounting for 24% of the Group's total turnover (2019: 21%). Gross profit was RMB289.06 million (2019: RMB240.73 million), representing an increase of 20% YoY, and accounting for 23% of the Group's total gross profit (2019: 21%). The gross profit margin was 31% (2019: 30%). The Group's power grid customers and non-power grid customers accounted for 39% and 61% of turnover, respectively (2019: 31% and 69%).

Order Data in the Year under Review

The Group's ADO business secured orders worth RMB1,482 million, representing a 6% increase YoY during the year under review. Of these, contracts won from the power-grid market with a combined value of RMB853 million (2019: RMB514 million) were mainly achieved by penetrating the Southern Grid market in 2020 and winning contracts worth RMB345 million, a more than 2,400% increase compared with contracts won in 2019. During this period, business with State Grid was relatively stable. The value of contracts won from the non-power grid market was RMB629 million (2019: RMB881 million), representing a decline compared with 2019, which was mainly due to new projects in the traditional-energy sector being delayed due to the pandemic. Nonetheless, the Group made good use of this period to transform, and develop new business initiatives and directions.

Review of ADO Business and Relevant Policies

Distribution networks are the foundation that supports the energy use of enterprises in achieving high-quality development, empowering people to enjoy a better life. The "China Southern Power Grid Company Limited's Electric Vehicle Charging Infrastructure Construction Plan (2020–2023)" proposes increasing investment in public-charging infrastructure and growing the number of charging piles to 261,800 by 2023. During the year under review, the Group developed low-speed electric vehicle battery swap-related products, winning a contract from Southern Grid. Responding to the digitalisation needs of power grid companies, IoT and intelligent upgrades, the Group launched an intelligent distributed-system solution that can detect grid failures on-site and restore power supply in milliseconds. Currently, this technology has been successfully introduced in Guangzhou. To meet State Grid's low-voltage operations and integrated-distribution requirements, the Group, as the leading entity in drafting State Grid's enterprise standards for measuring switches and Bluetooth micro disconnection, completed product research and prototype development in August 2020. These standards were then introduced in Shandong, Chongqing, Hunan, Hebei, and Xiong'an New Area for pilot development within selected State Grid sectors.

According to the Global Association for Mobile Communications, the total number of 5G users worldwide is expected to reach 1.36 billion by 2025, of which 454 million will be in China. To optimize energy-efficiency management and improve overall energy utilization for 5G base stations, the Group established a communications and energy services business unit to accelerate 5G construction. This will support developing products such as differentiated power-backup equipment for base stations and battery-sharing administrators, expanding applications to transport, medicine, fire protection and other critical industries — and providing a range of energy-saving and consumption-reducing products for smart-city and 5G construction.

In September 2020, China rolled out the targets of hitting peak emission before 2030 and achieving carbon neutrality by 2060. At the same time, the cost of renewable energy, especially solar energy, has been continuously declining. The era of large-scale, economic clean energy has finally arrived and energy grids are shifting from being resource- to technology-based. To cope with these big shifts to renewable energy, energy storage — which is a vital part in the service chain — has stepped into spotlight, recording explosive growth in 2020 and becoming a new star in the smart-energy solutions business. The Group has therefore adjusted its business strategy to provide differentiated and integrated energy services for large, medium and small applications. The first involves providing large-scale smart-energy base solutions that integrate source-network-load-storage for industrial parks; the second provides “New Energy +” energy storage solutions for mid-size power generators such as wind turbines and 5G base stations; the third provides residents and ordinary commercial users with integrated energy solutions for small- and medium-renewable energy, and traditional energy integration.

Prospects for ADO Business

Benefiting from Southern Grid’s successful market expansion, and its competitive edge in primary and secondary integrated products and in intelligent distributed-system solutions, the Group’s share of the power-grid market will remain stable. Responding to growing demand from key industry customers created by new infrastructure in the 5G, data centre, rail transit, medical and healthcare sectors, the Group has established a data centre business unit. It has also begun exploring opportunities in rail transit and medical treatments to achieve rapid growth. In terms of renewable energy, especially given the announcement of Peak Emission and Carbon Neutral commitments, the adoption of smart energy applications and scenarios will accelerate during the 14th Five-Year Plan period. As the path to achieving these goals becomes clearer, relevant policies and measures will be gradually introduced. The Group will develop “New energy +” solutions that combine renewable energy with various applications such as energy storage, transportation electrification, and peak emissions to enhance the overall value of its business.

International Markets

Global Smart Power Meter Data

Data released by international market research firm, Markets and Markets, indicates that the global smart metering market will increase from USD20.7 billion in 2020 to USD28.6 billion in 2025 with compound annual growth of 6.7%. Currently, power meters are at different stages of development in various regions around the world with demand growing for metering equipment such as prepaid-power and smart-power meters.

Review of Business

During the year under review, overseas business turnover was RMB381.97 million (2019: RMB210.61 million), representing an increase of 81% YoY.

Order Data in the Year under Review

During the year under review, the Group secured approximately RMB1,040 million worth of overseas orders, representing an increase of 93% YoY.

Market Developments in Each Country

In Asian markets, the Group was added to Indonesia's supplier list for single-phase power metering products for residents, securing orders through local procurement for smart three-phase industrial and commercial metering equipment. In Malaysia, the Group became a recognized supplier of communication solutions for an AMI transformation project commissioned by Tenaga Nasional Berhad (TNB), and has successfully delivered an order of TNB Phase II smart power meters. In Bangladesh, the Group won a contract for smart power meters for an AMI project from Dhaka Power Distribution Company (DPDC). As a general contractor, it also won a tender for phase II work on an AMI project for NESCO Power Company. In Singapore, the Group cooperated with Itron to deliver a mass order of smart power meters. In Saudi Arabia, the Group successfully delivered approximately 800,000 smart metering products. During the year, the Group also successfully bid for a Power AMI project in Macau, the first time it has won an international MDM order.

In African markets, the Group's first power AMI project in Egypt was successfully connected to the grid and has commenced operations. The Group's smart water meters also received local accreditation in Egypt and it secured a contract for a water services renovation project, representing an important breakthrough into the country's water-metering business. Following the successful launch of a power AMI pilot program based on the G3-PLC communication platform in 2019, the Group was added to Côte d'Ivoire's supplier list of power companies, delivering an order of G3-PLC communication modules and other products in 2020.

In South America, the Group received INMETRO accreditation for five smart power meter models including single- and three-phase meters in Brazil. It also received ANATEL accreditation for its WiSUN wireless network communication package equipment (including modules, repeaters and gateways), laying a foundation for future growth in the Brazilian market. In the second half of 2020, the Group successfully bid for an AMI project in Brazil, delivering the order on time. In Ecuador, Colombia, Chile and Peru, the Group reached a strategic cooperation agreement with Trilliant to further develop the South American market.

In Europe, the Group continues to cooperate with Siemens and Itron. During the year under review, the Group's WSG project in Austria performed well and gained wide acceptance, which our customer greatly appreciated.

Future Development of International Markets

The Group is actively expanding in overseas markets, selecting appropriate development strategies according to local market policies — selling components and providing technical guidance in countries with high barriers to building factories; and building factories in countries with high tariffs.

In Asia, the Group has chosen Indonesia as its base. From here it can steadily develop new markets in Malaysia, Bangladesh, Pakistan and India. In Russian-speaking regions, the Group has embraced Russia as its operational centre from where it can expand into Uzbekistan, Tajikistan, Kazakhstan and other nearby countries. In the Middle East, the Group is gradually expanding its business in Saudi Arabia, the UAE and neighbouring countries. In Africa, the Group is actively exploring markets in the North, South and West of the country. With Tanzania as its business centre in southern Africa, the Group is radiating into Kenya, Uganda and beyond. From its base in Egypt, the group is gradually growing its business in the North African market to neighbouring countries. Relying on more accessible West African nations such as

Côte d'Ivoire and Benin, the Group has gradually expanded into neighbouring countries such as Guinea, Nigeria, and Congo. In the South American market, the Group has established factories in Brazil and Mexico from where it can further expand into surrounding markets such as Ecuador, Chile and Colombia. In Europe, the Group continues to expand from its base in Austria into other countries.

Research and Development ("R&D")

To drive innovation, the Group invests substantially in R&D, closely following market trends and customer needs. It harnesses new developments in smart energy, intelligent manufacturing and the Internet of Energy, and actively champions new technologies. During the year under review, the Group was granted 122 patents and authored 91 software copyrights, boosting the total number of patents and software copyrights for new energy-efficiency products and services to 1,326 and 1,195, respectively.

Power AMI Business

During the year under review, the Group successfully developed a multi-core IoT smart meter for State Grid and a multi-modular smart meter for Southern Power Grid. Complying with IR46 and the new national standards, these help separate legal and non-legal metering — providing a safe, reliable, upgradeable, versatile, and robust smart power meter which is well-adapted to the changing power market. The Group also launched an intelligent "shared power solution" which integrates IoT communications, cloud platform and mobile payment technologies to overcome the challenges of recharging electric vehicles in public places.

Communication and Fluid AMI Business

As an essential IoT component, advanced microchips have transformed information communication and signal sensing. By sampling IoT architecture from bottom to top, they play an integral role in the construction of "Cloud-Tube-Edge-Terminal" systems. Developing "domestic microchips" is a major national strategy and the Group will continue pursuing independent research into microchips to enhance its core competitiveness. During the year under review, WTZ13 — a fifth-generation, high-speed power line signal carrier chip developed by the Group — passed inspection by the State Grid Metrology Center. This means that the Group can meet State Grid and Southern Grid technical requirements for next-generation smart meters, automated distribution networks, and power transportation inspection.

ADO Business

IoT advances and digitalisation of the power grid have created new demand for digital sensing, online monitoring, and IoT and 5G power distribution communications equipment. A "smart circuit breaker with plastic case" developed by the Group successfully integrates metering, protection, communications and control. This new-generation platform for standardised intelligent power distribution controller dual-core dual operating system meets State Grid's stringent new requirements; and the independently-developed 35kV inflatable G-GIS, a self-made sample cabinet, is no longer restricted to harsh environments. These products have created a strong foundation from which the Group can develop its intelligent power distribution, IoT and renewable energy businesses.

International Markets

Regarding opportunities for prepayment device in international markets, the Group's overseas R&D team developed a series of smart prepayment products based on the new FM33A0 platform, achieving a unified upgrade that improves cost control. These products have been successfully marketed in South Africa, Côte d'Ivoire, Madagascar, Uganda, Egypt, Nigeria, Uruguay, Russia and other Asian, African and Latin American markets. Products worth nearly RMB100 million have been delivered to Côte d'Ivoire, Uganda, Madagascar and other markets, becoming a flagship for next-generation technology in the international prepayment sector. During the year under review, the Group conducted intensive research and system-analysis of the IEC62056 standard, tCOSEM/DLMS Blue Book and IDIS specifications, enabling it to establish enterprise function specifications based on the IEC62056 standard. The Group's next-generation anti-theft technology has achieved successes in both the Indian and Indonesian power-meter 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.

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 31 December 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	8,869	51,423
(2)	Expansion of production capacity and technological upgrade of fluid sensing equipment applied in the perception layer of IoT	62,940	5,266	57,674
(3)	Expansion of production capacity and technological upgrade of products applied in the network layer of IoT	204,873	39,581	165,292
(4)	Construction of comprehensive research and development centre for IoT	146,951	11,942	135,009
(5)	Replenishment of working capital	135,778	127,469	8,309
		610,834	193,127	417,707

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.

SUMMARY

The report has been the sixth corporate social responsibility report released by Wasion Holdings Limited ("Wasion", "Wasion Holdings", the "Group" or "We"), together with its annual report, since 2015. Prepared in accordance with the reporting principles of materiality, quantification, balance and consistency, and with a focus on the substantive issues of Wasion Holdings' fulfillment of social responsibilities, the report discloses Wasion Holdings' performance in social responsibility governance and in fulfilling its responsibility in both environmental and social aspects in 2020, as well as its commitment to responsibility in 2021.

(1) Subject company

Taking account of the "financial significance" and the "extent of substantial ESG impact", the report covers Wasion Holdings Limited and its subsidiaries, whose businesses scopes are described in the section headed "About Wasion".

(2) Time Period

The report covers a period from 1 January 2020 to 31 December 2020.

(3) Release Cycle

The report is an annual report and generally released before the end of March in the following year.

(4) Data clarification

If there is any discrepancy in the economic performance data of 2020 disclosed in the report, the financial report shall prevail.

(5) Basis of preparation

The report has been prepared in accordance with the G4 Edition of Global Reporting Initiative (GRI) Sustainable Development Reporting Guidelines, the Guidelines for the Preparation of Corporate Social Responsibility Reports in China (CASS-CSR3.0) and GB/T36001-2015: Guideline on the Compilation of Corporate Social Responsibility Report and complies with the requirements under the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(6) Statement of verification

The board of directors of Wasion (the "Board") attaches great importance to the normative and consistent disclosure of ESG-related information. In order to continuously improve the credibility and quality of the report, the preparation of the report has been directed by the Board and verified by internal auditors. Subsequently, the plan is to gradually seek independent verification, if conditions permit.

(7) Statement of change

The scope and other category of the report have no significant change to the 2019 Corporate Social Responsibility Report of Wasion Holdings Limited.

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

To obtain the hard copy of 2020 Corporate Social Responsibility Report of Wasion Holdings Limited, please contact us at:

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I. BOARD STATEMENT

Statement on Environmental, Social and Governance ("ESG") Issues

In recent years, the complex and changing external environment characterized by energy transition, Internet of Things ("IoT"), smart cities, digital economy and so on brings a new round of challenges to the stable and health development of enterprises. The Group strictly abides by national, regional and industry-related laws and regulations and requirements, strives to practice its core values and codes of conduct, and continuously fulfills its social responsibilities.

The Board attaches great importance to the construction, promotion and supervision of ESG-related issues. It incorporates the social responsibility management into the Group's medium and long-term development strategy, establishes and improves the social responsibility organization structure, and forms a social responsibility management and operation mechanism driven by the Board and participated by the stakeholders with a clear division of work, harmonious coordination and reasonable allocation of resources.

The Board of Directors pays full attention to and actively participates in the promotion of ESG-related issues, requires the management to report to the Board on a regular basis to obtain relevant information, and, through board meetings and senior management meetings, reviews the ESG risk control and the progress of related targets, and insists on process-based, standardized and normal management to achieve continuous improvement of social responsibility performance.

We adhere to the values of "Perfect Work with Passion, and Success Achieved with Integrity", work under the development concept of "co-creative and shared long-term cooperation and symbiotic growth", promote industry progress and facilitate employee growth. Based on the goal of sustainable development, we are committed to contributing the "Wasion Value" in the course of promoting the harmonious development of economy, environment and society.

Wasion Holdings Limited
30 March 2021

II. CORPORATE PROFILE

2.1 About Wasion

Established in 2000 and listed on the Main Board of Hong Kong Stock Exchange in 2005, Wasion Holdings Limited (3393.HK) is a leading IoT solution provider and service operator in advanced energy metering, advanced distribution and energy efficiency management and smart utilities both in China and in the world.

With efficient and professional integrated energy solutions, Wasion is committed to providing service to the operators of power and other utilities (water, gas and heat), for smart city operation, large-scale public construction, petroleum and petrochemical project, traffic and transportation and other national key projects and programs, and to industrial, commercial and residential users with innovative products and technologies to support the development of the energy metering industry and smart home sector.

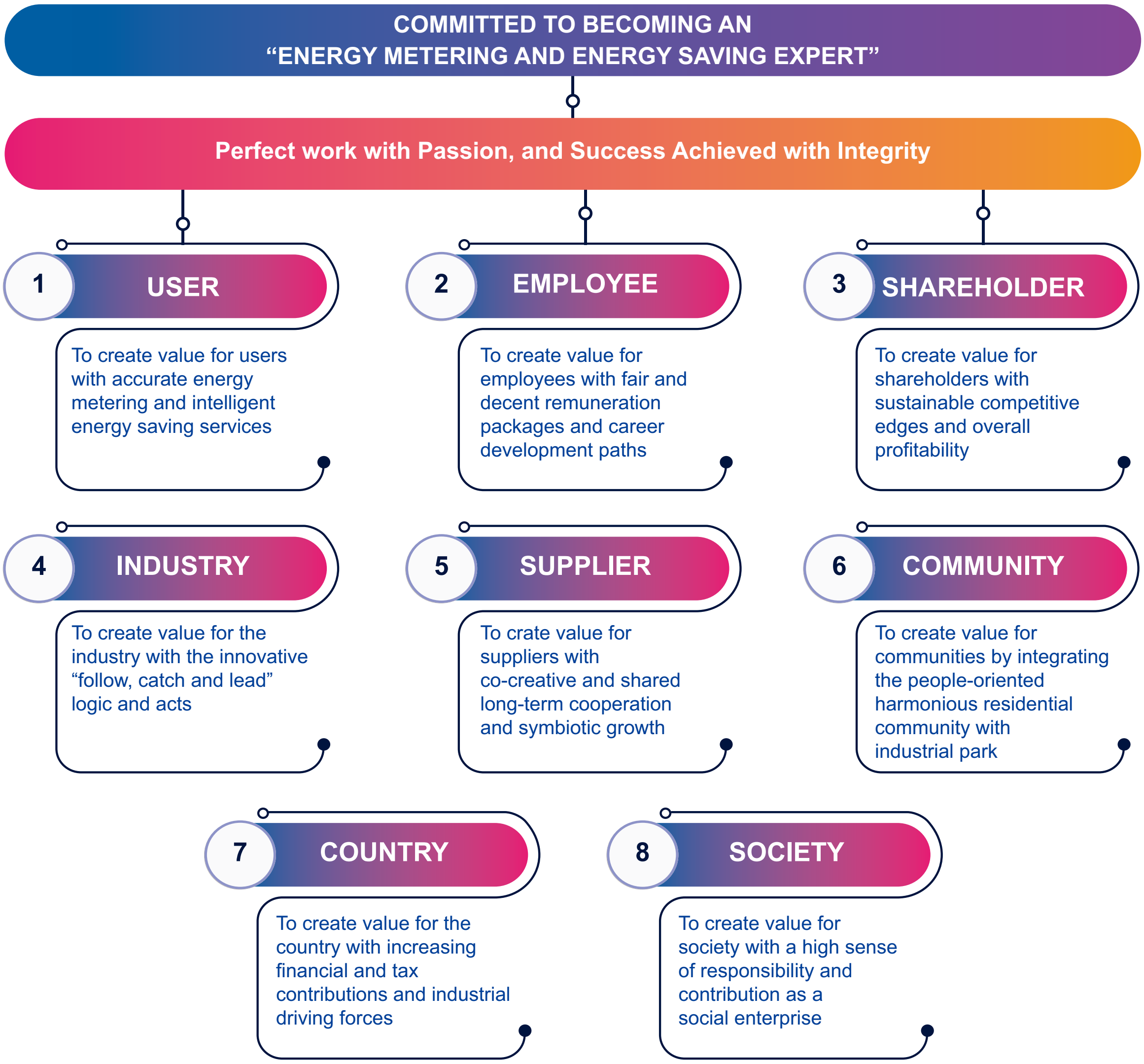
While engaged in the energy metering business in China, Wasion also explores overseas markets all the time. It has established business relationships with more than 70 countries and regions, and has been widely recognized for its high-quality products. Wasion is one of the first enterprises specializing in the power IoT in China and the highest-level CMMI5 software enterprise in the world. It has developed the first industrial IoT platform-based electric, water, gas and thermal energy metering automation system of China and the first power load management terminal with a platform-based design and GPRS IoT modular of China. Wasion has accumulated 100 million domestic IoT users and 10 million overseas users, and ranks among the top list in terms of total bid amount from the State Grid and the Southern Grid, our major customers.

Looking forward, Wasion will persist in the core values of “Perfect Work with Passion, and Success Achieved with Integrity”. While realizing leapfrog development, it will perform its corporate social responsibility proactively. Leveraging its technology and market advantages, Wasion will focus on the IoT to seize major opportunities arising from the new infrastructure and the “Belt and Road” development to become a global-leading IoT solutions provider and a unicorn in the energy IoT sector, and let every city, community, enterprise and family be benefited from the products, technologies and services provided by Wasion in a sustainable way.

2.2 Building Corporate Culture

2.2.1 Core values

During the course of development, Wasion and each Wasion employee will inevitably face various complex environments and be subject to impacts of unforeseeable risks. Wasion Group adheres to the core values of "Perfect work with Passion, and Success Achieved with Integrity", unswervingly implements the concept of innovation-driven, green-sharing sustainable development, and makes irreplaceable outstanding contributions to energy efficiency and conservation with a high sense of social responsibility.



We firmly promote the culture of "confidence, introspection, self-discipline and self-improvement". In order to guide all employees to be dedicated to its mission, Wasion Group provides trainings on the interpretation of its core values from time to time. A four-dimensional assessment system, i.e. "awareness, understanding, recognition and practice", has been established to make the employees to understand and act under the core values, thus providing a strong and lasting spiritual impetus for the development of Wasion Group.

2.2.2 Sustainable development

2020 was the last year of the “4th Five-Year” strategic plan of Wasion Group. With “co-creative and shared long-term cooperation and symbiotic growth”, we have continuously promoted the implementation of the sustainable development target along the way. 2020 was also the year to consider and prepare the “5th Five-Year” plan. We remain true to our original aspiration, keep our missions and visions in mind, strengthen strategic guidance and deepen the sense of responsibility to improve our sustainable development capacity continuously.

With a high sense of recognition, we insist on core values, assume responsibility, draw a “5th Five-Year” blueprint focusing on the “Six Wasions” and lay a foundation for the sustainable and healthy development of next ten years.

➢ *Wasion Value*

Directed by the values of “Perfect Work with Passion, and Success Achieved with Integrity”, we practice “Wasion Public Welfare and Wasion Responsibility”. By expanding and improving Wasion’s innovation fund and levels of reward, we improve our management of “innovation and entrepreneurship fund” to show our respect to the value of Wasion’s innovation, entrepreneurship, and wealth creation. With sustainability and competitive edge and overall profitability, we dedicate ourselves to create higher value for our users, employees, shareholders, industry, suppliers, communities, country and society.

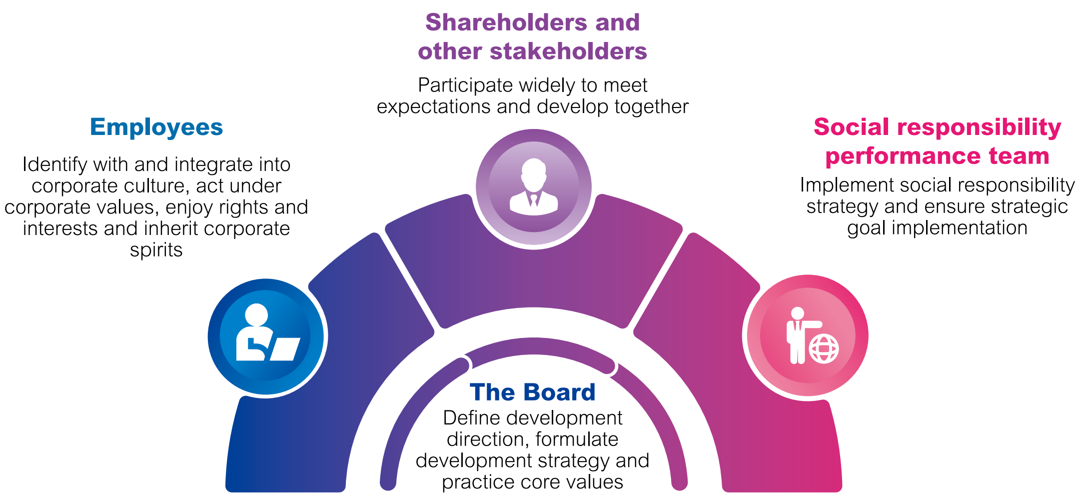
➢ *Wasion Well-being*

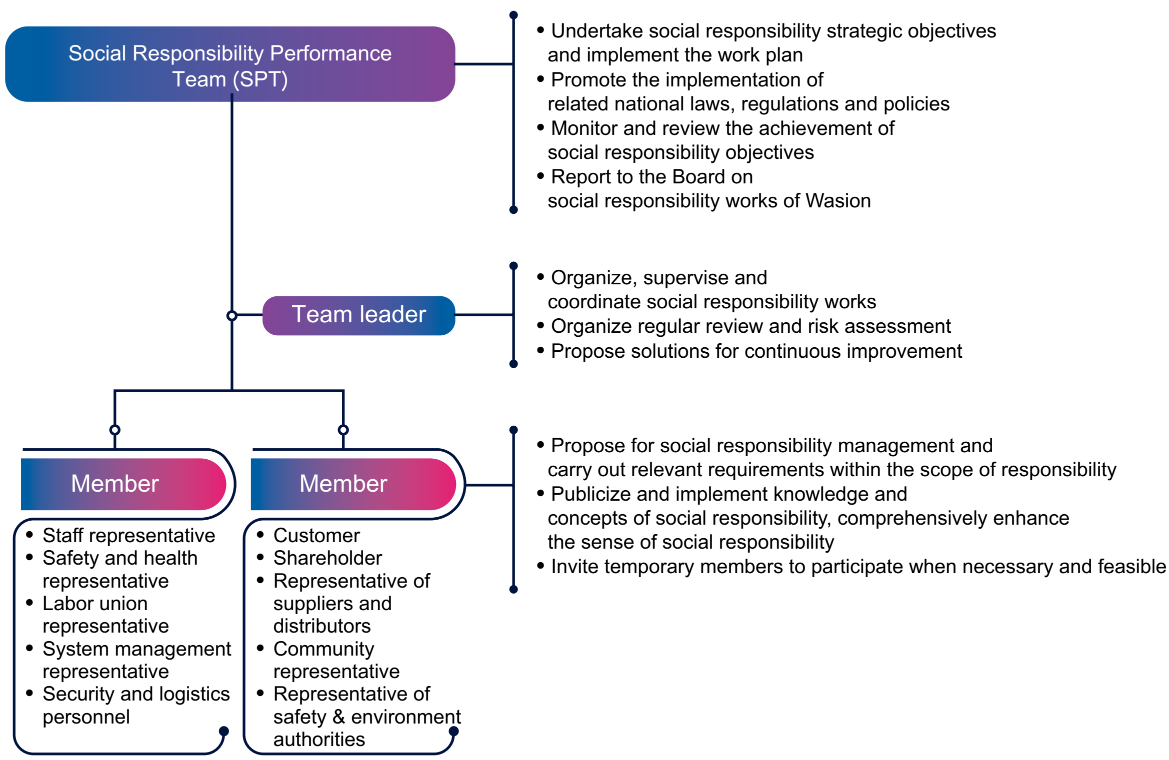
Wasion well-being is the ultimate target of the “Six Wasions”, and also the core factor to gather development momentum and activate innovation dynamic. “Wasion Well-Being” in essence incorporates the “common interests of base-level employees, fortune of middle-level cadres, and career development of core talents”. We share our innovative development achievement with employees to exist, win and grow up together. We care for, respect and cultivate employees, improve their income and expertise, provide them with decent jobs and ensure all dedicated employees to grow, succeed and happy with hard work, and mostly importantly, to motivate them to work harder for further innovative development while harvesting.

2.3 Corporate Social Responsibility Governance

The Group has a systemic and comprehensive management mechanism in place, which specifies an organization framework of social responsibility on the basis of full participation and supervision of the Board and provides a solid organizational assurance for the management of social responsibility and the organic integration of corporate strategy with daily operation. With consistent ideology, in-place organization, overall integration and company-wide participation, it promotes Wasion to integrate its social responsibility into work as much as practicable.

2.3.1 Organization framework of social responsibility





2.3.2 Social responsibility system assurance

The Group promotes, establishes and improves its documentation system to improve the structure, system and contents of corporate social responsibility management, promote the spreading of corporate culture, diversify social responsibility practices and continuously improve the social responsibility performance of Wasion Group.

Establish and improve SA8000 and occupational health and safety system

2.3.3 Capacity-building and evaluation of social responsibility

Group social responsibility approach: keep faith and abide by laws, be safe and health, care for the staff and give back to the society

Wasion continuously improves its ability in fulfilling social responsibility under the requirements of international management standard and based on actual group conditions. By performing internal supervision and accepting evaluation by third-party certification authorities on a regular basis, the Group reviews the social responsibility management system, continuously improves management and drive the development of social responsibility system in a scientific manner.

2.3.4 Stakeholder Communication and responsibility issues

➢ *Stakeholder Communication*

Focusing on the core values, the Group analyzed the strategies and requirements of business development upon the commencement the forthcoming "5th Five-Year". After identification and segmentation of the previous 6 major types of stakeholders, the Group finally determined 8 major types of stakeholders for the year.

Based on demands and concerns of different stakeholders, we have established a scientific communication framework and formulated targeted communication strategies with diversified channels and means of communication to continuously promote a mutual communication and dialogue mechanism with stakeholders, get to know their core demand and expectation and lay a foundation for the continuous optimization of social responsibility practices.

Core expectation: high-quality service, safe product and brand

Major means of communication: regular visits, questionnaire, new product press release, public media and hotline

Core expectation: energy saving and emission reduction, environment protection strategy and measures, and social public welfare

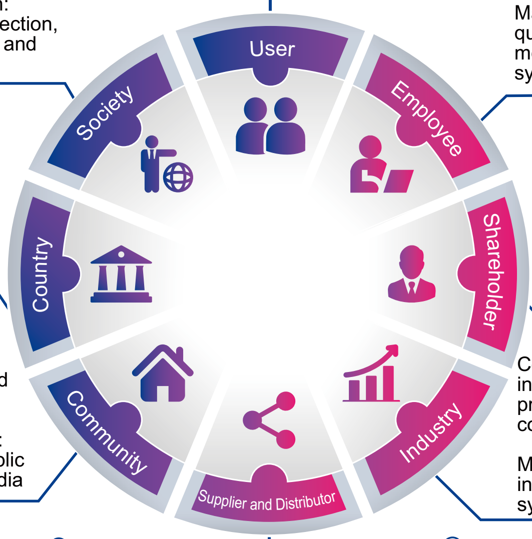
Major means of communication: accepting supervision and inspection, public media, volunteer activity and charitable donation

Core expectation: corporate governance, occupational development, health and interests and remuneration package

Major means of communication: questionnaire, staff representative meeting, reasonable suggestion seeking, symposium and company internal media

Core expectation: corporate governance, low-carbon development, compliance operation and clean government

Major means of communication: accepting supervision and inspection and participating in meeting discussion



Core expectation: corporate development and governance, risk management and control, sustainable profitability and brand

Major means of communication: general meeting, visits, information disclosure and public media

Core expectation: volunteer activity, green public welfare and environment-friendly products

Major means of communication: culture and sports activities, public welfare activities and public media

Core expectation: brand, innovative industry promotion, product lifecycle study and fair competition

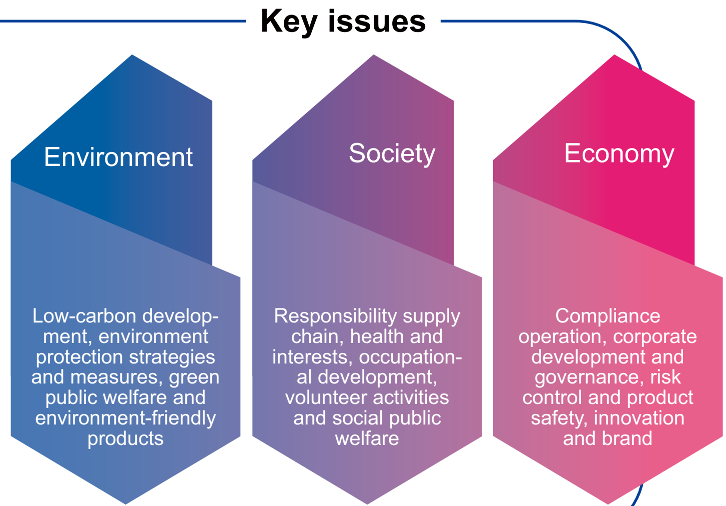
Major means of communication: industrial communication and symposium

Core expectation: brand, innovation, responsibility supply chain and co-development

Major means of communication: strategic cooperation, symposium and electronic information platform

- *Key substantive issues*

Concerning the following three aspects: society, environment and economy, based on strategic planning, and considering energy saving, emission reduction, value and public welfare, we evaluated the key substantive issues of sustainable development in terms of the materiality to stakeholders and influence to the sustainable development of the Group, with the presence of the Board.



- *Analysis on key performance indicators of social responsibility*

Pursuant to the disclosure requirement under the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, adhering to the reporting principles of materiality, quantitation and consistency, and with the participation of major stakeholders, Wasion Holdings identified the key performance indicators of its key ESG scopes in 2020.

Key performance indicators - Environmental

- **Use of resources, environment and natural resources**
  Low-carbon development policy, energy and water consumption
- **Emissions**
  Greenhouse gases, waste gas, waste water, hazardous and non-hazardous wastes
- **Climate change**
  Identification and corresponding policy

Key performance indicators - Social

- **Employment**
  Benefits, recruitment and promotion, work hours, diversification, fair opportunity and anti-discrimination
- **Labor Standards**
  Prevent child labor and forced labor
- **Supply chain management**
  Environmental and social responsibility policy
- **Product responsibility**
  Product and service management level
  Customer satisfaction measurement
- **Development and Training**
- **Community investment**
  Public welfare undertaking
- **Anti-Corruption**
  Clean government construction

2.3.5 Energy saving and emission reduction targets

The Group has included the core expectation of stakeholders in its medium-to-long term strategic planning, and continuously implements the environment protection approach, i.e. "improve resources utilization and reduce energy consumption continuously for sustainable improvement and effective fulfillment of social and environmental responsibility". Based on the actual condition of Wasion, and with reference to the relevant policies on energy-saving and emission-reduction, we decided the Group's ESG target for 2020.

1. **GREENHOUSE GASES**
   Unit emission to be controlled within **4.2** ton/revenue of RMB1 million
2. **DOMESTIC SEWAGE**
   Unit emission to be controlled within **95** ton/revenue of RMB1 million
3. **NON-HAZARDOUS WASTE – DOMESTIC AND KITCHEN GARBAGE**
   Unit emission to be controlled within **0.5** ton/revenue of RMB1 million
4. **HAZARDOUS WASTE – SOLDER SPLASH**
   Unit emission to be controlled within **0.003** ton/revenue of RMB1 million
5. **WATER EFFICIENCY – MUNICIPAL WATER**
   Unit emission to be controlled within **146** ton/revenue of RMB1 million
6. **ENERGY CONSUMPTION – ELECTRICITY**
   Unit consumption to be controlled at **5,800** KWh/revenue of RMB1 million, maintain stable and is expected to grow
7. **ENERGY CONSUMPTION – NATURAL GAS**
   Unit consumption to be controlled at about **130** m^3/revenue of RMB1 million, maintain stable and is expected to grow

III. RESPONSIBILITY PERFORMANCE

Against the backdrop of high-quality development, the coordinative development of economy, society and ecology becomes the only way to promote the all-around sustainable development of human beings. The shift of development concept from sustainable development to green development makes the policy and approach of high-quality development clearer. Given the great economic and social impact of the global pandemic, Wasion thoughtfully considered the responsibility and undertaking of an enterprise in the post-pandemic period and becomes more determined to promote low-carbon development, recyclable development and green development with co-existence and harmony.

3.1 Environmental Performance

Wasion Holdings sticks to "GB/T 24001-2015/ISO 14001:2015 Environmental Management Systems — Requirements with Guidance for Use" to promote the implementation of each environment protection policy.

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

Environment management approach

Improve resources utilization and reduce energy consumption continuously for sustainable improvement and effective fulfillment of social and environmental responsibility

3.1.1 Emissions and use of resources

Adhering to the concept of green development, Wasion Group has created a green culture to direct the values and behaviors of all employees. By industry-university-research cooperation, it improves the innovation capacity to promote energy saving and emission reduction. It organizes trainings on and promotes the green standard to establish green factory and facilitate green manufacturing. By the publicizing and penetration of low-carbon operation experience, it realizes the full coverage from upstream to downstream along the whole production, supply and distribution chain.

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

Energy saving and emission reduction practice

Willfar Information Technology Company Limited was included on the "2020 Hunan Green Factory and Green Industrial Park List".

Type of emissions	Major controls and measures
Domestic sewage	• Waste water refers to domestic sewage only, because we adopt waterless clean production process. • Domestic sewage is classified as class IV, the quality of which meets the class IV standards under the Environmental Quality Standards for Surface Water (GB3838-2002)
Waste gases	• Mainly represents waste gases generated from welding process and staff canteen. • Strictly comply with the requirements under the Air Pollution Prevention Law of the PRC and is subject to the supervision of superior management authorities • Continuously promote the use of new process and new materials to reduce emission fundamentally. • Install gas collecting devices for the production and welding process, through which the welding fume is collected and reaches the standard for discharge into high-altitude air after being purified and collected via fume purification devices • Improve the operation environment of welding process to prevent air pollution by reaching the standards for discharge into high-altitude air after being purified and collected • Waste gas from the staff canteen is purified via fume purification devices before reaching the standard for discharge into high-altitude air
Solid wastes	• Non-hazardous wastes mainly represent the packages of raw and auxiliary materials purchased by the Company and a few waste packing materials of finished products generated during warehousing, as well as waste plastics, staff domestic garbage and kitchen garbage • Pursuant to the definition and classification under the National Catalogue of Hazardous Wastes, the main hazardous solid wastes represent the very few waste electronic parts and components and solder splashes from the welding process • Continuously promote low-carbon logistics and green package, and use recyclable box and reduce the use of paper-made packing materials • Formulate hazardous wastes management policy and regulate the collection, storage and disposal of hazardous wastes, which shall be stored on special site and delivered regularly to qualified contractors for recycling under the Laws of the PRC on the Prevention and Control of Solid Waste Environmental Pollution
Greenhouse gases	• Carbon emissions are mainly resulted from the greenhouse gases generated from the consumption of municipal electricity and seasonal natural gas for temperature control in the working environment • Focus on the supervision and management of energy consumption and reduce the energy consumption of production facilities • Establish and improve an energy saving system and promote energy-saving office

➢ *Key performance indicators -emissions*

Emissions	Total emission	Emission target/ annual revenue of RMB1 million 2020	Average emission/ annual revenue of RMB1 million	Unit
Greenhouse gases[1]	14,871	4.2	3.8	ton
Domestic sewage	322,000	95	81.5	ton
Solid wastes — waste paper and plastics	400	/	0.10	ton
Solid wastes — domestic and kitchen garbage	1,380	0.5	0.35	ton
Solid wastes — solder splash	7.9	0.003	0.002	ton

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

➢ *Key performance indicators -use of resources*

Type of resource	Total consumption	Consumption target/ annual revenue of RMB1 million 2020	Average consumption/ annual revenue of RMB1 million	Unit
Natural gas	370,000	130	93.7	m^3
Electricity	21,621,200	5,800	5,475	KWh
Municipal water	510,000	146	129	ton
Packing materials[2]	2,304	/	0.58	ton

2 Packing materials mainly refer to cartons and a few timbers.

3.1.2 Environment and natural resources

The current energy systems all over the world are experiencing fast transformation, with more and more focus on the quick development of wind, solar, natural gas and other distributed energy and the application of renewable energies. As an enterprise engaged in the energy sector for a very long term, we always abide by the principle of resource conservation and recycling during operation. Internally, we continuously monitor the energy consumption of production facilities, diagnose the health condition of major energy-intensive equipment, and take corresponding transformation measures to maximize the energy saving potential of the equipment. We increase our efforts to promote the smartization of infrastructures and management platform, implement conservation-based management throughout the whole process of operation and facilitate efficient use of resources. Externally, relying on our extensive experiences of innovation in the energy metering and energy saving sector, we provide our customers with solutions to energy consumption monitoring and analysis so as to find energy saving space for more efficient operation of existing equipment or systems on the one hand, and provide technical support for the balance between energy supplier and consumer on the other.

Technological innovation saves energy and reduces consumption, which benefits the world and human beings.

- With "high distribution for high consumption and low supply for low consumption", Wasion Group's "demonstrating project for the integration of blockchain-based micro-grid user energy transaction with big data analysis" was elected as a "Key Project of Big Data and Blockchain Industry of Hunan Province 2020" (2020年湖南省大數據和區塊鏈產業發展重點項目)
- For the purpose of promoting smart green operation with deepened integration of internet, big data and real economy, the online smart manufacturing industry platform for power metering products developed by Wasion Group independently was enlisted in the 2020 Hunan Industrial Internet Platform Construction Plan (2020年省級工業互聯網平台建設計劃)
- Through the establishment, implementation, maintenance and improvement of the integration system of industrialization and informatization to improve its "lean production and flexible manufacturing capacity", Wasion Group was awarded 2020 Hunan Benchmarking Enterprise of Integration of Industrialization and informatization (2020年度湖南省兩化融合管理體系貫標標桿企業)

3.1.3 Identification and management of climate change

In recent years, the global-wide climate warming has caused significant changes in the living environment of human beings, including increasing extreme events caused by climate change or associated with climate, which has various adverse effects on and brings damages to the industrial and energy system, social economy and residential environment. How to respond to the risks and opportunities brought about by climate change is becoming a new challenge for the development of Wasion in the future.

CHALLENGE: climate warming poses new requirements on the mode of our production and operation

- The regulation measures adopted for hot summer and cold winter will significantly increase the demand for electricity, natural gas and other energies
- Environmental changes will raise the public's concern for environment protection, which may lead to higher requirement for emission reduction and increased regulation efforts
- The government's policy on carbon emission may have an effect on the supply chain.

OPPORTUNITY: mitigation of carbon dioxide emission propels energy restructuring and optimization

- The improvement of energy efficiency and increase the use of renewable energies has received increasing attention.
- There are increasing demand for products of and solutions to energy management in the market.

SOLUTION: to lead high-quality development with green and low-carbon strategy

- We will continuously adjust our strategies with our strong sense of social responsibility and corporate mission
- We will use low-carbon technologies to produce green products and promote industrial transformation and upgrade
- We will promote the utilization of low-carbon energies, implements control over carbon emission and establish a smart green factory
- We will improve the leading position of our technologies and products based on existing technological edge

3.2 Social Performance

3.2.1 Employment and labour standards

Based on the people-oriented principle, Wasion gathers development momentum with “Happy Wasion”, shares development achievements, cares for and respects employees and promotes their development, and is always committed to decent employment of its employees and building beautiful homes together. The Group attaches great importance to talent management and continues to improve its long-term incentive mechanism to strengthen its employees’ creativity; establishes a sound selection mechanism to create a fair and just internal environment and stimulate its employees’ enthusiasm; promotes the transformation of training results to continuously enhance its employees’ skills, and promote the mutual development of talents and the corporate; scientifically plans its employees’ career development route to reward those employees who have been working with Wasion with a wonderful life.

Wasion endeavors to enhance the happiness of all employees by various ways, and promotes the integration of psychology with management by focusing on their psychology and happiness as well as internalized construction, so as to achieve its sustainable development.

- Cultivate a positive mental model to solve the psychological distress of some employees
- Establish a sound management system conducive to the mental health of employees and integrate it into management
- Optimize the internal team and working environment to benefit all employees

Wasion strictly abides by the relevant national, provincial, municipal and local policies, laws and regulations, establishes and improves its production, operation and labour management rules and regulations according to law, fully leverages the role of bridge of Wasion labour union and employee representative, earnestly implements the employee care system and actively coordinate the relationship between the parties, thus to ensure its harmonious development.

Wasion Group was entitled the "Best Employers of China" for the 11th successive year since 2009.

In order to avoid the misuse of child labour, Wasion establishes a rigorous induction process for new employees, a complete background investigation system and internal control mechanism, including reviewing the identity certification materials of the recruits before their induction by checking and verifying such certification materials as education background and work experience through website, telephone, etc.; ensuring the compliance and completeness of employee archives by inspecting induction records and employee archives on a sample basis through regular internal audit; and establishing the Control Program for Education Promotion to determine the youth education promotion plan for the misuse of child labour and make undertakings.

Wasion strictly complies with the requirements of the laws and regulations including the Labour Law of the PRC, the Law on the Protection of Women's Rights and Interests of the PRC and the Provisions on the Prohibition of Using Child Labour to implement each management policy. During the reporting period, Wasion had not found any case constituting a significant violation of laws and regulations in relation to use of child labour or forced labour.

As at 31 December 2020, Wasion Holdings Limited had a total of approximately 3,100 employees[3] as follows:

Gender	Total (person)	Employee turnover rate
Male	2,140	7.7%
Female	960	6.7%

Age group	Total (person)	Employee turnover rate
Below 30	910	14.3%
30–49	2,100	4.9%
50 or above	90	0

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

Country	Total (person)	Employee turnover rate
China	3,095	7.3%
Overseas	5	0

Position	Total (person)
Senior	70
Middle	320
General	2,710

3.2.2 Health and Safety

Taking into account the actual situation, Wasion continues to strengthen the safe production awareness of grassroots employees, increase safety training and improve safe production skills, and proactively creates an atmosphere for all employees to participate in safe production management, so as to establish a safe production model team with strong safety awareness, sophisticated production skills and high work efficiency.

Group occupational health and safety management targets (partial extract)

Target indicator	2020	2019	2018
No cases of serious injuries at work per year	0	0	0

The Group attaches great importance to the pre-control of employees' personal safety risks. In the past three years (including 2020), there were no cases of work-related death and no lost working days due to work-related injuries each year. During the reporting period, no case has been identified by Wasion constituting a breach of the laws and regulations in relation to health and safety in workplace.

The honors in 2020 include "National Exemplars of Production Safety for the Youth", "Changsha Safety Enterprise", "Safe Production Demonstration Unit in High-tech Zone" and "Safe Production Standardization Demonstration Team Enterprise"

3.2.3 Development and Training

Talent is the first resource for development. Wasion implements active, open and effective talent policy, and establishes Wasion College to continuously strengthen the construction of its “talent production line”. Wasion continues to improve its training and cultivation system for all employees based on professionalization, specialization, systemization and diversification; and continues to optimize its talent pool for comprehensive development based on high morality, high quality, high energy and high performance.

Gender	Attendance	Average Training Hours
Female	74%	164.0
Male	90%	163.3

Position	Attendance	Average Training Hours
General	76%	163.8
Middle	82%	229.9
Senior	74%	191.4

- Build a training base for cultivation of skilled talents to create a good environment for the growth and success of Wasion employees.
- Wasion Enterprise Staff Training Center successfully passed the certification of Changsha Enterprise Staff Training Center.
- Strengthen the cultivation and training of skilled talents, give full play to the leading role of highly-skilled talents and realize “Wasion Talents from Wasion Itself (威勝人才，威勝製造)”.

- Continue to carry out skills training and skills competition to establish a team of skilled talents with holding firm ideals and convictions, being conversant in technical innovation, living up to responsibility and developing devotion.
- In the "Lugu Craftsmanship Cup" competition, Wasion employees who are “be cohesive, ambitious, down-to-earth and creative” won all the awards on the electronic assembly project.

- Stimulate the innovative vitality of talents, encourage employees to be dedicated to their own jobs, advocate Wasion's spirit of "Aggressive with Keen Determination and Achieving Growth through Innovation", and promote high-quality development of the corporate.

- The first "Wasion Youth Innovation Cup" innovation competition ignited Wasion employees' enthusiasm for business skills learning and innovation, stimulated their potential and fully initiated Wasion's innovation-driven engine.

3.2.4 Supply Chain Management

The Group attaches great importance to the optimization of supplier resources, integrates "Responsible Wasion" into supply chain management, builds multi-channel communication channels to actively communicate with suppliers, advocates green operation philosophy, reasonably formulates supervision and incentive policies, and helps suppliers to improve management, enhance product quality and promote social responsibility performance, thus to grow, prosper and develop with each other.

Wasion includes social responsibility evaluation terms in its supplier introduction process, and evaluates the environmental protection requirements and social responsibility performance of the suppliers to be introduced through such ways as on-site inspection and questionnaire. For qualified suppliers, the relevant environmental protection and service policies are specified in the purchase agreement, and annual reviews are carried out regularly each year to evaluate their environmental and social responsibility performance, so as to promote suppliers to fulfill their social responsibilities. For strategic partners, Wasion signs a "supplier social responsibility undertaking" to ensure that they fulfill their social responsibilities, and carries out regular special inspections to promote its strategic partners to continuously enhance their social responsibility performance.

Geographic Location	Number of Supplier
China	860
Overseas	21

3.2.5 Product Responsibility

Adhering to the spirit of continuous innovation, Wasion Group firmly promotes high-quality development, and keeps up with the iterative pace of global communications and information technology applications to continuously improve R&D capabilities and technological contribution capabilities, optimize its products and services, and promote industrial progress and development, thus to realize intelligent and innovative development. In the future, Wasion Group will facilitate in-depth application of new generation information technologies, such as cloud computing, big data, IoT and artificial intelligence, vigorously develop new technologies, new products, new models and new business patterns, fully accelerate digital transformation, continue to improve the Group's digitalization, network and smartization level, and realize smarter, more efficient, green and sustainable development.

In 2020, Wasion received 220 applications for innovation fund award, 196 or 89% of which won the award. An aggregate amount of RMB1,141,000 was granted by Wasion.

- Wasion Group Limited was among the "Top Ten Brands of Power Meter in China's Electrical Industry in 2020" and ranked first
- Willfar Information adheres to open joint innovation as its development engine, and won the First Prize for Progress in Science and Technology in Hunan Province for two consecutive years in 2019 and 2020
- Wasion Group was awarded as "Top 100 Manufacturing Enterprises in Hunan Province in 2020"
- Technology promotes development and innovation leads the future. Two doctors from Wasion Group's post-doctoral workstation passed the post-doctoral project review

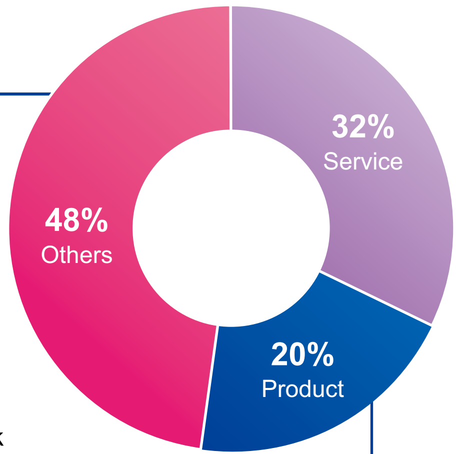
➢ *Inspection process and product recall procedure*

The Group attaches great importance to the safety and health of the production and use of products, and undertakes to initiate a recall immediately as required to ensure the safety of its customers. During the reporting period, the Group had no product recall due to safety and health, and no case has been identified constituting a breach of the laws and regulations in relation to product and service quality..

➢ *Customer satisfaction*

Wasion continues to focus on customers, and with customer needs as first priority to continuously optimize its organizational system and business process, thus to improve customer trust and loyalty.

Analysis of Number of Complaints and Response Method



- Number of complaints received: 170, accounting for 0.04‱ of sales
- Ways to improve customer satisfaction:
  1. Set up more than 800 service hotlines to provide consulting services 24 hours a day
  2. Establish official accounts, websites and service outlets throughout China and overseas to provide services in close proximity and make quick response via multi-channels and multi-medias
  3. Regularly visit customers, conduct satisfaction surveys and proactively collect customer feedback
  4. Establish a standardized internal mechanism to quickly coordinate, solve and handle customer feedback

For the customer satisfaction survey in 2020, the measurement scheme was planned by the quality department, and carried out by the domestic and overseas marketing and technology service departments via questionnaire. The results upon sorting and calculation pursuant to the measurement scheme are as follows:

Item	2020
Product Quality Satisfaction	94%
Service Quality Satisfaction	92%
Product Fulfillment Satisfaction	93.5%
Marketing Work Satisfaction	92%

➢ *Service system evaluation and certification*

With reference to such national standards as the "Evaluation System for After-sales Service of Commodity" (GB/T27922-2011), Wasion continues to promote the scientification and standardization of the Group's service system, and continuously enhances the overall capability and level of such services.

In 2020, Willfar Information Technology Company Limited introduced and promoted the "Maturity Model of Operation, Maintenance and Service Capacity for Information Technology Services" (ITSS.1-2015)

Hunan Weiming Technology Co., Ltd. has obtained the CTEAS after-sales service system soundness certificate, and its after-sales service system reached seven-star (excellent) upon comprehensive evaluation

➢ *Maintenance and protection of intellectual properties*

As basic guarantee for stimulating knowledge innovation and technological development, the Group attaches great importance to the application and optimization of the intellectual property protection system, and strictly implements the requirements of such laws and regulations as the Patent Law of the PRC (《中華人民共和國專利法》), the Detailed Rules for the Implementation of the Patent Law of the PRC (《中華人民共和國專利法實施細則》) and the Provisions of Patent of Hunan Province (《湖南省專利條例》), establishes and improves intellectual property management and achievements incentive management measures, and support industrial transformation and upgrading with intellectual property.

Item	Increase in 2020
Patents for invention	15
Design patents	33
Utility patents	50
Software copyrights	5

➢ *Customer data security*

Wasion fully respects the privacy rights of customers, and creates a compliance atmosphere internally to continuously strengthen employees' legal awareness, while continuously improving its internal control and supervision mechanism, enhancing its information management level and effectively preventing customer information and data leakage from the source by technical means; and makes available of the Group's protection policies for customer information security to external suppliers, and specifies confidentiality responsibilities, obligations and violation responsibilities in the relevant agreements to ensure customer information security.

3.2.6 Anti-corruption

The Group organically integrates and jointly promotes the construction of integrity culture and corporate culture, strictly complies with the Criminal Law of the PRC (《中華人民共和國刑法》), and has formulated the Prohibitions of Commercial Activities of Wasion (《威勝商業活動行為禁令》) and the Letter of Undertaking on Integrity (《廉潔守法承諾書》). With the basic goal of "operating corporate with integrity and being honest practitioners for employees", the Group continues to optimize the internal and external development environment, enhance cohesion and centripetal force, enhances internal competitiveness, and promotes the healthy and sustainable development of the corporate.

Ten Prohibitions of Wasion:

"1. It is prohibited to offer bribes to such units and individuals as customers, cooperative units and government departments in the name of information fees, consulting fees, rebates, royalties, commissions, etc.

2. It is prohibited to take advantage of the position to illegally receive payment and in-kind from suppliers and relevant cooperative units, or demand bribes.

3. It is prohibited to offer bribes, demand bribes or accept bribes within the Company for any excuses and in any manners……"

For construction of integrity culture, Wasion enhances all employees' awareness of importance and necessity for implementation of the "Ten Prohibitions of Wasion" by strengthening publicity and education, thus to build a solid moral defense line mentally. Wasion formulates specified position integrity management regulations and special rectifications, improves employees' professionalism for standard practice, and strengthens its risk prevention and control capabilities based on the system. It further strengthens the supervision and restraint mechanism, continues to carry out internal audit work, increases accountability and provides a strong guarantee for the anti-corruption work development. Wasion standardizes the reporting process, facilitates reporting channels, sets up suggestion boxes to collect and properly handle letters, mobilizes the enthusiasm of all employees for supervision, and provides impetus for the Group's in-depth integrity development.

The Group's Risk Control Center continues to carry out anti-corruption trainings for the board of directors and internal employees in relation to such special subjects as "Professional Code of Conduct", "Business Code of Conduct" and "Contract Legal Risks and Procurement Integrity Standards" with a focus on prevention, and continues to strengthen the ability of senior management and employees at key positions to combat corruption and their awareness of law and discipline.

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

3.2.7 Community investment

➢ *Anti-pandemic: fighting together to get through hardships*

The outbreak of COVID-19 pandemic at the beginning of 2020 touched the hearts of countless Chinese people. In face of the pandemic, Wasion Holdings Limited abided by the corporate culture of "Perfect Work with Passion, and Success Achieved with Integrity" to proactively assume its corporate responsibility. Many a little makes a mickle. Wasion people showed their valuable camaraderie in getting through hardships, demonstrating Wasion's mission and responsibility.

Fighting together to get through hardships

- United wills and uninterruptible services. In response to the call of the government at all levels, we implemented systematic prevention and controls to resume our production to provide first-class products and services to the community and the "anti-pandemic" battlefield.
- Mutual support and joint response to challenges. The employees of Wasion answered the government call in a timely manner and made fund donations to the Union Hospital affiliated to Tongji Medical College, Huazhong University of Science and Technology (華中科技大學同濟醫學院附屬協和醫院).
- Our hearts go out to Wuhan and Hunan. Wasion Holdings Limited donated fund and anti-pandemic materials to Hunan Charity Federation (湖南省慈善總會) and relevant departments to support the anti-pandemic combat in a full manner.

➢ *Anti-pandemic: implement prevention and control on a group-wide basis for work resumption*

Wasion adopted a series of anti-pandemic measure in order to ensure its employees to resume work in a safe and orderly manner.

Training and propaganda

- Organizing online training and examinations on anti-pandemic knowledge to be participated and passed by all employees
- Preparing pandemic prevention and work resumption brochure to provide guidance to safe resumption of works

Emergency response plan

- Providing anti-pandemic materials and disinfectants to employees
- Disinfecting the workplace thoroughly on a daily basis
- Arranging shifts for monitoring work at the entrance of key areas, including the plant and canteen

Logistics assurance

- Preparing scientific and comprehensive anti-pandemic emergency response plans timely
- specifying the duties and responsibilities of the emergency response group
- Planning emergency response procedures

With an open and inclusive culture, Wasion accepts the undergraduates for internship in finance, research and technical support posts. In 2020, over 600 short-term internships were arranged and over 390 students were employed by Wasion.

In 2020, the Staff Support Fund of Wasion made an accumulated donation of over RMB200,000 to 51 employees in the theme of “We’re together” (同氣連枝)、“Listening to Employees”(傾聽員工心聲),“Hymn to the Most Beautiful Labor” (致敬最美勞動者), “Student Subsidiary” (助學揚帆起航) and “Research and Development Support” (愛心托起研發夢) respectively.

Category	Capital investment	Time investment
Education and community	Over RMB5,300,000	Over 300 hours

IV. EVALUATION AND DEVELOPMENT DIRECTION OF RESPONSIBILITY PERFORMANCE

Under the 10 principles of "Global Compact", Wasion made the following conclusion on the evaluation of the responsibility performance in 2020 and the undertaking and development for 2021:

10 principles of "Global Compact"	Undertaking	Evaluation of responsibility performance in 2020	Development direction in 2021
Human Rights			
1. Businesses should support and respect the protection of internationally proclaimed human rights	Comply with the international conventions and international practices signed and recognized by the Chinese Government, comply with the laws and regulations of the country where it operates, and undertake to respect and support human rights across Wasion's footprint.	Full compliance	To further maintain and review whether there is a deviation and continuously improve.
2. Make sure that they are not complicit in human rights abuses	Make sure that we are not complicit in human rights abuses.	Full compliance	To further maintain and review whether there is a deviation and continuously improve.
	Offer job opportunities for certain disabled people to protect their rights and interests.	The Company treated all the disabled equally in recruitment.	To identify appropriate posts for the disabled.

10 principles of "Global Compact"	Undertaking	Evaluation of responsibility performance in 2020	Development direction in 2021
Labour			
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	Ensure the free operation of trade unions and actively support trade union activities to protect the right to collective bargaining.	Various recreational activities beneficial to physical and mental health were planned and organized to enrich the staffs' spare time, including various cultural and sports activities.	To continuously inspect and improve according to established policies.
	Promote the regularization, standardization and transparency of democratic management in forms of staff congress, staff forum and operation express.	Active participation of staff representatives was encouraged to know the needs of our staff and staff forums were hold regularly to understand their situation.	To continuously inspect and improve according to established policies.
4. The elimination of all forms of forced and compulsory labour	Eliminate child and forced labour.	It is specified in the recruitment system. Relevant trainings were organized to ask for strict implementation. No child labour was found.	To continuously inspect and improve according to established policies.
5. The effective abolition of child labour	Eliminate discrimination in respect of ethnic, gender, age, disease, race and religion, adopt position and performance-based remuneration package, and implement equal pay for equal work.	Relevant management provisions have been reflected in Wasion's compensation policy and staff manual have been strictly carried out.	To continuously inspect and improve according to established policies.
6. The elimination of discrimination in respect of employment and occupation	Ensure decent employment, provide compensation in line with the national condition and actual corporate situation, balance the employees' work and life, establish a reasonable paid leave system, and realize 100% labour contracting ratio, five insurance-one fund coverage and employment compliance.	A survey on the minimum living needs of our staff was carried out to review their compensation level. 100% labour contracting ratio, "five insurance-one fund" coverage ratio and employment compliance were realized.	To continuously expand talent pool.

10 principles of "Global Compact"	Undertaking	Evaluation of responsibility performance in 2020	Development direction in 2021
Environment			
7. Businesses should support a precautionary approach to environmental challenges 8. Undertake initiatives to promote greater environmental responsibility	Based on the demand for energy, intensify the technological research in the smart energy industry. Continue to tap the potential of consumption reduction to meet the emission target.	Unit emission of major emissions were lower than the targets; and the total consumption of electricity, water and gas decreased by 0.5% compared to the previous year (in terms of the percentage of energy consumption on annual revenue).	To continuously promote and improve the management of energy conservation and consumption reduction work.
9. Encourage the development and diffusion of environmentally friendly technologies	Continue to promote paper-free office business.	Integration of IT application and industrialization was introduced and implemented, and a "green factory" was established.	
Anti-corruption			
10. Businesses should work against corruption in all its forms, including extortion and bribery	Continuously promote and implement the Wasion Values and Code of Conduct Manual and ten prohibitions of commercial activities of Wasion.	Training and evaluation were organized to facilitate Wasion Values in each working process.	To continuously implement corporate culture advocacy project.
	Enhance prevention and supervision function of the Risk Control Center, accept corruption reports, and carry out anticorruption investigation.	No case was found by Wasion constituting a breach of the laws and regulations in relation to bribery and corruption.	To promote relevant laws and regulations, and maintain and strengthen the supervising efforts.
	Promote transparent operation, strengthen legal governance, improve internal control system, accept supervision of the community and prevent corruption risk.	No lawsuit was pending or concluded against Wasion or its employees in respect of corruption.	

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

EXECUTIVE DIRECTORS

Mr. Ji Wei (吉為), aged 64, is an executive Director, the chairman of the Company and the founder of the Group. Mr. Ji is responsible for the Group's overall strategic planning and the formulation of corporate policies. Prior to founding the Group in 2000, Mr. Ji was a business manager of Hunan Province Minerals Import and Export Company (湖南省五金礦產進出口公司) between 1980 and 1985 and the import and export manager of Hunan International Economic Development (Group) Company (湖南省國際經濟開發(集團)公司) between 1985 and 1989. Mr. Ji was appointed as an executive Director of the Company with effect from 20 July 2004. Mr. Ji was consecutively appointed as a member of the 10th, 11th, and 12th Chinese People's Political Consultative Conference of Hunan Province from 2007 to date. He is now a deputy chairman of the Hunan Federation of Industry and Commerce. He was awarded with several honorary titles such as the "Most Socially Responsible Entrepreneur in China", "The Sixth Top Ten Educational Entrepreneur Award in China", "Most Caring Entrepreneur on Staff Development", "National Machinery Industry Excellent Entrepreneur", "Key Personnel for the Construction of Innovative Culture in Hunan Province", "Special Recognition Award for Occupational Technology Creation in Hunan Province" and "Excellent Entrepreneur" at the 30th anniversary of Changsha Hi-Tech Zone.

Ms. Cao Zhao Hui (曹朝輝), aged 53, is an executive Director, the Chief Executive Officer and the chairman of Wasion Electric Limited. Ms. Cao graduated from Hunan College of Finance and Economics (湖南財經學院) with a bachelor's degree in Economics. She also obtained a degree in executive master of business administration (EMBA) from the University of Hunan (湖南大學). Ms. Cao joined the Group in 2000 and was appointed as an executive Director of the Company on 3 March 2005. Ms. Cao was successively awarded with several honorary titles such as the "Outstanding Builder of the Socialism with Chinese Characteristic in Changsha City", the "Excellent Entrepreneur in Hunan Province" and the "Most Socially Responsible Entrepreneur in China 2017". She was also awarded with the "Certificate of High-level Talent in Xiangtan City" in 2019 and the "Certificate of Senior Management Engineer" in 2020.

Ms. Li Hong (李鴻), aged 45, graduated from the Hunan University majoring in law, and obtained an EMBA degree from the Renmin University of China. Ms. Li joined the Group in 2000 and held various positions within the Group and its various subsidiaries, including the director of personnel and the executive directors, respectively. Ms. Li is also the executive director and general manager of Willfar Information Technology, a non-wholly owned subsidiary of the Company listed on the Science and Technology Innovation Board of the Shanghai Stock Exchange. In 2018, Ms. Li was awarded several honorary titles such as the "National Innovative Entrepreneur in Electronic Industry", and was recognized as the "High-level Talent in Changsha City", the "Excellent Entrepreneur in Hunan Province 2020", the "Excellent Entrepreneur in Software Industry in China 2020" and the "Top 100 New Economic Leaders Nationwide in China". She also won the Second Prize of the China Machinery Industry Science and Technology Award (中國機械工業科學技術獎二等獎). Ms. Li was appointed as an executive Director of the Company on 18 June 2020.

Ms. Zheng Xiao Ping (鄭小平), aged 57, is a senior engineer, a master of engineering in automation, an executive Director and chairman of Wasion Group Limited. Between 1987 and 1988, Ms. Zheng was a teaching assistant at the North China Institute of Technology. She lectured at the Taiyuan University of Technology between 1988 and 1993 and was the research director of Hunan Weisheng Electronics Co., Ltd. (湖南威勝電子有限公司) from 1993 to 2000 being responsible for the research and development work. She joined the Group in 2000 and was responsible for the research and development work of the Group. Ms. Zheng was appointed as an executive Director of the Company on 1 September 2005. Ms. Zheng was also awarded with various honorary titles such as "The Seventh Group of Outstanding Experts in Changsha", "Top Ten Women Entrepreneurs with Outstanding Achievement in Changsha City", "National Labour Day Medal" and "National Top Ten Technological Worker in Electronic Devices and Meters Industry".

Mr. Tian Zhongping (田仲平), aged 40, is a senior engineer, an executive Director and the president of Wasion Group Limited. Mr. Tian graduated from Xiangtan University (湘潭大學) with a bachelor's degree in Engineering in 2002, and obtained a master degree in Control Engineering from Zhongnan University (中南大學) in 2008. Mr. Tian joined the Group in 2002 after graduation and had held positions as Development Engineer for firmware, Project Manager, Product Development Manager, Deputy Chief Engineer and General Manager of the Overseas Sales Department of the Group. During the period when he was a Development Engineer of the Group, Mr. Tian has obtained more than sixty patents for products and technology. Mr. Tian was appointed as an executive Director of the Company on 26 January 2017. He serves as the president of Wasion Group Limited from 2017 up to date. Mr. Tian was awarded with the honorary titles of Excellent Entrepreneur of Changsha Hi-Tech Zone and Excellent Manager in China in 2017, Outstanding Entrepreneur by China Electronics Enterprises Association in 2018 and Leading Figures in Business Startups and Innovation in Xiangjiang New District, Changsha City in 2020.

NON-EXECUTIVE DIRECTOR

Mr. Kat Chit (吉喆), aged 37, is a non-executive Director. Mr. Kat graduated from the University of British Columbia of Canada with a bachelor's degree in economics in 2007. From 2007 to 2011, he was an executive of the equity capital markets division of Macquarie Group Limited. Mr. Kat was appointed as a non-executive Director of the Company on 12 August 2014. He serves as the president of Willfar Information Technology Company Limited with effect from January 2017. Mr. Kat is the son of Mr. Ji Wei, the chairman, executive Director and controlling shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Cheong Tat (陳昌達), aged 71, obtained his master's degree in Financial Management from Central Queensland University. Mr. Chan is a fellow member of Hong Kong Institute of Certified Public Accountants, Association of Chartered Certified Accountants and CPA Australia. He is also an associate member of The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) of London, the United Kingdom and The Hong Kong Institute of Chartered Secretaries. He served in the Inland Revenue Department of the Hong Kong Government for more than 30 years and retired in early 2005. Mr. Chan is currently a director of a tax consultancy company. He also acts as an independent non-executive director of Hyfusin Group Holdings Limited (Stock Code: 8512), Medicskin Holdings Limited (Stock Code: 8307), Chong Fai Jewellery Group Holdings Company Limited (Stock Code: 8537), Accel Group Holdings Limited (Stock Code: 1283) and Ye Xing Group Holdings Limited (Stock Code: 1941), and a non-executive director of Alpha Financial Group Limited. Mr. Chan also acted as an independent non-executive director of Man Sang International Limited (Stock Code: 938) from January 2015 to November 2016. Mr. Chan was appointed as an independent non-executive Director of the Company on 18 June 2020.

Mr. Luan Wenpeng (欒文鵬), aged 56, was an independent non-executive Director with doctor's degree in electrical engineering. Mr. Luan is a PEng in British Columbia, Canada, a senior member of IEEE and an individual member of CIGRE. He has been engaged in the works as well as the research of systematic planning of the electrical power system, smart power grids, smart metering infrastructure, distribution automation, data analysis, distributed energy resources integration, asset management etc. for more than 20 years. As a distinguished expert of state level in China, Mr. Luan is currently a professor of Tianjin University, general secretary of the Technical Board of IEC distributed electric energy system (SC8B), the chairman of the IEEE expert working group for microgrids planning and design (IEEE P2030.9 WG) and the vice chairman of IEEE expert working group for smart distribution terminal (IEEE P2815 WG). Mr. Luan was appointed as an independent non-executive Director of the Company on 16 May 2016.

Mr. Cheng Shi Jie (程時杰), aged 75, is an independent non-executive Director. Mr. Cheng graduated from the Xi'an Jiaotong University with a bachelor's degree in electronic engineering in 1967, the Huazhong University of Science and Technology with a master degree in electrical engineering in 1981 and the University of Calgary, Canada with a doctoral degree in philosophy in 1986, respectively. He has been a professor in the Huazhong University of Science and Technology since 1991 and a visiting professor in the Nanyang Technological University in 1995 and 1996. Mr. Cheng was granted the qualification of doctoral tutor by the Academic Degrees Committee of the State Council in 1993 and was elected as an academician of the Chinese Academy of Sciences and a fellow of the Institute of Electrical and Electronics Engineers (美國電子電氣工程師協會) in 2007 and 2010 respectively. Mr. Cheng was appointed as an independent non-executive Director of the Company on 12 August 2014.

Mr. Wang Yaonan (王耀南), aged 63, graduated from East China University of Technology with a bachelor's degree in computer science in 1981, and obtained his master's degree and doctorate degree in industrial automation from Hunan University in 1992 and 1995, respectively. Mr. Wang is currently a professor and doctoral tutor at the College of Electrical and Information Engineering of Hunan University, a director of the National Engineering Laboratory for Visual Perception and Control Technology for Robots (機器人視覺感知與控制技術國家工程實驗室), a fellow of the China Automation Association (中國自動化學會), a fellow of the China Computer Federation (中國計算機學會), a supervisor of the China Artificial Intelligence Association (中國人工智能學會) and an academician of the Chinese Academy of Engineering. Mr. Wang was appointed as an independent non-executive Director of the Company on 17 July 2020.

SENIOR MANAGEMENT OF THE GROUP

Mr. Choi Wai Lung Edward (蔡偉龍), aged 52, is the chief financial officer and company secretary of the Company. Mr. Choi is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants with over 30 years of experience in accounting, auditing and finance.

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries and a joint venture are set out in Notes 1 and 18 to the consolidated financial statements, respectively.

BUSINESS REVIEW

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the "Management Discussion and Analysis" section set out on pages 12 to 26 of this annual report. This discussion forms part of this Directors' Report.

DIVIDENDS

The results of the Group for the year ended 31 December 2020 and the Group's financial position at that day are set out in the consolidated financial statements on pages 91 to 93 of the annual report.

The directors have proposed a final dividend of HK$0.20 (2019: HK$0.20) per share to shareholders of the Company whose names appear in the register of members on 13 July 2021 and a resolution to this effect will be proposed and subject to the shareholders' approval in the forthcoming annual general meeting. The final dividend is expected to be paid on 23 July 2021.

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2020 comprised the share premium, merger reserve and retained profits of RMB1,058,368,000 (2019: RMB1,286,575,000) in aggregate.

DIRECTORS

The directors of the Company (the "Directors") during the year and up to the date of this report were:

Executive directors:

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

Non-executive director:

Kat Chit

Independent non-executive directors:

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

Pursuant to Article 86(3) of the Articles of Association of the Company (the "Articles"), any director appointed by the Board as an addition to the existing Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election. Mr. Wang Yaonan ("Mr. Wang") was appointed as independent non-executive director on 17 July 2020 as an addition to the existing Board. Accordingly, Mr. Wang will retire at the Annual General Meeting and be eligible to offer himself for re-election at the Annual General Meeting.

Pursuant to Article 87 of the Articles, at each annual general meeting one third of the directors for the time being or, if their number is not three or a multiple of three, then the number nearest to one-third, shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years. The directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. The retiring directors shall be eligible for re-election. Pursuant to Article 87 of the Articles, Ms. Cao Zhao Hui, Mr. Tian Zhongping and Mr. Luan Wenpeng will retire at the Annual General Meeting and being eligible, have offered themselves for election at the Annual General Meeting.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions

Ordinary shares of HK$0.01 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Ji Wei	Interest of controlled corporation (Note 1)	531,286,888	53.35%
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 31 December 2020.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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	531,286,888	53.35%
Star Treasure	Beneficial owner	531,286,888	53.35%

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2020.

RELATED PARTY TRANSACTIONS

Related party transactions entered into for the year are set out in Note 40 to the consolidated financial statements.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

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

SHARE OPTIONS

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

Name and category of of participation	Number of share options			Date of grant of share options	Vesting period of share options	Exercise period of share options	Exercise price of share options* HK$	Share price of the Company as at the date of grant of share options** HK$
	As at 1 January 2020	Exercised during the year	As at 31 December 2020					
Other employees	9,000,000	—	9,000,000	10 February 2014	10 February 2014 to 9 February 2016	10 February 2016 to 9 February 2024	4.680	4.680
Other employees	9,000,000	—	9,000,000	10 February 2014	10 February 2014 to 9 February 2017	10 February 2017 to 9 February 2024	4.680	4.680
Total	18,000,000	—	18,000,000					

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

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

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

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CORPORATE GOVERNANCE

The Company is committed to maintain the high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 64 to 85 of the annual report.

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

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the listed securities of the Company during the year ended 31 December 2020.

PRE-EMPTIVE RIGHTS

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

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

MAJOR CUSTOMERS AND SUPPLIERS

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules throughout the year ended 31 December 2020.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 196 of the annual report.

AUDIT COMMITTEE

The audit committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2020.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Ernst & Young as auditor of the Company.

On behalf of the Board

Ji Wei
CHAIRMAN

Hong Kong
30 March 2021

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

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

During the year ended 31 December 2020, the Company has applied the principles of and has complied with all code provisions of the Corporate Governance Code.

Code Provisions A.6.7 of the Corporate Governance Code provide 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, being independent non-executive directors of the Company, failed to attend the annual general meeting of the Company ("2020 AGM") 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 for the year ended 31 December 2020.

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

Model Code for Securities Transactions

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

Specific enquiry has been made of all the directors of the Company (the "Directors") and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2020.

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

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

Board of Directors

Responsibilities

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

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

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

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

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

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

Board Composition

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

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

The Board comprises the following Directors:

Executive Directors:

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

Ms. Cao Zhao Hui, Chief Executive Officer

Mr. Zeng Xin, member of the internal control and risk management committee of the Company (the "Internal Control and Risk Management Committee") (retired on 18 June 2020)

Ms. Li Hong, member of the Internal Control and Risk Management Committee (appointed on 18 June 2020)

Ms. Zheng Xiao Ping

Mr. Tian Zhongping

Non-executive Director:

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

Independent Non-executive Directors:

Mr. Hui Wing Kuen, chairman of the audit committee of the Company (the "Audit Committee"), the Remuneration Committee and the Internal Control and Risk Management Committee, and member of the Nomination Committee (retired on 18 June 2020)

Mr. Chan Cheong Tat, chairman of the Audit Committee, the Remuneration Committee and the Internal Control and Risk Management Committee, and member of the Nomination Committee (appointed on 18 June 2020)

Mr. Huang Jing, member of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Internal Control and Risk Management Committee (retired on 18 June 2020)

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

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

Mr. Wang Yaonan, member of the Audit Committee and the Internal Control and Risk Management Committee (appointed on 17 July 2020).

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

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

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

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

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

Board Diversity Policy

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

Appointment and Succession Planning of Directors

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

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

Mr. Kat Chit	:	up to the 2021 annual general meeting
Mr. Chan Cheong Tat	:	up to the 2021 annual general meeting
Mr. Luan Wenpeng	:	up to the 2021 annual general meeting
Mr. Cheng Shi Jie	:	up to the 2021 annual general meeting
Mr. Wang Yaonan	:	up to the 2021 annual general meeting

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

Training for Directors

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

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

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

During the year ended 31 December 2020, the training participated by each Director is set out below:

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

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

* : retired on 18 June 2020
** : appointed on 18 June 2020
*** : appointed on 17 July 2020

Board Meetings

Number of Meetings and Directors' Attendance

In 2020, the Company has held eight board meetings. The Company will endeavour to hold at least four regular board meetings a year.

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

Directors	Attendance/ Number of Meetings
Executive Directors:	
Mr. Ji Wei *(Chairman)*	8/8
Ms. Cao Zhao Hui	8/8
Mr. Zeng Xin*	2/8
Ms. Li Hong**	5/8
Ms. Zheng Xiao Ping	8/8
Mr. Tian Zhongping	8/8
Non-executive Director:	
Mr. Kat Chit	8/8
Independent Non-executive Directors:	
Mr. Hui Wing Kuen*	2/2
Mr. Chan Cheong Tat**	5/5
Mr. Huang Jing*	2/2
Mr. Luan Wenpeng	8/8
Mr. Cheng Shi Jie	8/8
Mr. Wang Yaonan***	3/3

* : retired on 18 June 2020
** : appointed on 18 June 2020
*** : appointed on 17 July 2020

Practices and Conduct of Board Meetings

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

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

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

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

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

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

Chairman and Chief Executive Officer

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

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

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

Board Committees

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

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

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

Nomination Committee

The duties of the Nomination Committee include the following:

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

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

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

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

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

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

Nomination Policy

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

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

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

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

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

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

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

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

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

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

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

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

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

	Attendance/ Number of Meetings
Mr. Ji Wei *(Chairman)*	4/4
Mr. Hui Wing Kuen*	1/1
Mr. Chan Cheong Tat**	3/3
Mr. Huang Jing*	1/1
Mr. Luan Wenpeng	3/4

* : retired on 18 June 2020
** : appointed on 18 June 2020

In accordance with the Articles, Ms. Cao Zhao Hui, Mr. Tian Zhongping, Mr. Luan Wenpeng and Mr. Wang Yaonan shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

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

Remuneration Committee

The duties of the Remuneration Committee include the following:

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

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

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

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

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

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

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

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

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

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

	Attendance/ Number of Meetings
Mr. Hui Wing Kuen *(Chairman)**	1/1
Mr. Chan Cheong Tat *(Chairman)***	3/3
Mr. Ji Wei	4/4
Mr. Huang Jing*	1/1
Mr. Luan Wenpeng	3/4

* : retired on 18 June 2020
** : appointed on 18 June 2020

Audit Committee

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

The duties of the Audit Committee include the following:

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

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

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

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

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

    (i) any changes in accounting policies and practices;

    (ii) major judgmental areas;

(iii) significant adjustments resulting from the audit;

(iv) the going concern assumption;

(v) compliance with accounting standards; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Attendance/ Number of Meetings
Mr. Hui Wing Kuen *(Chairman)**	1/1
Mr. Chan Cheong Tat *(Chairman)***	3/3
Mr. Huang Jing*	1/1
Mr. Luan Wenpeng	4/4
Mr. Cheng Shi Jie	4/4
Mr. Wang Yaonan***	2/2

* : retired on 18 June 2020
** : appointed on 18 June 2020
*** : appointed on 17 July 2020

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

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

The Company's annual results for the year ended 31 December 2020 have been reviewed by the Audit Committee.

Internal Control and Risk Management Committee

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

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

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

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

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

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

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

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

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

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

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

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

	Attendance/ Number of Meeting
Mr. Hui Wing Kuen *(Chairman)**	0/0
Mr. Chan Cheong Tat *(Chairman)***	2/2
Mr. Huang Jing*	0/0
Mr. Luan Wenpeng	2/2
Mr. Cheng Shi Jie	2/2
Mr. Yang Yaonan***	2/2
Mr. Zeng Xin*	0/0
Ms. Li Hong**	2/2
Mr. Kat Chit	2/2

* : retired on 18 June 2020
** : appointed on 18 June 2020
*** : appointed on 17 July 2020

Corporate Governance Function

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

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

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

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

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

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

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

During the year ended 31 December 2020, the Board has reviewed the Company's corporate governance practices.

Auditors' Remuneration

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 86 to 90 of this annual report.

The Company's external auditor is Ernst & Young. Total auditor's remuneration paid and payable by the Group for the year ended 31 December 2020 amounted to RMB3.5 million, which comprises RMB3.0 million for the audit of the Group's consolidated financial statements for the year ended 31 December 2020 and RMB0.5 million for the review of the Group's interim report for the six months ended 30 June 2020.

Responsibilities in Respect of the Financial Statements

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

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2020 on a going concern basis.

Risk Management and Internal Control

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

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

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

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

During the year ended 31 December 2020, the Audit Committee with the assistance of ICRM Committee, has conducted a review of the effectiveness of the Group's risk management and internal control systems. The review covers major areas, including financial, operational and compliance controls, risk management functions, and the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions. No significant areas of concern that may affect the Group to achieve its strategic goals have been identified and the Audit Committee accepts that the existing risk management and internal control systems have been functioning effectively to meet the respective financial reporting, operational and compliance needs.

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

Based on the results of the review as reported by the Audit Committee, the Board is of the opinion that the risk management and internal control systems which address the Group's financial, operational and compliance risks, are effective and adequate and the Group has duly complied with the provisions of the Corporate Governance Code regarding risk management and internal control during the year ended 31 December 2020.

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

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

Company Secretary

During the year ended 31 December 2020, Mr. Choi Wai Lung Edward was the Company Secretary. Mr. Choi is a full-time employee of the Company, and has the day-to-day knowledge of the Company's affairs. His biographical details are set out in the "Biographical Details of Directors and Senior Management" section of this annual report. For the year ended 31 December 2020, Mr. Choi had complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

Dividend Policy

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

(a) the Group's results of operations;

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

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

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

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

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

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

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

Shareholders' Rights

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

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

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

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

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

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

Procedures by which enquiries may be put to the Board

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

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

- communications relating to matters within the Board's purview to the executive Directors of the Company;

- communications relating to matters within a Board committee's area of responsibility to the chairman of the appropriate committee; and

- communications relating to ordinary business matters, such as suggestions, inquiries and consumer complaints, to the appropriate management of the Company.

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

- If a Shareholder wishes to propose a person other than a director of the Company for election as a Director, the Shareholder must deposit a written notice (the "Notice") to the principal place of business of the Company in Hong Kong at Unit 2605, 26/F West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Sheung Wan, Hong Kong or the branch share registrar of the Company, Link Market Services (Hong Kong) Pty Limited, at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong for the attention of the Company Secretary.

- The Notice must state clearly the name of the Shareholder and his/her/their shareholdings, the full name of the person proposed for election as a Director, including the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the Shareholder concerned (other than the person to be proposed). The Notice must also be accompanied by a letter of consent signed by the person proposed to be elected on his/her willingness to be elected as a Director.

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

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

Investor Relations

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

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

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

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

During the year ended 31 December 2020, the 2020 AGM was held on 18 June 2020. All the resolutions proposed at the 2020 AGM were duly passed by the Shareholders by way of poll and the results of the poll have been published on the websites of the Stock Exchange and the Company. Mr. Ji Wei, the chairman of the Board and Nomination Committee, chaired the 2020 AGM and answered Shareholders' questions. Mr. Huang Jing, an independent non-executive Director and member of Nomination Committee, Remuneration Committee, Audit Committee and Internal Control and Risk Management Committee, Mr. Luan Wenpeng, an independent non-executive Director and member of Audit Committee and Internal Control and Risk Management Committee and Mr. Cheng Shi Jie, an independent non-executive Director and member of Audit Committee and Internal Control and Risk Management Committee, failed to attend the 2020 AGM due to conflicts with their schedules. The external auditor of the Company, Deloitte Touche Tohmatsu, attended the 2020 AGM to answer Shareholders' questions about the conduct of the audit, the preparation and content of the independent auditor's report and independence of auditor.

The attendance of the Directors at the 2020 AGM is set out below:

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

* : retired on 18 June 2020
** : appointed on 18 June 2020
*** : appointed on 17 July 2020

The forthcoming annual general meeting of the Company will be held on 3 June 2021 ("2021 AGM"). The notice convening the 2021 AGM together with the circular will be published on the websites of the Stock Exchange and the Company and dispatched to Shareholders before 30 April 2021.

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

Significant Changes in Constitutional Documents

There was no significant change in the Company's constitutional documents during the year ended 31 December 2020.

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To the shareholders of Wasion Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Wasion Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 91 to 195, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables	
As at 31 December 2020, the gross carrying amount of the Group's trade receivables was RMB3,693,395,000, which represented approximately 32.8% of total assets of the Group. As at 31 December 2020, the loss allowances of trade receivables amounted to RMB123,624,000. Management's assessment of the expected credit losses ("ECLs") involves significant judgement and estimates for the amount of lifetime ECLs of trade receivables based on the probability of default approach by estimating the probability of default, loss given default and exposure at default. The ECL assessment involves inputs and assumptions, including past debtors' repayment history and forward-looking information. The Group has engaged external valuers to determine the ECLs of trade receivables at the end of the reporting period. Relevant disclosures of accounting judgements and estimates and impairment of trade receivables are included in notes 3, 22 and 43 to the consolidated financial statements.	Our procedures in relation to the impairment assessment of trade receivables included: • understanding the management's process in estimation of ECLs and the methodology of the ECL model adopted by the Group; • assessing management's assumptions and inputs in the ECL model by considering the historical customer payment behaviours, and the basis of the estimated loss rates applied in each category in the provision with reference to the historical default rate, ageing of trade receivables, probability of default, loss given default and forward-looking information; • assessing management's basis and judgement in identifying the credit impaired trade receivables by checking the historical customer payment records; • involving our internal specialists to assist us in evaluating the ECL model and estimated loss rates; and • assessing the adequacy of the disclosures of impairment assessment of trade receivables in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Capitalisation of development costs	
As at 31 December 2020, the carrying amount of the Group's capitalised development costs was RMB494,994,000, which represented approximately 4.4% of total assets of the Group. The Group capitalises certain costs incurred during the development phase of internal projects for development of new technology and new products. Management's assessment on whether the costs meet the capitalisation criteria, as set out in note 3 "Significant accounting judgement and estimates" to the consolidated financial statements, and how the intangible assets so capitalised will generate probable future economic benefits, involves significant judgement and assumptions. Relevant disclosures of accounting judgements and capitalised development costs are included in notes 3 and 17 to the consolidated financial statements.	Our procedures in relation to the capitalisation of development costs included: • assessing and testing the effectiveness of key controls over the capitalisation of development costs, on a sample basis; • checking the additions of development costs for the year to supporting documentation; • making inquiries to the relevant development project managers of the development department of the Group about the details of the selected development projects including, inter alia, technical feasibility of completing the intangible assets, the Group's ability to use or sell the assets, the existence of a market, and the prospect of generating probable and sufficient economic benefits; and • evaluating management's assessment by checking to market research reports, and the financial performance of the completed development projects, on a sample basis.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

The engagement partner on the audit resulting in this independent auditor's report is Lam Wai Ming, Ada.

Ernst & Young
Certified Public Accountants

Hong Kong

30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	5	**3,948,750**	3,655,646
Cost of sales		**(2,702,185)**	(2,508,013)
Gross profit		**1,246,565**	1,147,633
Other income, gains and losses, net	5	**166,351**	137,106
Selling expenses		**(360,639)**	(329,319)
Administrative expenses		**(169,280)**	(179,596)
Research and development expenses	6	**(334,937)**	(245,722)
Impairment losses on financial assets and contract assets, net	6	**(55,887)**	(25,118)
Finance costs	7	**(96,262)**	(86,518)
Share of result of a joint venture		**—**	(4,000)
Share of results of associates		**—**	168
Profit before tax	6	**395,911**	414,634
Income tax expense	10	**(51,742)**	(57,256)
PROFIT FOR THE YEAR		**344,169**	357,378
Profit for the year attributable to:			
— Owners of the parent		**231,190**	280,567
— Non-controlling interests		**112,979**	76,811
		344,169	357,378
OTHER COMPREHENSIVE INCOME:			
Other comprehensive 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		**716**	19,094
Tax effect		**154**	(3,404)
		870	15,690
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**23,369**	(9,676)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**24,239**	6,014
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**368,408**	363,392
Attributable to:			
— Owners of the parent		**255,429**	286,581
— Non-controlling interests		**112,979**	76,811
		368,408	363,392
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	12	**RMB23.5 cents**	RMB28.4 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,322,117**	1,288,959
Investment properties	14	**23,346**	28,407
Right-of-use assets	15	**188,114**	188,024
Goodwill	16	**313,272**	313,272
Other intangible assets	17	**511,201**	485,523
Investment in a joint venture	18	**—**	—
Equity investments designated at fair value through other comprehensive income	19	**78,775**	97,327
Financial assets at fair value through profit or loss	20	**—**	200,000
Loan receivables	24	**109,384**	—
Prepayments, other receivables and other assets	25	**132,308**	135,870
Deferred tax assets	31	**33,726**	21,230
		2,712,243	2,758,612
CURRENT ASSETS			
Inventories	21	**497,838**	541,345
Trade and bills receivables	22	**3,850,096**	3,238,445
Contract assets	23	**651,206**	583,497
Loan receivables	24	**—**	105,000
Prepayments, other receivables and other assets	25	**720,998**	820,114
Financial assets at fair value through profit or loss	20	**200,000**	—
Structured deposits	26	**80,000**	—
Pledged deposits	27	**302,229**	271,673
Cash and bank balances	27	**2,255,473**	1,778,088
		8,557,840	7,338,162
CURRENT LIABILITIES			
Trade and bills payables	28	**2,963,135**	2,880,646
Other payables and accruals	29	**258,600**	221,813
Interest-bearing bank borrowings	30	**1,787,997**	1,618,639
Lease liabilities	15	**5,306**	3,048
Tax payable		**52,680**	50,583
		5,067,718	4,774,729
NET CURRENT ASSETS		**3,490,122**	2,563,433
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,202,365**	5,322,045

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	30	**502,126**	455,230
Lease liabilities	15	**4,337**	1,800
Deferred tax liabilities	31	**19,444**	18,615
Total non-current liabilities		**525,907**	475,645
Net assets		**5,676,458**	4,846,400
EQUITY			
Equity attributable to owners of the parent			
Issued capital	32	**9,906**	9,947
Reserves		**4,513,395**	4,206,370
		4,523,301	4,216,317
Non-controlling interests		**1,153,157**	630,083
Total equity		**5,676,458**	4,846,400

Ji Wei
Director

Cao Zhao Hui
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 (Note 34(i))	Exchange reserve RMB'000	PRC statutory reserves RMB'000 (Note 34(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 34(iii))	Share repurchase reserve RMB'000	Other reserve RMB'000 (Note 34(iv))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020	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 year	–	–	–	–	–	–	–	–	–	–	231,190	231,190	112,979	344,169
Other comprehensive income for the year:														
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	–	–	–	–	870	–	–	–	–	870	–	870
Exchange difference on translation of foreign operations	–	–	–	23,369	–	–	–	–	–	–	–	23,369	–	23,369
Total comprehensive income for the year	–	–	–	23,369	–	–	870	–	–	–	231,190	255,429	112,979	368,408
Transfer to PRC statutory reserves	–	–	–	–	41,315	–	–	–	–	–	(41,315)	–	–	–
Acquisition of non-controlling interests (note 34(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	–	–	–	–	–	–	86	–	–	–	(86)	–	–	–
Shares cancelled	(41)	(13,814)	–	–	–	–	–	–	13,855	–	–	–	–	–
Purchase of shares under share award scheme (note 33)	–	–	–	–	–	–	–	(1,384)	–	–	–	(1,384)	–	(1,384)
Shares granted under share award scheme (note 33)	–	–	–	–	–	–	–	3,807	–	–	–	3,807	–	3,807
Deemed partial disposal of interest in Willfar (note 36)	–	–	–	(499)	(4,448)	–	–	–	–	250,621	–	245,674	365,160	610,834
Deemed partial disposal of interest in a subsidiary (note 34(v))	–	–	–	–	–	–	–	–	–	(5,443)	–	(5,443)	84,782	79,339
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	(36,300)	(36,300)
Dividend paid (note 11)	–	(180,175)	–	–	–	–	–	–	–	–	–	(180,175)	–	(180,175)
At 31 December 2020	9,906	1,011,659*	49,990*	(39,628)*	463,816*	27,730*	(34,277)*	(36,998)*	–*	219,253*	2,851,850*	4,523,301	1,153,157	5,676,458

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 (Note 34(i))	Exchange reserve RMB'000	PRC statutory reserves RMB'000 (Note 34(ii))	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 34(iii))	Share repurchase reserve RMB'000	Other reserve RMB'000 (Note 34(iv))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	9,969	1,435,617	49,990	(52,822)	381,537	27,730	(49,125)	(22,012)	(4,979)	(14,353)	2,425,108	4,186,660	555,624	4,742,284
Profit for the year	—	—	—	—	—	—	—	—	—	—	280,567	280,567	76,811	357,378
Other comprehensive income for the year:														
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	15,690	—	—	—	—	15,690	—	15,690
Exchange difference on translation of foreign operations	—	—	—	(9,676)	—	—	—	—	—	—	—	(9,676)	—	(9,676)
Total comprehensive income for the year	—	—	—	(9,676)	—	—	15,690	—	—	—	280,567	286,581	76,811	363,392
Transfer to PRC statutory reserves	—	—	—	—	45,412	—	—	—	—	—	(45,412)	—	—	—
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	—	—	—	—	—	—	(1,798)	—	—	—	1,798	—	—	—
Acquisition of addition interests in a subsidiary (note 34(v))	—	—	—	—	—	—	—	—	—	(648)	—	(648)	(2,352)	(3,000)
Shares cancelled (note 32)	(22)	(8,263)	—	—	—	—	—	—	8,285	—	—	—	—	—
Shares repurchased	—	—	—	—	—	—	—	—	(17,111)	—	—	(17,111)	—	(17,111)
Transaction cost attributable to shares repurchased and cancelled	—	(12)	—	—	—	—	—	—	(50)	—	—	(62)	—	(62)
Purchase of shares under share award scheme	—	—	—	—	—	—	—	(17,409)	—	—	—	(17,409)	—	(17,409)
Dividend paid (note 11)	—	(221,694)	—	—	—	—	—	—	—	—	—	(221,694)	—	(221,694)
At 31 December 2019	9,947	1,205,648	49,990	(62,498)	426,949	27,730	(35,233)	(39,421)	(13,855)	(15,001)	2,662,061	4,216,317	630,083	4,846,400

* These reserve accounts comprise the consolidated reserves of RMB4,513,395,000 (2019: RMB4,206,370,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**395,911**	414,634
Adjustments for:			
Amortisation of other intangible assets	6	**137,507**	123,956
Bank interest income	5	**(35,999)**	(26,081)
Interest income from structured deposits	5	**(5,249)**	(3,631)
Interest income from loan receivables	5	**(12,934)**	(11,919)
Interest income from consideration receivable for disposal of a subsidiary	5	**(4,516)**	(4,486)
Interest income from financial assets at fair value through profit or loss ("FVTPL")	5	**(14,713)**	(14,673)
Depreciation of property, plant and equipment	6	**60,340**	60,403
Depreciation of investment properties	6	**598**	968
Depreciation of right-of-use assets	6	**14,169**	13,450
Dividend income from equity investments designated at fair value through other comprehensive income ("FVTOCI")		**(1,526)**	(650)
Fair value gain on financial assets at FVTPL		**—**	(839)
Finance costs	7	**96,262**	86,518
Impairment losses on financial assets and contract assets	6	**55,887**	25,118
Loss on disposal of property, plant and equipment, net	5	**211**	40
Write-down of inventories to net realisable value	6	**5,861**	1,916
Share-based payment expenses for share awards granted	6	**3,807**	—
Share of result of a joint venture		**—**	4,000
Share of results of associates		**—**	(168)
Operating cash flows before movements in working capital		**695,616**	668,556
Decrease/(increase) in inventories		**52,922**	(36,995)
Increase in trade and bills receivables		**(654,688)**	(543,879)
Decrease/(increase) in prepayments, other receivables and other assets		**103,632**	(431,166)
Increase in contract assets		**(67,709)**	(149,070)
Increase in trade and bills payables		**82,489**	707,253
Increase in other payables and accruals		**36,787**	7,247
Cash generated from operations		**249,049**	221,946
Interest paid		**(597)**	(343)
Income tax paid		**(61,158)**	(69,319)
Net cash flows from operating activities		**187,294**	152,284

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(98,215)**	(61,449)
Additions to other intangible assets		**(163,185)**	(172,379)
Purchase of financial assets at FVTPL		**—**	(100,000)
Payment of a life insurance product		**—**	(22,497)
Advance to a joint venture		**(20,400)**	(18,000)
Repayment of advance to a joint venture		**20,550**	18,000
Acquisition of additional interest in a joint venture		**—**	(4,000)
Proceeds from disposal of financial assets at FVTPL		**—**	131,727
Proceeds from disposal of equity investments designated at FVTOCI		**32,634**	47,412
Interest received		**63,875**	71,717
Repayment of loan receivables		**—**	51,000
Proceeds from dissolution of an associate		**—**	9,318
Repayment of consideration receivable for disposal of unlisted equity instruments		**4,048**	2,000
Net cash received on acquisition of a subsidiary	35	**—**	1,015
Dividends received from equity instruments at FVTOCI		**1,526**	650
Proceeds from disposal of property, plant and equipment		**3,457**	512
Purchase of equity investments designated at FVTOCI		**(16,129)**	—
Increase in structured deposits		**(80,000)**	—
Placement in bank deposits with maturity over 3 months		**(272,000)**	—
Placement of pledged deposits		**(618,921)**	(699,611)
Withdrawal of pledged deposits		**588,365**	708,919
Net cash used in investing activities		**(554,395)**	(35,666)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**2,016,082**	1,707,193
Repayment of bank loans		**(1,776,961)**	(1,101,668)
Dividends paid		**(180,175)**	(221,694)
Dividend paid to non-controlling shareholders		**(36,300)**	—
Interest paid on borrowings		**(95,665)**	(86,175)
Shares repurchased for share award scheme		**(1,384)**	(17,409)
Shares repurchased and yet to be cancelled		**—**	(13,774)
Shares repurchased and cancelled		**—**	(3,337)
Principal portion of lease payments		**(9,471)**	(8,777)
Proceeds from Willfar Spin-Off	36	**610,834**	—
Proceeds from partial disposal of a subsidiary		**79,339**	—
Acquisition of non-controlling interests		**(14,471)**	(3,000)
Transaction cost attributable to shares repurchased		**—**	(62)
Net cash from financing activities		**591,828**	251,297

Year ended 31 December 2020

	2020	2019
	RMB'000	RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	**224,727**	367,915
Cash and cash equivalents at beginning of the year	**1,778,088**	1,401,362
Effect of foreign exchange rate changes, net	**(19,342)**	8,811
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**1,983,473**	1,778,088
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**1,983,473**	1,778,088
Time deposits	**272,000**	—
Cash and bank balances as stated in the consolidated statement of financial position	**2,255,473**	1,778,088
Less: Time deposits with original maturity over three months	**(272,000)**	—
Cash and cash equivalents as stated in the statement of cash flows	**1,983,473**	1,778,088

1. Corporate and Group Information

Wasion Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, GT George Town, Grand Cayman, British West Indies, and the Company's head office and principal place of business is located at Unit 2605, 26/F, West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Sheung Wan, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were engaged in the following principal activities:

- manufacture and trading of metering products
- provision of system solution services

In the opinion of the directors of the Company, the holding company and the ultimate holding company of the Company is Star Treasure Investments Holdings Limited, which is incorporated in the British Virgin Islands (the "BVI").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation or registration/ operation	Paid up capital	Proportion of nominal value of issued registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2020	2019	**2020**	2019	
Oceanbase Group Limited	BVI/ Hong Kong	US$1,000,000	**100%**	100%	**—**	—	Investment holding
Power Well Creation Limited	Hong Kong	HK$2	**100%**	100%	**—**	—	Investment holding
Weisheng Energy Industrial Technology Co., Ltd.*	The People's Republic of China ("PRC")	RMB200,000,000	**—**	—	**92.5%**	100%	Development, manufacturing and sale of energy saving products
Changsha Weisheng Import and Export Trading Company Limited	The PRC	RMB10,000,000	**—**	—	**100%**	100%	Trading of power meters
Willfar Information Technology Company Limited ("Willfar")*@	The PRC	RMB450,000,000	**—**	—	**58.5%**	65%	Development, manufacturing and sale of data collection terminals and related services
Changsha Vitae Plastic Technology Co., Ltd.#	The PRC	RMB20,000,000	**—**	—	**100%**	100%	Development, manufacturing and sale of parts of power meters, data collection terminals and related services

1. Corporate and Group Information (Continued)

Information about subsidiaries (Continued)

Name of subsidiary	Place of incorporation or registration/ operation	Paid up capital	Proportion of nominal value of issued registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2020	2019	**2020**	2019	
Gam Sheng Macao Commercial Offshore Limited	Macao	MOP1,000,000	**—**	—	**100%**	100%	Trading of electronic components
Hunan Weike Power Meters Company Limited*	The PRC	HK$100,000,000	**—**	—	**100%**	100%	Development, manufacturing and sale of power meters
Hunan Weiming Technology Co., Ltd.*	The PRC	RMB150,000,000	**—**	—	**58.5%**	65%	Development, manufacturing and sale of water, gas and heat meters
Wasion Electric Limited#	The PRC	RMB240,000,000	**—**	—	**90%**	100%	Development, manufacturing and sale of smart distribution devices
Wasion Group Limited#	The PRC	RMB1,209,900,000	**—**	—	**100%**	100%	Development, manufacturing and sale of power meters
Wasion Technology Shenzhen Company Limited	The PRC	RMB10,000,000	**—**	—	**100%**	100%	Trading of power meters
Hunan Switchgear Co. Ltd.	The PRC	RMB100,000,000	**—**	—	**58.5%**	65%	Development, manufacturing and sale of switchgears
Zhuhai Zhonghui Microelectronics Co., Ltd#	The PRC	RMB34,700,000	**—**	—	**58.5%**	61%	Development, manufacturing and sale of electronic components

* Registered as a Sino-foreign enterprise under the law of the PRC.

\# Registered as a wholly-foreign-owned enterprise under the law of the PRC.

@ Listed on the Science and Technology Innovation Board of the Shanghai Stock Exchange.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and equity investments designated at fair value through other comprehensive income which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions* (early adopted)
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) 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.

2.2 Changes in Accounting Policies and Disclosures (Continued)

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. 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 hedging relationships.

(d) 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 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 for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

    The amendment did not have any impact on the financial position and performance of the Group as the Group did not have any lease concession during the year ended 31 December 2020.

(e) 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, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Reference to the Conceptual Framework* [2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform — Phase 2* [1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [4]
HKFRS 17	*Insurance Contracts* [3]
Amendments to HKFRS 17	*Insurance Contracts* [3, 6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current* [3, 5]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use* [2]
Amendments to HKAS 37	*Onerous Contracts — Cost of Fulfilling a Contract* [2]
Annual Improvements to HKFRSs 2018–2020	*Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41* [2]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 No mandatory effective date yet determined but available for adoption
5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion
6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to *the Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars ("HKD") and the United States dollars ("US$") based on the Hong Kong Interbank Offered Rate ("HIBOR") and London Interbank Offered Rate ("LIBOR"), respectively as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2.4 Summary of Significant Accounting Policies

Investment in a joint venture

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

The Group's investment in a joint venture is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of a joint venture is included in profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's investment in the joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of the joint venture is included as part of the Group's investment in the joint venture.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.4 Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.4 Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill (Continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its financial assets at FVTPL and equity instruments designated at FVTOCI at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 Summary of Significant Accounting Policies (Continued)

Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of the reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

2.4 Summary of Significant Accounting Policies (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation (Continued)

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Owned buildings	Over the remaining period of the lease terms of the relevant land on which owned buildings are erected, or 50 years, whichever is the shorter
Leasehold improvements	Over the remaining period of the relevant lease, or 5 years, whichever is the shorter
Plant and machinery	10% to 20%
Furniture, fixtures and office equipment	10% to 20%
Motor vehicles	10%

All of the owned buildings are erected on land with medium-term land use right outside Hong Kong.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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

2.4 Summary of Significant Accounting Policies (Continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis over the remaining period of the lease terms of the relevant land on which owned buildings are erected, or 50 years, whichever is the shorter. All of the investment properties are erected on land with medium-term land use right outside Hong Kong.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

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

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

The intangible assets have finite useful lives and are amortised on a straight-line basis over the following periods:

Acquired patents, copyrights and trademarks	3 to 10 years
Acquired technology	3 to 5 years
Customer relationship and contracts	10 years

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.4 Summary of Significant Accounting Policies (Continued)

Intangible assets (other than goodwill) (Continued)

Research and development costs (Continued)

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products from 3 to 5 years, commencing from the date when the products are put into commercial production.

Leases

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

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	50 years
Leased properties	1 to 6 years

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments).

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are separately disclosed in consolidated statement of financial position.

2.4 Summary of Significant Accounting Policies (Continued)

Leases (Continued)

Group as a lessee (Continued)

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that is considered to be of low value.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as an operating lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under HKFRS 15 *Revenue from Contracts with Customers* in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated at FVTOCI (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at FVTOCI when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at FVTOCI are not subject to impairment assessment.

Financial assets at FVTPL

Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through arrangement"; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets (Continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Write-off

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

Credit-impaired

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

Evidence that a financial asset is credit-impaired includes observable data about the following events:

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

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

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has applied the probability of default approach by estimating the probability of default, loss given default and exposure at default. The ECL assessment considers all reasonable and supportable information, including past experience and forward-looking information.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables, as appropriate.

All financial liabilities are recognised initially at fair value, and in case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement of financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 Summary of Significant Accounting Policies (Continued)

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and a joint venture, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 Summary of Significant Accounting Policies (Continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

(b) Provision of system solution services

Revenue from the provision of system solution services is recognised over time using an output method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The output method recognises revenue based on the stage of completion of the solution services by reference to the installation works certified by the customers.

Revenue recognition (Continued)

Other income

Interest income is recognised on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instruments or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Rental income is recognised on a time proportion basis over the lease terms.

Dividend income is recognised when the shareholders' right to receive payment has been established.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 33 to financial statements.

2.4 Summary of Significant Accounting Policies (Continued)

Share-based payments (Continued)

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 Summary of Significant Accounting Policies (Continued)

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Payments to state-managed retirement benefit schemes in jurisdictions other than the PRC are charged as expenses when employees have rendered service entitling them to the contributions.

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in note 11 to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Capitalisation of development costs

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2020 was RMB313,272,000 (2019: RMB313,272,000). Further details are set out in note 16 to the financial statements.

Provision for expected credit losses on trade receivables and contract assets

The Group uses the probability of default approach to calculate ECLs for trade receivables and contract assets. Estimation is made for the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and exposure at default based on the Group's historical experience. The Group has engaged external valuers to determine the ECL for trade receivables and contract assets at the end of the reporting period. The Group will calibrate the inputs and assumptions with forward-looking information. For instance, if forward-looking information (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the electricity sector, the loss rates are adjusted upward. The information about the ECLs on the Group's trade receivables and contract assets is set out in note 43 to the financial statements.

4. 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 solutions;

— 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 solutions; and

— Advanced distribution operations segment, which engages in the manufacture and sale of smart power distribution devices and providing smart power distribution solutions and energy efficiency solutions.

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 profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, non-lease-related finance costs, dividend income, share of profit/(losses) of a joint venture and associates as well as unallocated corporate income, expenses, gains and losses are excluded from such measurement.

During the year ended 31 December 2020, the financial results of certain unallocated assets and liabilities were aggregated with the segment assets and liabilities in the financial statements. Comparative figures of the segment information have been reclassified to conform with the current year's presentation.

Segment assets exclude other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. Operating Segment Information (Continued)

Year ended 31 December 2020

	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 5):				
Sales to external customers	1,633,608	1,366,088	949,054	3,948,750
Intersegment sales	5,909	76,635	158	82,702
	1,639,517	1,442,723	949,212	4,031,452
Reconciliation:				
Elimination of intersegment sales				(82,702)
				3,948,750
Segment results	89,272	246,315	102,068	437,655
Reconciliation:				
Interest income				73,411
Dividend income and unallocated gains				3,929
Corporate and other unallocated expenses				(23,419)
Finance costs (other than interest on lease liabilities)				(95,665)
Profit before tax				395,911

4. Operating Segment Information (Continued)

Year ended 31 December 2020 (Continued)

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Total RMB'000
Segment assets	5,843,660	3,455,459	2,693,827	11,992,946
Reconciliation:				
Elimination of intersegment receivables				(841,646)
Corporate and other unallocated assets				118,783
Total assets				11,270,083
Segment liabilities	2,568,816	917,251	1,764,486	5,250,553
Reconciliation:				
Elimination of intersegment payables				(311,943)
Corporate and other unallocated liabilities				655,015
Total liabilities				5,593,625

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Unallocated RMB'000	Total RMB'000
Other segment information:					
Impairment losses on financial assets and contract assets, net	18,110	5,691	32,086	—	55,887
Provision for inventories included in cost of inventories sold	80	5,781	—	—	5,861
Depreciation and amortisation	96,766	58,611	53,875	3,362	212,614
Capital expenditure*	126,252	62,757	85,558	2,131	276,698

* Capital expenditure represents additions to property, plant and equipment, right-of-use assets and intangible assets.

4. Operating Segment Information (Continued)

Year ended 31 December 2019

	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 5):				
Sales to external customers	1,713,888	1,167,550	774,208	3,655,646
Intersegment sales	245,289	145,149	29,378	419,816
	1,959,177	1,312,699	803,586	4,075,462
Reconciliation:				
Elimination of intersegment sales				(419,816)
				3,655,646
Segment results	168,991	205,970	100,662	475,623
Reconciliation:				
Interest income				60,790
Dividend income and unallocated gains				894
Corporate and other unallocated expenses				(32,666)
Finance costs (other than interest on lease liabilities)				(86,175)
Share of results of a joint venture and associates				(3,832)
Profit before tax				414,634

4. Operating Segment Information (Continued)

Year ended 31 December 2019 (Continued)

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Total RMB'000
Segment assets	6,735,880	2,635,661	2,264,068	11,635,609
Reconciliation:				
Elimination of intersegment receivables				(1,798,128)
Corporate and other unallocated assets				259,293
Total assets				10,096,774
Segment liabilities	2,814,416	893,154	1,494,004	5,201,574
Reconciliation:				
Elimination of intersegment payables				(733,750)
Corporate and other unallocated liabilities				782,550
Total liabilities				5,250,374

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Unallocated RMB'000	Total RMB'000
Other segment information:					
Impairment losses on financial assets and contract assets, net	12,309	4,041	8,768	—	25,118
Provision for inventories included in cost of inventories sold	344	1,572	—	—	1,916
Depreciation and amortisation	99,482	52,343	43,474	3,478	198,777
Capital expenditure*	138,927	46,170	66,363	—	251,460

* Capital expenditure represents additions to property, plant and equipment, right-of-use assets and intangible assets.

4. Operating Segment Information (Continued)

Geographical information

(a) Revenue from external customers

	2020 RMB'000	2019 RMB'000
PRC	**3,566,778**	3,445,035
Middle East	**154,662**	3,314
South America	**107,245**	2,769
Africa	**66,525**	47,065
Asia, except for PRC	**31,207**	148,162
Europe	**21,584**	8,852
Others	**749**	449
	3,948,750	3,655,646

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2020 RMB'000	2019 RMB'000
PRC	**2,313,039**	2,279,554
South America	**41,437**	22,852
Asia, except for PRC	**4,259**	2,263
Africa	**1,234**	1,779
	2,359,969	2,306,448

The non-current asset information above excludes financial instruments and deferred tax assets.

Information about major customers

None of the sales to a single customer contributed over 10% of the consolidated revenue in any of the years ended 31 December 2020 and 31 December 2019.

5. Revenue, Other Income, Gains and Losses, Net

An analysis of revenue is as follows:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers	3,948,750	3,655,646

Revenue from contracts with customers

Disaggregated revenue information

Year ended 31 December 2020

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				
Sales of smart power meters	1,633,608	—	—	1,633,608
Sales of communication terminals, water, gas and heat metering products	—	1,366,088	—	1,366,088
Sales of smart power distribution devices	—	—	930,882	930,882
System solution services	—	—	18,172	18,172
	1,633,608	1,366,088	949,054	3,948,750
Geographic markets				
PRC	1,313,978	1,303,746	949,054	3,566,778
Middle East	142,952	11,710	—	154,662
South America	107,245	—	—	107,245
Africa	29,155	37,370	—	66,525
Asia, except for PRC	18,073	13,134	—	31,207
Europe	21,584	—	—	21,584
Others	621	128	—	749
Total revenue from contracts with customers	1,633,608	1,366,088	949,054	3,948,750
Timing of revenue recognition				
Goods transferred at a point in time	1,633,608	1,366,088	930,882	3,930,578
Services rendered over time	—	—	18,172	18,172
Total revenue from contracts with customers	1,633,608	1,366,088	949,054	3,948,750

5. Revenue, Other Income, Gains and Losses, Net (Continued)

Revenue from contracts with customers (Continued)

Disaggregated revenue information (Continued)

Year ended 31 December 2019

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				
Sales of smart power meters	1,713,888	—	—	1,713,888
Sales of communication terminals, water, gas and heat metering products	—	1,167,550	—	1,167,550
Sales of smart power distribution devices	—	—	586,282	586,282
System solution services	—	—	187,926	187,926
Total revenue from contracts with customers	1,713,888	1,167,550	774,208	3,655,646
Geographic markets				
PRC	1,608,383	1,062,444	774,208	3,445,035
Middle East	2,005	1,309	—	3,314
South America	2,745	24	—	2,769
Africa	3,673	43,392	—	47,065
Asia, except for PRC	88,099	60,063	—	148,162
Europe	8,852	—	—	8,852
Others	131	318	—	449
Total revenue from contracts with customers	1,713,888	1,167,550	774,208	3,655,646
Timing of revenue recognition				
Goods transferred at a point in time	1,713,888	1,167,550	586,282	3,467,720
Services rendered over time	—	—	187,926	187,926
Total revenue from contracts with customers	1,713,888	1,167,550	774,208	3,655,646

5. Revenue, Other Income, Gains and Losses, Net (Continued)

Revenue from contracts with customers (Continued)

Disaggregated revenue information (Continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2020 **RMB'000**	2019 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sales of smart power meters	**62,261**	47,058
Sales of communication terminals, water, gas and heat metering products	**27,453**	24,435
Sales of smart power distribution devices	**10,848**	30,766
	100,562	102,259

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

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

Upon the signing of sale contract, a deposit from the customer amounting to approximately by 10% of the invoiced amount may be requested. Upon shipment and acceptance of products by the customers, the invoiced amount will be settled by the customer by instalments. There are no specific credit terms granted to customers, but the Group allows credit periods ranging from 90 days to 365 days to its customer. 10% of the invoiced amount is withheld by customers and will be released to the Group upon the satisfaction of a one to two years' retention period. During the retention period, the Group will provide assurance-type repair and maintenances and other related services.

On the receipt of a deposit, a contract liability is recognised. On the shipment and acceptance of a product by the customer, the Group recognises the sales and a receivable and a contract asset (for the withheld portion) are recognised. Upon the completion of the retention period, the contract asset will be transferred to trade receivable.

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

The Group provides system solution services to customers on a project basis including developing and installing the systems and products at the customer's premises. As the Group's products cannot function without installation and the installation cannot be completed by the customers or other entities, the Group's promise to install the products is highly interrelated with the Group's promise to deliver the products. Therefore, the Group recognises the promise to deliver and install the products as one single performance obligation. Revenue from system solution services is recognised over time for each stage specified in the service contract.

5. Revenue, Other Income, Gains and Losses, Net (Continued)

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

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

	2020 **RMB'000**	2019 RMB'000
Other income		
Bank interest income	**35,999**	26,081
Interest income from structured deposits	**5,249**	3,631
Interest income from loan receivables	**12,934**	11,919
Interest income from consideration receivable for disposal of a subsidiary	**4,516**	4,486
Interest income on financial assets at FVTPL	**14,713**	14,673
Dividend income from equity investments designated at FVTOCI	**1,526**	650
Refund of value-added tax*	**38,130**	29,794
Government grants#	**49,535**	31,451
Gross rental income	**2,930**	2,405
Others	**1,276**	5,455
	166,808	130,545
Gains and losses, net		
Loss on disposal of items of property, plant and equipment	**(211)**	(40)
Foreign exchange (losses)/gains, net	**(246)**	5,762
Fair value gains on financial assets at FVTPL	**—**	839
	(457)	6,561
	166,351	137,106

* Pursuant to the relevant regulations in the PRC, certain subsidiaries of the Group operating in the PRC are entitled to refunds of a certain percentage of VAT on the sale of specified high technology products. The amount represents such VAT refund which is approved by the relevant tax authorities.

\# Government grants mainly comprise financial subsidies from the PRC government for the immediate rewards of the Group's contribution to the relevant provinces and the continuous technological advancements of the Group in its products with no future related costs or obligations. There are no unfulfilled conditions or contingencies relating to these grants.

6. Profit Before Tax

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

	Notes	2020 RMB'000	2019 RMB'000
Cost of inventories sold		**2,682,701**	2,506,097
Cost of service rendered		**13,623**	127,934
Depreciation of property, plant and equipment	13	**60,340**	60,403
Depreciation of investment properties	14	**598**	968
Depreciation of right-of-use assets	15	**14,169**	13,450
Amortisation of other intangible assets (excluding the deferred expenditure amortised)*	17	**6,949**	3,790
Lease payments not included in the measurement of lease liabilities	15	**3,883**	5,707
Research and development costs:			
Research and development expenses		**363,786**	297,313
Less: capitalised development costs		**(159,407)**	(171,757)
		204,379	125,556
Amortisation of capitalised development costs	17	**130,558**	120,166
		334,937	245,722
Auditor's remuneration		**3,475**	3,469
Employee benefit expense (including directors' and chief executive's remuneration (note 8))			
Wages and salaries		**348,280**	295,264
Equity-settled share award expenses		**3,807**	—
Pension scheme contributions^		**32,688**	40,118
		384,775	335,382
Provision of impairment losses, net:			
Trade receivables		**55,887**	21,907
Contract assets		**—**	3,211
		55,887	25,118
Write-down of inventories to net realisable value**		**5,861**	1,916
Foreign exchange losses/(gains), net	5	**246**	(5,762)

* Amortisation of other intangible assets (excluding capitalised development costs) for the year is included in "Selling expenses" and "Administrative expenses" in profit or loss.

** Included in "Cost of inventories sold".

^ At 31 December 2020, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years (2019: Nil).

7. Finance Costs

An analysis of finance costs is as follows:

	2020 **RMB'000**	2019 RMB'000
Interest on bank loans	**95,665**	86,175
Interest on lease liabilities	**597**	343
	96,262	86,518

8. Directors' and Chief Executive's Remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2020 **RMB'000**	2019 RMB'000
Fees	**787**	923
Other emoluments:		
Salaries, allowances and benefits in kind	**2,845**	3,051
Pension scheme contributions	**62**	96
	3,694	4,070

No share option was granted to directors during the years ended 31 December 2020 and 2019.

8. Directors' and Chief Executive's Remuneration (Continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Notes	2020 RMB'000	2019 RMB'000
Mr. Luan Wenpeng		**104**	106
Mr. Cheng Shi Jie		**158**	161
Mr. Chan Cheong Tat	(i)	**43**	—
Mr. Wang Yaonan	(ii)	**22**	—
Mr. Hui Wing Kuen	(iii)	**311**	443
Mr. Huang Jing	(iii)	**149**	213
		787	923

Notes:

(i) Mr. Chan Cheong Tat was appointed as independent non-executive director of the Company with effect from 18 June 2020.

(ii) Mr. Wang Yaonan was appointed as independent non-executive director of the Company with effect from 17 July 2020.

(iii) Mr. Hui Wing Kuen and Mr. Huang Jing resigned as independent non-executive directors with effect from 18 June 2020.

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

(b) Executive directors and chief executive

	Notes	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2020					
Executive directors and chief executive:					
Ms. Cao Zhao Hui		**—**	**611**	**12**	**623**
Executive directors:					
Mr. Ji Wei		**—**	**521**	**16**	**537**
Ms. Zheng Xiao Ping		**—**	**559**	**—**	**559**
Mr. Tian Zhongping		**—**	**501**	**25**	**526**
Ms. Li Hong	(i)	**—**	**181**	**9**	**190**
Mr. Zeng Xin	(ii)	**—**	**211**	**—**	**211**
Non-executive director:					
Mr. Kat Chit		**—**	**261**	**—**	**261**
		—	**2,845**	**62**	**2,907**

8. Directors' and Chief Executive's Remuneration (Continued)

(b) Executive directors and chief executive (Continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2019				
Executive directors and chief executive:				
Ms. Cao Zhao Hui	—	615	20	635
Executive directors:				
Mr. Ji Wei	—	533	16	549
Mr. Zeng Xin	—	605	20	625
Ms. Zheng Xiao Ping	—	564	17	581
Mr. Tian Zhongping	—	468	23	491
Non-executive director:				
Mr. Kat Chit	—	266	—	266
	—	3,051	96	3,147

Notes:

(i) Ms. Li Hong was appointed as executive director of the Company with effect from 18 June 2020.

(ii) Mr. Zeng Xin resigned as executive director with effect from 18 June 2020.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. Five Highest Paid Employees

The five highest paid employees of the Group included four (2019: four) directors of the Company. Details of the remuneration for the year of the remaining one (2019: one) highest paid employee who is non-director of the Company are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	**1,491**	1,509
Equity-settled share award expense	**658**	—
Pension scheme contributions	**16**	16
	2,165	1,525

The number of non-director highest paid employee whose remuneration fell within the following bands is as follows:

	Number of employees	
	2020	2019
HK$1,500,001 to HK$2,000,000	**—**	1
HK$2,500,001 to HK$3,000,000	**1**	—
	1	1

No share options were granted to the non-director and non-chief executive highest paid employee in respect of his services to the Group during the years ended 31 December 2020 and 2019.

Under the share award scheme, 400,000 ordinary shares of the Company were distributed to the non-director and non-chief executive highest paid employee in respect of his services to the Group during the year ended 31 December 2020 (2019: Nil).

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

10. 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 years ended 31 December 2020 and 2019.

Tax on profits assessable in the PRC has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% (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 three consecutive years from year 2017 to 2019, year 2018 to 2020 or year 2020 to 2023.

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 75% of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year. The qualified PRC subsidiaries can enjoy the additional deduction of 75% of qualified research and development expenses for a three consecutive years from year 2018 to 2020.

Under Decree Law No. 58/99/M, a Macao subsidiary of the Group incorporated under that law is exempted from Macao complementary tax (Macao income tax) as long as this subsidiary does not sell its products to a Macao resident company. No provision for Macao complementary tax has been made as the Group did not generate any assessable profits arising in Macao during the year (2019: Nil).

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

	2020 **RMB'000**	2019 RMB'000
Current		
Charge for the year	**58,793**	75,238
Underprovision/(overprovision) in prior years	**2,657**	(10,362)
PRC withholding tax	**1,805**	—
	63,255	64,876
Deferred tax (note 31)	**(11,513)**	(7,620)
Total tax charge for the year	**51,742**	57,256

10. Income Tax (Continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2020 **RMB'000**	2019 RMB'000
Profit before tax	**395,911**	414,634
Tax at the statutory tax rate at 25%	**98,978**	103,659
Expenses not deductible for tax	**21,227**	30,052
Income not subject to tax	**(2,165)**	(1,367)
Profits and losses attributable to a joint venture and an associate	**—**	958
Tax concessions/exemption granted to PRC and Macao subsidiaries	**(43,474)**	(45,402)
Additional tax deduction on research and development expenses of PRC subsidiaries	**(36,124)**	(23,879)
Tax losses not recognised	**8,967**	4,488
Tax losses utilised from previous periods	**(129)**	(891)
Adjustments in respect of current tax of previous periods	**2,657**	(10,362)
Withholding tax at 10% on the PRC subsidiary's dividend income	**1,805**	—
Tax charge	**51,742**	57,256

11. Dividends

	2020 **RMB'000**	2019 RMB'000
Interim — Nil (2019: HK6 cents) per ordinary share	**—**	53,158
Final — HK20 cents per ordinary share for 2019 (2019: HK20 cents per ordinary share for 2018)	**180,175**	168,536
	180,175	221,694

A final dividend of HK20 cents per share amounting to approximately HK$199,176,000 (equivalent to RMB166,770,000) in respect of the year ended 31 December 2020 (2019: HK20 cents per share amounting to approximately HK$199,176,000 (equivalent to RMB180,175,000)) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

12. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 983,845,302 (2019: 988,842,364) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019 because the exercise price of the share options granted to employees and consultants as disclosed in note 33 to the financial statements was higher than the average market price of the Company's shares during the years.

	2020 **RMB'000**	2019 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**231,190**	280,567

	2020 **Number of shares**	2019 Number of shares
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**983,845,302**	988,842,364

13. Property, Plant and Equipment

	Owned buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2020							
At 1 January 2020							
Cost	1,268,099	31,002	341,425	79,128	25,622	10,194	1,755,470
Accumulated depreciation	(156,863)	(11,268)	(222,106)	(59,567)	(16,707)	—	(466,511)
Net carrying amount	1,111,236	19,734	119,319	19,561	8,915	10,194	1,288,959
At 31 December 2019 and 1 January 2020, net of accumulated depreciation	1,111,236	19,734	119,319	19,561	8,915	10,194	1,288,959
Additions	40	17,810	34,497	8,631	5,174	32,063	98,215
Transfer	—	—	1,988	977	—	(2,965)	—
Disposals/written off	—	—	(3,408)	(198)	(62)	—	(3,668)
Depreciation provided during the year	(23,321)	(6,776)	(19,666)	(8,930)	(1,647)	—	(60,340)
Transfer from investment properties (note 14)	4,463	—	—	—	—	—	4,463
Exchange realignment	—	(466)	(4,086)	(153)	(12)	(795)	(5,512)
At 31 December 2020, net of accumulated depreciation	1,092,418	30,302	128,644	19,888	12,368	38,497	1,322,117
At 31 December 2020:							
Cost	1,273,245	48,213	366,142	88,224	29,446	38,497	1,843,767
Accumulated depreciation	(180,827)	(17,911)	(237,498)	(68,336)	(17,078)	—	(521,650)
Net carrying amount	1,092,418	30,302	128,644	19,888	12,368	38,497	1,322,117

13. Property, Plant and Equipment (Continued)

	Owned buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019							
At 1 January 2019							
Cost	1,252,450	18,830	313,328	73,419	24,834	11,419	1,694,280
Accumulated depreciation	(134,881)	(7,638)	(202,520)	(52,121)	(15,048)	—	(412,208)
Net carrying amount	1,117,569	11,192	110,808	21,298	9,786	11,419	1,282,072
At 1 January 2019, net of accumulated depreciation	1,117,569	11,192	110,808	21,298	9,786	11,419	1,282,072
Additions	346	12,124	30,364	5,782	1,222	11,611	61,449
Acquisition of a subsidiary (note 35)	—	—	3,177	112	—	4,062	7,351
Transfer	16,723	—	306	—	—	(17,029)	—
Disposals/written off	—	—	(337)	(11)	(204)	—	(552)
Depreciation provided during the year	(22,187)	(3,583)	(25,112)	(7,628)	(1,893)	—	(60,403)
Transfer to investment properties (note 14)	(1,215)	—	—	—	—	—	(1,215)
Exchange realignment	—	1	113	8	4	131	257
At 31 December 2019, net of accumulated depreciation	1,111,236	19,734	119,319	19,561	8,915	10,194	1,288,959
At 31 December 2019:							
Cost	1,268,099	31,002	341,425	79,128	25,622	10,194	1,755,470
Accumulated depreciation	(156,863)	(11,268)	(222,106)	(59,567)	(16,707)	—	(466,511)
Net carrying amount	1,111,236	19,734	119,319	19,561	8,915	10,194	1,288,959

At 31 December 2020, the Group's owned buildings with a carrying amount of RMB115,370,000 (2019: RMB118,045,000) were pledged as security for the Group's bank loans, as further detailed in note 30 to the financial statements.

14. Investment Properties

	2020	2019
	RMB'000	RMB'000
At 1 January		
Cost	**32,680**	31,260
Accumulated depreciation	**(4,273)**	(3,100)
Net carrying amount	**28,407**	28,160
At 1 January	**28,407**	28,160
Transfer from property, plant and equipment (note 13)	**—**	1,215
Transfer to property, plant and equipment (note 13)	**(4,463)**	—
Depreciation provided during the year	**(598)**	(968)
At 31 December, net of accumulated depreciation	**23,346**	28,407
At 31 December		
Cost	**27,425**	32,680
Accumulated depreciation	**(4,079)**	(4,273)
Net carrying amount	**23,346**	28,407

The Group's investment properties consist of 3 (2019: 4) commercial properties in the PRC. The directors of the Company determined that the Group's investment properties consist of different classes of assets based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2020 based on valuations performed by Hunan Zhonghe Real Estate Appraisal Consulting Co., Ltd., independent professionally qualified valuers.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 15 to the financial statements.

The fair values of the Group's investment properties at 31 December 2020 were RMB33,818,000 (2019: RMB41,105,000).

14. Investment Properties (Continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2020 using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Recurring fair value measurement for:				
Investment properties	**—**	**—**	**33,818**	**33,818**

	Fair value measurement as at 31 December 2019 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Investment properties	—	—	41,105	41,105

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2019: Nil).

Set out below is a summary of the valuation technique used and the key input to the valuation of investment properties:

	Valuation techniques	**Significant unobservable inputs**	**Range or weighted average 2020**	2019
Investment properties	Direct comparison approach	Prevailing market price (per sq.m.)	**RMB3,932 to RMB4,784**	RMB3,871 to RMB4,769

Direct comparison approach

The fair value of investment properties is generally derived using the direct comparison method.

The valuation was arrived at by adopting the direct comparison approach with reference to the recent transactions of similar properties under the prevailing property market conditions. A significant increase (decrease) in the prevailing market price in isolation would result in a significant increase (decrease) in the fair value of the investment properties.

15. Leases

The Group as a lessee

The Group has lease contracts for various items of properties used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of properties generally have lease terms between 2 months and 6 years (2019: 2 months and 4.5 years). Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside of the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold lands RMB'000	Leased properties RMB'000	Total RMB'000
As at 1 January 2019	187,849	3,252	191,101
Additions	—	10,281	10,281
Depreciation provided for the year	(4,598)	(8,852)	(13,450)
Exchange realignment	—	92	92
As at 31 December 2019 and 1 January 2020	**183,251**	**4,773**	**188,024**
Additions	**—**	**15,298**	**15,298**
Depreciation provided for the year	**(4,598)**	**(9,571)**	**(14,169)**
Exchange realignment	**—**	**(1,039)**	**(1,039)**
As at 31 December 2020	**178,653**	**9,461**	**188,114**

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2020 RMB'000	2019 RMB'000
Carrying amount at 1 January	**4,848**	3,252
New leases	**15,298**	10,281
Accretion of interest recognised during the year	**597**	343
Payments	**(10,068)**	(9,120)
Exchange realignment	**(1,032)**	92
Carrying amount at 31 December	**9,643**	4,848

15. Leases (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities (Continued)

	2020 RMB'000	2019 RMB'000
Analysed into:		
Current portion	**5,306**	3,048
Non-current portion	**4,337**	1,800
Carrying amount at 31 December	**9,643**	4,848

The maturity analysis of lease liabilities is disclosed in note 43 to the financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	**597**	343
Depreciation charge of right-of-use assets	**14,169**	13,450
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in administrative expense)	**3,883**	5,707
Total amount recognised in profit or loss	**18,649**	19,500

(d) The total cash outflow for leases is disclosed in note 37(b) to the financial statements.

15. Leases (Continued)

The Group as a lessor

The Group leases its investment properties (note 14) consisting of 3 (2019: 4) industrial properties in the PRC under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits. Rental income recognised by the Group during the year was RMB2,930,000 (2019: RMB2,405,000), details of which are included in note 5 to the financial statements.

At the end of the reporting period, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2020 **RMB'000**	2019 RMB'000
Within one year	**1,798**	2,338
After one year but within two years	**—**	455
	1,798	2,793

16. Goodwill

	RMB'000
At 1 January 2019:	
Cost	297,919
Accumulated impairment	—
Net carrying amount	297,919
Cost at 1 January 2019, net of accumulated impairment	297,919
Acquisition of a subsidiary (note 35)	15,353
Cost and net carrying amount at 31 December 2019 and 31 December 2020	313,272
At 31 December 2019 and 31 December 2020:	
Cost	**313,272**
Accumulated impairment	**—**
Net carrying amount	**313,272**

16. Goodwill (Continued)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units ("CGU") for impairment testing:

- Power advanced metering infrastructure CGU;
- Communication and fluid advanced metering infrastructure CGU;
- Advanced distribution operations CGU; and
- Brazil power advanced metering infrastructure CGU.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2020 **RMB'000**	2019 RMB'000
Power advanced metering infrastructure CGU	**184,884**	184,884
Communication and fluid advanced metering infrastructure CGU	**53,495**	53,495
Advanced distribution operations CGU	**59,540**	59,540
Brazil power advanced metering infrastructure CGU (note 35)	**15,353**	15,353
	313,272	313,272

The basis of the value-in-use calculations of the above CGUs or group of CGUs containing goodwill and their major underlying assumptions are summarised below:

	Power advanced metering infrastructure CGU	**Communication and fluid advanced metering infrastructure CGU**	**Advanced distribution operations CGU**	**Brazil power advanced metering infrastructure CGU**
Terminal growth rate				
2020	**3%**	**3%**	**3%**	**3%**
2019	3%	3%	3%	3%
Pre-tax discount rates				
2020	**16.2%**	**16.3%**	**15.4%**	**21.5%**
2019	19.0%	19.0%	16.9%	26.2%

16. Goodwill (Continued)

Impairment testing of goodwill (Continued)

Assumptions were used in the cash flow projections of the CGUs for 31 December 2020 and 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

Growth rates — The growth rates are determined with reference to the growth rate for the relevant units, adjusted for relevant businesses and market development, and economic conditions.

The values assigned to the key assumptions on market development of the respective industries, budgeted gross margins, discount rates and growth rates are consistent with external information sources.

17. Other Intangible Assets

	Development costs* RMB'000	Patents, copyrights and trademarks RMB'000	Acquired technology RMB'000	Customer relationship and contracts RMB'000	Total RMB'000
31 December 2020					
At 1 January 2020					
Cost	**1,078,929**	**86,694**	**95,257**	**63,669**	**1,324,549**
Accumulated amortisation	**(612,784)**	**(77,385)**	**(95,257)**	**(53,600)**	**(839,026)**
Net carrying amount	**466,145**	**9,309**	**—**	**10,069**	**485,523**
Cost at 1 January 2020, net of accumulated amortisation	**466,145**	**9,309**	**—**	**10,069**	**485,523**
Additions	**159,407**	**3,778**	**—**	**—**	**163,185**
Amortisation provided during the year	**(130,558)**	**(4,623)**	**—**	**(2,326)**	**(137,507)**
Net carrying amount	**494,994**	**8,464**	**—**	**7,743**	**511,201**
At 31 December 2020					
Cost	**1,238,336**	**90,472**	**95,257**	**63,669**	**1,487,734**
Accumulated amortisation	**(743,342)**	**(82,008)**	**(95,257)**	**(55,926)**	**(976,533)**
Net carrying amount	**494,994**	**8,464**	**—**	**7,743**	**511,201**
31 December 2019					
At 1 January 2019					
Cost	907,172	86,072	95,257	63,669	1,152,170
Accumulated amortisation	(492,618)	(76,586)	(94,592)	(51,274)	(715,070)
Net carrying amount	414,554	9,486	665	12,395	437,100
Cost at 1 January 2019, net of accumulated amortisation	414,554	9,486	665	12,395	437,100
Additions	171,757	622	—	—	172,379
Amortisation provided during the year	(120,166)	(799)	(665)	(2,326)	(123,956)
Net carrying amount	466,145	9,309	—	10,069	485,523
At 31 December 2019					
Cost	1,078,929	86,694	95,257	63,669	1,324,549
Accumulated amortisation	(612,784)	(77,385)	(95,257)	(53,600)	(839,026)
Net carrying amount	466,145	9,309	—	10,069	485,523

* Development costs represent expenses capitalised during development phase of internal projects for the development of new technology and new products expected to generate future economic benefits through transfer of goods to customers.

18. Investment in a Joint Venture

	2020 RMB'000	2019 RMB'000
Cost of investment	**24,000**	24,000
Cumulative share of post-acquisition losses and other comprehensive expenses	**(24,000)**	(24,000)
	—	—

Particulars of the Group's joint venture are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Smart Metering Solution (Changsha) Co., Ltd. ("Smart Metering")	Ordinary shares	The PRC/ Mainland China	51	Research, development, manufacturing, and selling meter products, meter data management systems, smart meter solution systems and the provision of related consulting services

The Group's shareholding in the joint venture is held through wholly-owned subsidiaries of the Company.

The investment in a joint venture is accounted for using the equity method in these consolidated financial statements.

In prior years, Smart Metering was co-established by the Group and an independent third party. The Group was able to exercise significant influence over Smart Metering because it has power to appoint two out of five directors. During the year ended 31 December 2019, the Group acquired additional interest of 11% through capital injection of RMB4,000,000 (the "Capital Injection"), and the Group's interests in Smart Metering has increased from 40% to 51%. There was a change in Memorandum of Association of Smart Metering upon the Capital Injection that major business operating and financing decisions required unanimous consents from all directors. The directors of the Company consider no control is obtained from the Capital Injection and the investments in Smart Metering became investment in a joint venture.

During the year ended 31 December 2019, the Group has discontinued the recognition of its share of losses of the joint venture because the share of losses of the joint venture exceeded the Group's interest in the joint venture and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of this joint venture for the current year and cumulatively were RMB355,000 (2019: profit of RMB914,000) and RMB14,592,000 (2019: RMB14,237,000), respectively.

19. Equity Investments Designated at Fair Value Through Other Comprehensive Income

	2020	2019
	RMB'000	RMB'000
Equity investments designated at FVTOCI		
Equity investments listed in Hong Kong, at fair value	**38,803**	54,154
Equity investments listed in the PRC, at fair value	**10,353**	17,289
Unlisted equity investments, at fair value — A	**3,000**	3,000
Unlisted equity investments, at fair value — B	**26,619**	22,884
	78,775	97,327

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

During the year ended 31 December 2020, the Group sold certain of its equity investments in Hong Kong as this investment no longer coincided with the Group's investment strategy. The fair value on the date of disposal was RMB32,634,000 (2019: RMB47,412,000) and the accumulated loss recognised in other comprehensive income of RMB86,000 (2019: profit of RMB1,798,000) was transferred to retained profits.

During the year ended 31 December 2020, the Group received dividends in the amounts of RMB1,526,000 (2019: RMB650,000) from certain of its equity investments listed in Hong Kong and the PRC.

20. Financial Assets at Fair Value Through Profit or Loss

	2020	2019
	RMB'000	RMB'000
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 in the PRC. The trust funds invest in a range of debt instrument products which are generally government bonds and corporate loans. The trust fund investments will expire between April and May 2021 and the balances were reclassified to current assets as at 31 December 2020.

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

21. Inventories

	2020 RMB'000	2019 RMB'000
Raw materials	**186,528**	222,740
Work in progress	**192,786**	182,551
Finished goods	**118,524**	136,054
	497,838	541,345

22. Trade and Bills Receivables

	2020 RMB'000	2019 RMB'000
Trade receivables	**3,693,395**	3,092,754
Bills receivable	**280,325**	213,428
	3,973,720	3,306,182
Less: Impairment loss on trade receivables	**(123,624)**	(67,737)
	3,850,096	3,238,445

Due to the nature of the Group's business, the settlement terms of trade receivables are based on the achievement of certain milestones of each sales transaction. There were no specific 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 RMB52,728,000 (2019: RMB46,839,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

At 31 December 2020, the Group's bills receivable with a carrying amount of RMB5,000,000 (2019: RMB5,000,000) were pledged as security for the Group's bank loans, as further detailed in note 30 to the financial statements.

22. Trade and Bills Receivables (Continued)

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:

	2020 RMB'000	2019 RMB'000
0–90 days	**1,258,938**	1,231,287
91–180 days	**595,989**	483,195
181–365 days	**869,661**	834,862
1–2 years	**811,161**	348,824
Over 2 years	**314,347**	340,277
	3,850,096	3,238,445

Disclosures related to ECLs are set out in note 43 to the financial statements.

23. Contract Assets

	2020 RMB'000	2019 RMB'000
Contract assets	**657,050**	589,341
Less: Impairment loss on contract assets	**(5,844)**	(5,844)
	651,206	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.

Included in the Group's contract assets are amounts due from the Group's joint venture of RMB5,275,000 (2019: Nil), which will be repayable on credit terms similar to those offered to the major customers of the Group.

Disclosures related to ECLs are set out in note 43 to the financial statements.

24. Loans Receivables

	2020 RMB'000	2019 RMB'000
Loans receivables	**109,384**	105,000

The amounts represent loans advanced by the Group to independent third parties under entrusted loan contracts. These entrusted loans carry fixed interest at 12% per annum and are repayable in August 2025 (2019: 12% per annum and repayable in September 2020).

As at 31 December 2020, the Group's loan receivables amounting to RMB43,400,000 (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.

Management has performed credit risk assessment by performing background search on the borrowers and property search on pledged properties.

Disclosures related to ECLs are set out in note 43 to the financial statements.

25. Prepayments, Other Receivables and Other Assets

	2020 RMB'000	2019 RMB'000
Consideration receivables for disposal of subsidiaries (note (i))	**77,000**	77,000
Life insurance products (note (ii))	**55,308**	58,870
Non-current portion	**132,308**	135,870
Purchase prepayments (note (iii))	**402,140**	480,252
Bidding deposits	**27,218**	29,238
Other prepayments	**64,853**	99,467
Other receivables	**96,515**	89,439
Consideration receivable for disposal of unlisted equity instruments (note (iv))	**23,652**	27,700
Loan receivable from a joint venture (note (v))	**17,850**	18,000
VAT recoverable	**88,770**	76,018
Current portion	**720,998**	820,114
	853,306	955,984

25. Prepayments, Other Receivables and Other Assets (Continued)

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. As at 31 December 2020, the balance included a prepayment of life insurance premium and cash value amounting to RMB1,919,000 (2019: RMB2,263,000) and RMB53,389,000 (2019: RMB56,607,000), respectively.

Particulars of the policies are as follows:

Policy	Insured sum	Upfront payment	Guaranteed interest rates	
			First year	Second year and onwards
Policy A	US$7,557,000	US$3,421,000	4.25% per annum	3% per annum
Policy B	US$10,000,000	US$1,771,000	4% per annum	2% per annum
Policy C	US$13,741,418	US$3,229,513	4.25% per annum	2% per annum

(iii) During the year ended 31 December 2020, the Group entered into certain purchase contracts with certain suppliers to stabilise material supply. The purchase prepayments will be utilised within one year from the end of the reporting period.

(iv) The balance is unsecured, non-guaranteed, carrying fixed interest at 4.35% per annum and is repayable in 2022. The Group has an option to request the repayment on demand (2019: 2020).

(v) The amount represents an unsecured, non-guaranteed short-term loan to a joint venture which carries fixed interest at 4.35% (2019: 4.71%) per annum and is repayable within one year from the end of the reporting period.

26. Structured Deposits

Structured deposits were stated at fair value and represented several deposits placed with banks. The structured deposits were mandatorily classified as financial assets at fair value through profit or loss. As at 31 December 2020, the aggregate fair value of the structured deposits was approximately RMB80,000,000 (31 December 2019: Nil) and total interest income of approximately RMB5,249,000 (2019: RMB3,631,000) was recognised by the Group during the year.

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

27. Cash and Bank Balances and Pledged Deposits

	Note	**2020** **RMB'000**	2019 RMB'000
Cash and bank balances		**2,285,702**	2,049,761
Time deposits		**272,000**	—
		2,557,702	2,049,761
Less: Pledged for bank loans	30(b)	**(302,229)**	(271,673)
		2,255,473	1,778,088

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB 2,368,780,000 (2019: RMB1,687,487,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits were made for varying periods of between one day and a year depending on the immediate cash requirements of the Group, and earned interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

28. Trade and Bills Payables

	2020 **RMB'000**	2019 RMB'000
Trade and bills payables	**2,963,135**	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:

	2020 **RMB'000**	2019 RMB'000
0–90 days	**1,706,865**	1,506,420
91–180 days	**704,585**	728,603
181 –365 days	**455,537**	565,036
Over 1 year	**96,148**	80,587
	2,963,135	2,880,646

The trade payables are non-interest-bearing and are normally settled within terms of 90 days. For some suppliers with long business relationship, a credit term of 181 to 365 days is granted.

29. Other Payables and Accruals

	Notes	**2020** **RMB'000**	2019 RMB'000
Accruals		**42,058**	15,390
Other payables	(a)	**113,567**	105,861
Contract liabilities	(b)	**102,975**	100,562
		258,600	221,813

Notes:

(a) Other payables are non-interest-bearing and have an average term of three months.

(b) Details of contract liabilities are as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000	1 January 2019 RMB'000
Short-term advances received from customers			
Sale of goods	**102,975**	100,562	102,259

Contract liabilities include short-term advances received from customers to deliver metering products. The increase in contract liabilities in 2020 was mainly due to the increase in short-term advances received from customers in relation to the sale of products at the end of the year.

30. Interest-Bearing Bank Borrowings

	2020			2019		
	Effective interest rate	**Maturity**	**RMB'000**	Effective interest rate	Maturity	RMB'000
Floating interest rate						
Bank loans — unsecured	**2.44%–4.79%**	**2021–2022**	**1,795,874**	4.35%–6.64%	2020–2022	1,646,579
Bank loans — secured	**3.90%–5.22%**	**2021–2022**	**152,500**	3.70%–5.70%	2020–2021	181,624
			1,948,374			1,828,203
Fixed interest rate						
Bank loans — unsecured	**3.33%–5.55%**	**2021**	**263,390**	3.00%–4.40%	2020	50,000
Trust receipt loans — unsecured	**2.20%–4.40%**	**2021**	**78,359**	3.06%–4.80%	2020	195,666
			341,749			245,666
			2,290,123			2,073,869

The maturity of the above bank borrowings is as follows:

	2020 RMB'000	2019 RMB'000
Analysed into:		
Within one year or on demand	**1,787,997**	1,618,639
In the second year	**502,126**	400,488
In the third to fifth years, inclusive	**—**	54,742
	2,290,123	2,073,869

Notes:

(a) Except for the bank borrowings of RMB778,267,000 and RMB41,107,000 (2019: RMB689,029,000 and RMB45,274,000) which are denominated in HKD at HIBOR plus 2.0% to 2.8% and USD at LIBOR plus 2%, respectively, the remaining bank borrowings are denominated in RMB and bear interest at fixed interest rates or the Loan Prime Rate ("LPR") plus 0.15% to 1.09%.

(b) The Group's bank borrowings are secured by charges over certain assets of the Group as follows:

	Notes	**2020 RMB'000**	2019 RMB'000
Property, plant and equipment	13	**115,370**	118,045
Bills receivable	22	**5,000**	5,000
Pledged deposits	27	**302,229**	271,673
		422,599	394,718

31. Deferred Tax

The movements in deferred tax liabilities and assets during the years are as follows:

	Fair value adjustments of right-of-use assets, property, plant and equipment and intangible assets arising on business combination RMB'000	Fair value adjustments of equity instruments at FVTOCI RMB'000	ECL provision RMB'000	Total RMB'000
At 1 January 2019	(14,868)	9,067	4,200	(1,601)
Deferred tax credited to profit or loss during the year (note 10)	1,341	—	6,279	7,620
Deferred tax charged to other comprehensive income	—	(3,404)	—	(3,404)
At 31 December 2019 and 1 January 2020	(13,527)	5,663	10,479	2,615
Deferred tax credited to profit or loss during the year (note 10)	986	—	10,527	11,513
Deferred tax credited to other comprehensive income	—	154	—	154
At 31 December 2020	(12,541)	5,817	21,006	14,282

Deferred tax assets and liabilities have not been offset for the purpose of presentation in the consolidated statement of financial position as they are not levied to the same taxable entity by the same tax authority. The following is the analysis of the deferred taxation balances for financial reporting purposes:

	2020 **RMB'000**	2019 RMB'000
Deferred tax assets	**33,726**	21,230
Deferred tax liabilities	**(19,444)**	(18,615)
	14,282	2,615

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

31. Deferred Tax (Continued)

At 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. It is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised totalled approximately RMB3,337 million at 31 December 2020 (2019: RMB2,873 million).

The Group has tax losses arising in Mainland China of RMB186,120,000 (2019: RMB158,665,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividend by the Company to its shareholders.

32. Share Capital

	2020 **HK$'000**	2019 HK$'000
Authorised:		
100,000,000,000 ordinary shares of HK$0.10 each	**1,000,000**	1,000,000

	2020 **RMB'000**	2019 RMB'000
Issued and fully paid:		
995,879,675 (2019: 999,961,675) ordinary shares of HK$0.10 (2019: HK$0.10) each	**9,906**	9,947

32. Share Capital (Continued)

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 (note)	(2,500,000)	(22)
At 31 December 2019 and 1 January 2020	999,961,675	9,947
Shares cancelled (note)	(4,082,000)	(41)
At 31 December 2020	995,879,675	9,906

Note:

The Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares	Price per share Highest HK$	Lower HK$	Aggregate consideration paid RMB'000
January 2019	1,000,000	3.80	3.70	3,337
April 2019	1,400,000	4.10	3.95	4,980
May 2019	2,682,000	3.91	3.32	8,794
	5,082,000			17,111

During the year ended 31 December 2019, the Company cancelled 1,000,000 shares together with 1,500,000 repurchased in prior periods in January 2019. During the year ended 31 December 2020, the Company cancelled 4,082,000 shares of which RMB41,000 was credited to share repurchase reserve. As at 31 December 2020, there were no outstanding repurchased shares not yet cancelled.

33. Share-Based Payment Transactions

Share option scheme

The Company's share option scheme (the "Scheme") was adopted for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity"). Eligible participants of the Scheme include directors and employees of the Company, its subsidiaries or any Invested Entity, suppliers and customers of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity, and any shareholder of any members of the Group or any Invested Entity or any holder of any securities issued by any members of the Group or any Invested Entity. The Scheme became effective on 16 May 2016 and, unless otherwise terminated or amended, will remain in force for 10 years. As at 31 December 2020, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 18,000,000 (2019: 18,000,000), representing approximately 1.8% (2019: 1.8%) of the then issued share capital of the Company.

The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the Company's shares in issue as at the first date of listing. The limit may be increased to 20% of the then issued share capital of the Company from time to time upon shareholders' approval at a general meeting of the shareholders. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Group shall not exceed such number of Company's shares as equal to 30% of the issued share capital of the Company from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time unless prior approval has been obtained from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 30 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. There is no minimum period for which an option must be held before the exercise of the subscription right attaching hereto except otherwise imposed by the board of directors. The exercise price is specified in the rules governing the share option scheme and shall not be lower than the highest of the (i) official closing price of the ordinary shares of the Company on the Stock Exchange on the date of the offer of grant of options; (ii) the average of the official closing prices of the ordinary shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options; and (iii) the nominal value of an ordinary share of the Company.

33. Share-Based Payment Transactions (Continued)

Share option scheme (Continued)

The following table discloses movements of the Company's share options held by employees and consultants during the current and prior year under the Scheme:

Category	Date of grant	Vesting period	Exercise period	Exercise price* HK$	Outstanding 1 January 2019	Exercised during the year	Outstanding 31 December 2019	Exercise during the year	Outstanding 31 December 2020
Employees	10.2.2014	10.2.2014 to 9.2.2017	10.2.2017 to 9.2.2024	4.680	9,000,000	—	9,000,000	—	9,000,000
Consultants	10.2.2014	10.2.2014 to 9.2.2018	10.2.2018 to 9.2.2024	4.680	9,000,000	—	9,000,000	—	9,000,000
Total					18,000,000	—	18,000,000	—	18,000,000
Exercisable at year end				18,000,000		18,000,000		18,000,000	
Weighted average exercise price (HK$)				4.680	N/A	4.680	N/A	4.680	

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

No share option was granted or exercised during the year ended 31 December 2020 (2019: Nil).

At the end of the reporting period, the Company had 18,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 18,000,000 additional ordinary shares of the Company and additional share capital of HK$1,515,000 (equivalent to RMB1,275,000) and share premium of HK$82,725,000 (equivalent to RMB69,621,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 18,000,000 share options outstanding under the Scheme, which represented approximately 1.8% of the Company's shares in issue as at that date.

No share-based payment expenses have been recognised in profit or loss for the both years as the share options were fully vested in 2017 and 2018.

Share award scheme

The Company's share award scheme (the "Share Award Scheme") was adopted pursuant to a resolution passed on 3 May 2016. Pursuant to the Share Award Scheme under which eligible employees are entitled to participate. The purpose of the Share Award Scheme is to recognise the contribution by certain employees and to provide them with incentives in order to retain them for the continual operation and development of the Group and also to attract suitable personnel for further development of the Group. The Share Award Scheme became effective on 3 May 2016 and, unless otherwise terminated or amended, will remain in force for 10 years.

33. Share-Based Payment Transactions (Continued)

Share award scheme (Continued)

The Share Award 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 in which the directors of the Company are prohibited by the Listing Rules or any corresponding codes or securities dealing restrictions adopted by the Company. In any given financial year of the Company, the maximum number of shares to be purchased by the trustee for the purpose of the Share Award shall not exceed 10% of the total number of issued shares as at the beginning of that financial year.

The directors would notify the trustee of the Share Award Scheme in writing upon the grant 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 granted under the Share Award Scheme.

During the year ended 31 December 2020, 808,000 (2019: 5,686,000) ordinary shares of the Company have been acquired at an aggregate cost of HK$1,594,000 (equivalent to RMB1,384,000) (2019: HK$19,650,000 (equivalent to RMB17,409,000)). On 18 September 2020, 5 employees have been awarded 2,200,000 ordinary shares of the Company under the Share Award Scheme which were distributed and immediately vested. The fair value of the share awards amounting to RMB3,807,000 is recognised as staff cost in profit or loss for the year ended 31 December 2020 (2019: Nil). As at 31 December 2020, 10,894,000 (2019: 12,286,000) ordinary shares of the Company were held by the trustee of the Share Award Scheme.

34. 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 therefor.

(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 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 the share award scheme represent the own shares of the Company repurchased by a trustee for an employees' share award scheme.

(iv) Other reserve mainly comprises equity transactions debited to the other reserve of RMB57,166,000 and the excess of the balance of share award plan assets over the carrying amount of shares held under the share award plan of the Company, which was recognised upon termination of the plan in prior years and credited to the other reserve of RMB33,164,000.

34. Reserves (Continued)

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

During the year ended 31 December 2020, the Group has completed the spin-off of its Communication and Fluid Advanced Metering Infrastructure business through a separate listing of a then non-wholly-owned subsidiary, Willfar Information Technology Company Limited and its subsidiaries (together as "Willfar Group") on the Science and Technology Innovation Board of the Shanghai Stock Exchange. The difference of RMB250,621,000 between the non-controlling interests recognised, reserves released and the net consideration was credited to other reserve.

During the year ended 31 December 2020, the Group acquired 2,020,100 ordinary shares, equivalent to 5.8% equity interests in Zhuhai Zhonghui Microelectronics Co., Ltd., a non-wholly-owned subsidiary incorporated in the PRC, from its non-controlling shareholder at a consideration of RMB7.15 per share, for a total consideration of RMB14,444,000 with a transaction cost of RMB27,000. The difference of RMB10,924,000 between the non-controlling interests derecognised and the net consideration was debited to other reserve.

During the year ended 31 December 2020, Wasion Electric Limited, a wholly-owned subsidiary of the Group issued 46,670,000 ordinary shares, equivalent to 10% equity interests, to its non-controlling shareholder at a consideration of RMB1.7 per share, for a total consideration of approximately RMB79,339,000. The difference of RMB5,443,000 between the non-controlling interests recognised and the consideration was debited to other reserve.

During the year ended 31 December 2019, the Group acquired 10% equity interests in a non-wholly-owned subsidiary from its non-controlling shareholder at a consideration of RMB3,000,000. The difference of RMB648,000 between the non-controlling interests derecognised and the consideration was debited to other reserve.

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 94 and 95 of this annual report.

35. Business Combination

On 27 November 2019, the Group acquired a 100% interest in Dowertech Electronic Instrument Industry of Amazon S.A. ("Dowertech") through two wholly-owned subsidiaries, Wasion Power Company Limited and Wasion Group Limited, from independent individual third parties (the "Seller"). Dowertech is a company established in the Federative Republic of Brazil and is principally engaged in the manufacture and sale of electronic electricity meters. The acquisition of Dowertech is to explore new sales channel for the Group's products in South America. Pursuant to the underlying sales and purchase agreement, the consideration for the acquisition was Brazilian Real 4, equivalent to RMB8.

The fair values of the identifiable assets and liabilities of Dowertech as at the date of acquisition were as follows:

	Note	**During the year ended 31 December 2019 Fair value recognised on acquisition** RMB'000
Property, plant and equipment	13	7,351
Trade receivables		7,215
Other receivables		1,933
Inventories		10,744
Cash and bank balances		1,015
Trade payables		(204)
Other payables		(834)
Interest-bearing bank borrowings		(42,573)
Total identifiable net liabilities at fair value		(15,353)
Goodwill on acquisition		15,353
		—
Satisfied by:		
Cash (Brazilian Real 4)		—

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB7,215,000 and RMB1,933,000, respectively. All trade receivables and other receivables are expected to be collectible.

The Group incurred transaction costs of RMB2,132,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

35. Business Combination (Continued)

The directors of the Company consider the acquisition of Dowertech as an effort to expand the distribution networks of the Group's products in the southern region of America and the goodwill on acquisition mainly represents the expected incremental values and potential synergies for the expansion plans of the Group.

An analysis of the cash flows in respect of the acquisition of the subsidiary is as follows:

	During the year ended 31 December 2019 RMB'000
Cash consideration	—
Cash and bank balances acquired	1,015
Net inflow of cash and cash equivalents included in cash flows from investing activities	1,015

Since the acquisition, Dowertech contributed RMB2,745,000 to the Group's revenue and loss of RMB1,182,000 to the consolidated profit for the year ended 31 December 2019.

Had the combination taken place at the beginning of the year ended 31 December 2019, the revenue of the Group and the profit of the Group for the year would have been RMB3,704,216,000 and RMB344,060,000, respectively.

36. Deemed Partial Disposal of Interest in a Subsidiary

On 21 January 2020, the Group has completed the spin-off of its Communication and Fluid Advanced Metering Infrastructure business through a separate listing of a then non-wholly-owned subsidiary, Willfar Group on the Shanghai Stock Exchange 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 RMB 1 each by Willfar at an issue price of RMB13.78 per share, which raised a total gross cash proceeds of approximately RMB689,000,000.

Immediately following the completion of the Spin-Off, the Group's equity interest in Willfar was diluted from 65% to 58.5% and thus the Spin-Off is considered as a deemed partial disposal. Since the deemed partial disposal of Willfar did not result in any loss of control, the transaction was accounted for as an equity transaction.

36. Deemed Partial Disposal of Interest in a Subsidiary (Continued)

An analysis of the cash flows in respect of the deemed partial disposal of an interest in Willfar Group is as follows:

	RMB'000
Gross proceeds from the Spin-Off	689,000
Less: Listing expenses	(78,166)
Net inflow of cash and cash equivalents in respect of the deemed partial disposal of an interest in a subsidiary	610,834

37. Notes to the Consolidated Statement of Cash Flows

(a) Changes in liabilities arising in financing activities

	Bank borrowings RMB'000	**Lease liabilities** RMB'000
As at 1 January 2019	1,418,167	3,252
Changes from financing cash flows	519,350	(8,777)
Additions	—	10,281
Addition as a result of acquisition of a subsidiary	42,573	—
Interest expenses	86,175	343
Interest paid classified as operating cash flows	—	(343)
Foreign exchange movement	7,604	92
As at 31 December 2019 and 1 January 2020	**2,073,869**	**4,848**
Changes from financing cash flows	**143,456**	**(9,471)**
Additions	**—**	**15,298**
Interest expenses	**95,665**	**597**
Interest paid classified as operating cash flows	**—**	**(597)**
Foreign exchange movement	**(22,867)**	**(1,032)**
As at 31 December 2020	**2,290,123**	**9,643**

37. Notes to the Consolidated Statement of Cash Flows (Continued)

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020 **RMB'000**	2019 RMB'000
Within operating activities	**597**	343
Within financing activities	**9,471**	8,777
	10,068	9,120

38. Pledge of Assets

Details of the Group's assets pledged for the Group's bank loans are included in note 30(b) to the financial statements.

39. Commitments

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

	2020 **RMB'000**	2019 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**38,804**	19,184

40. Related Party Disclosures

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

	Notes	2020 RMB'000	2019 RMB'000
Sales of goods to a joint venture	(i)	**48,409**	63,376
Interest received from a joint venture	(ii)	**884**	1,107
Rental income received from a joint venture		**310**	474

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 bears interest at 4.35% (2019: 4.71%) per annum and is repayable in 2021.

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

	2020 RMB'000	2019 RMB'000
Short-term benefits	**5,124**	5,483
Equity-settled share award expense	**658**	—
Retirement benefit scheme contributions	**77**	112
	5,859	5,595

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

41. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2020

Financial assets

	Financial assets at FVTPL RMB'000	Equity investments at FVTOCI RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	—	—	3,850,096	3,850,096
Loan receivables	—	—	109,384	109,384
Financial assets included in prepayments, other receivables and other assets	—	—	268,406	268,406
Equity instruments designated at FVTOCI	—	78,775	—	78,775
Financial assets at FVTPL	200,000	—	—	200,000
Structured deposits	80,000	—	—	80,000
Pledged deposits	—	—	302,229	302,229
Cash and bank balances	—	—	2,255,473	2,255,473
	280,000	78,775	6,785,588	7,144,363

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	2,963,135
Financial liabilities included in other payables and accruals	102,474
Interest-bearing bank borrowings	2,290,123
Lease liabilities	9,643
	5,365,375

41. Financial Instruments by Category (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

2019

Financial assets

	Financial assets at FVTPL RMB'000	Equity investments at FVTOCI RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	—	—	3,238,445	3,238,445
Loan receivables	—	—	105,000	105,000
Financial assets included in prepayments, other receivables and other assets	—	—	268,746	268,746
Equity investments designated at FVTOCI	—	97,327	—	97,327
Financial assets at FVTPL	200,000	—	—	200,000
Pledged deposits	—	—	271,673	271,673
Cash and bank balances	—	—	1,778,088	1,778,088
	200,000	97,327	5,661,952	5,959,279

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	2,880,646
Financial liabilities included in other payables and accruals	79,248
Interest-bearing bank borrowings	2,073,869
Lease liabilities	4,848
	5,038,611

42. 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	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities				
Interest-bearing bank borrowings	**2,290,123**	2,073,869	**2,251,469**	1,903,430

Management has assessed that the fair values of cash and bank balances, trade and bills receivables, loan receivables, pledged deposits, trade and bills payables, financial assets included in prepayments, other receivables and other assets and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager 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 the chief financial officer. 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 investments designated at FVTOCI, have been estimated using a market-based valuation technique or a recent transaction price based on assumptions that are not supported by observable market prices or rates. For market-based valuation technique, the valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EBITDA") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. For valuation based on recent transaction price, the valuation is made by reference to the transaction price of the same investment being valued. The directors of the Company believe that the estimated fair values resulting from the valuation technique, which are recorded in the 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.

42. 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 the 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 consolidated statement of financial position with net changes in fair value recognised in 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 the 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 the significant unobservable input to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December:

2020

	Valuation technique	**Significant unobservable input**	**Multiple**	**Sensitivity of fair value to the input**
Unlisted equity investments designated at FVTOCI — B	Valuation multiple	EV/EBITDA multiple of peers	6.3	1% increase/decrease in the multiple would result in increase/decrease in fair value by RMB211,000

2019

	Valuation technique	Significant unobservable input	Multiple	Sensitivity of fair value to the input
Unlisted equity investments designated at FVTOCI — B	Valuation multiple	EV/EBITDA multiple of peers	8.5	1% increase/decrease in the multiple would result in increase/decrease in fair value by RMB329,000

42. 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:

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Equity investments designated at FVTOCI	**49,156**	**—**	**29,619**	**78,775**
Financial assets at FVTPL	**—**	**200,000**	**—**	**200,000**
Structured deposits	**—**	**80,000**	**—**	**80,000**
	49,156	**280,000**	**29,619**	**358,775**

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
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

42. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Fair value hierarchy (Continued)

The movements in fair value measurements within Level 3 during the year are as follows:

	2020 RMB'000	2019 RMB'000
Equity investments designated at FVTOCI:		
At 1 January	**25,884**	21,748
Total gains recognised in the statement of comprehensive income	**3,735**	4,136
At 31 December	**29,619**	25,884

As at 31 December 2020, the Group's financial liabilities not measured at fair value but for which fair values were disclosed included interest-bearing bank borrowings with fair value of RMB2,251,469,000 (2019: RMB1,903,430,000). The fair values of these financial liabilities disclosed were measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair values are observable, either directly or indirectly (Level 2).

The Group did not have any financial liabilities measured at fair value as at 31 December 2020 (2019: Nil).

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

43. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise interest-bearing bank borrowings, loan receivables, cash and bank balances and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as financial assets at FVTPL, equity investments designated at FVTOCI, trade and bills receivables, other receivables, trade payables and other payables.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk, equity price risk and market risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

43. Financial Risk Management Objectives and Policies (Continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and bank balances and debt obligations with a floating interest rate.

The interest rates and terms of repayment of interest-bearing bank borrowings are disclosed in note 30 to the consolidated financial statements. Other financial assets and liabilities of the Group do not have material interest rate risk. Interest-bearing bank borrowings and cash and bank balances are stated at cost and are not revalued on a periodic basis. Floating-rate interest income and expenses are credited or charged to profit or loss as incurred.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on interest-bearing bank borrowings and cash and bank balances) and Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
31 December 2020		
RMB	**100**	**12,399**
RMB	**(100)**	**(12,399)**
HK$	**100**	**(7,565)**
HK$	**(100)**	**7,565**
31 December 2019		
RMB	100	5,183
RMB	(100)	(5,183)
HK$	100	(6,473)
HK$	(100)	6,473

43. Financial Risk Management Objectives and Policies (Continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 9.7% (2019: 5.8%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, while approximately 96.3% (2019: 99.9%) of cost were denominated in the units' functional currencies. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in RMB exchange rates against US$ and HK$, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in profit before tax**
	%	RMB'000
31 December 2020		
If RMB weakens against US$	**5**	**9,732**
If RMB strengthens against US$	**(5)**	**(9,732)**
If RMB weakens against HK$	**5**	**(37,959)**
If RMB strengthens against HK$	**(5)**	**37,959**
31 December 2019		
If RMB weakens against US$	5	7,018
If RMB strengthens against US$	(5)	(7,018)
If RMB weakens against HK$	5	(32,513)
If RMB strengthens against HK$	(5)	32,513

43. Financial Risk Management Objectives and Policies (Continued)

Credit risk and impairment assessment

As at 31 December 2020, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arose from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Trade receivables and contract assets arising from contracts with customers

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which covered over 96% (2019: over 96%) of its total receivables as at 31 December 2020. There is no significant concentration of credit risk on trade receivables.

The Group's customer base is diverse and the trade receivables consist of a large number of customers.

The Group does not hold any collateral over these balances. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group performs impairment assessment based on the probability of default approach by estimating the probability of default, loss given default and exposure at default. The ECL assessment considers all reasonable and supportable information, including past experience and forward-looking information.

The contract assets have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Group has therefore concluded that the loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

Bank balances

The credit risks on pledged deposits and bank balances are limited because the counterparties are state-owned banks or financial institutions with high credit ratings assigned by international credit-rating agencies. The management of the Group also considers that these assets are short-term in nature and the probability of default is negligible on the basis of high-credit-rating issuers.

43. Financial Risk Management Objectives and Policies (Continued)

Credit risk and impairment assessment (Continued)

Loan receivables, other receivables and deposits

The directors of the Company make periodic individual assessment on the adequacy of ECL of loan receivables, other receivables and deposits based on the probability of default approach. Details of the approach are discussed in the section headed "Trade receivables and contract assets arising from contracts with customers". The directors of the Company believe that there is no significant increase in credit risk of these amounts since initial recognition and the Group provides impairment based on 12-month ECL. For the years ended 31 December 2020 and 2019, the Group assessed that the ECL on loan receivables, other receivables and deposits was insignificant and thus no loss allowance was recognised.

There are no past due amounts for loan receivables and other receivables and the Group assesses that there has been no significant increase in credit risk since initial recognition. The 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

The Group has a concentration of credit risk on liquid funds, which are deposited with several banks with good reputation. The loan receivables disclosed in note 24 are also concentrated in a certain independent third party, and the directors consider the credit risk is significantly reduced as there were history of continuous repayment. Other than the above, the Group does not have any other significant concentration of credit risk.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ contract assets	Other financial assets/ other items
Low risk (Grade 1)	The counterparty is a regular customer with the Group, with a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired	12-month ECL
Low risk (Grade 2)	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired	12-month ECL
Watch list (Grade 3)	Debtor with long aged balance, but usually settle the amount in full with a strong financial background	Lifetime ECL — not credit-impaired	12-month ECL
Doubtful (Grade 4)	There have been significant increases in credit risk since initial recognition due to failure to repay as scheduled	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating that the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

Credit risk and impairment assessment (Continued)

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and bills receivables					
– Grade 1	280,325	—	—	2,029,251	2,309,576
– Grade 2	—	—	—	229,465	229,465
– Grade 3	—	—	—	1,328,754	1,328,754
– Grade 4	—	—	—	45,018	45,018
– Loss	—	—	—	60,907	60,907
	280,325	—	—	3,693,395	3,973,720
Contract assets					
– Grade 1	—	—	—	289,510	289,510
– Grade 2	—	—	—	48,688	48,688
– Grade 3	—	—	—	313,293	313,293
– Grade 4	—	—	—	5,559	5,559
	—	—	—	657,050	657,050
Financial assets included in prepayments, other receivables and other assets					
– Grade 3	268,406	—	—	—	268,406
Loan receivables					
– Grade 1	109,384	—	—	—	109,384
Loan receivable from a joint venture*					
– Grade 3	—	17,850	—	—	17,850
Pledged deposits					
– Grade 1	302,229	—	—	—	302,229
Cash and bank balances					
– Grade 1	2,255,473	—	—	—	2,255,473
	3,215,817	17,850	—	4,350,445	7,584,112

43. Financial Risk Management Objectives and Policies (Continued)

Credit risk and impairment assessment (Continued)

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and bills receivables					
– Grade 1	213,428	—	—	1,384,975	1,598,403
– Grade 2	—	—	—	215,146	215,146
– Grade 3	—	—	—	1,378,806	1,378,806
– Grade 4	—	—	—	75,746	75,746
– Loss	—	—	—	38,081	38,081
	213,428	—	—	3,092,754	3,306,182
Contract assets					
– Grade 1	—	—	—	221,944	221,944
– Grade 2	—	—	—	36,204	36,204
– Grade 3	—	—	—	322,186	322,186
– Grade 4	—	—	—	9,007	9,007
	—	—	—	589,341	589,341
Financial assets included in prepayments, other receivables and other assets					
– Grade 3	268,746	—	—	—	268,746
Loan receivables					
– Grade 3	105,000	—	—	—	105,000
Loan receivable from a joint venture*					
– Grade 3	—	18,000	—	—	18,000
Pledged deposits					
– Grade 1	271,673	—	—	—	271,673
Cash and bank balances					
– Grade 1	1,778,088	—	—	—	1,778,088
	2,636,935	18,000	—	3,682,095	6,337,030

* For the loan receivable from a joint venture, and the balance due from the joint venture included in trade receivables and contract assets, which was RMB75,853,000 in aggregate (2019: RMB64,839,000), management considered the ECL impact was minimal as the Group expects to recover the full amount of the balances.

43. Financial Risk Management Objectives and Policies (Continued)

Credit risk and impairment assessment (Continued)

As at 31 December 2020, debtors which are credit-impaired with a gross carrying amount of RMB60,907,000 (2019: RMB38,081,000) were assessed individually. The information about the exposure to credit risk for trade receivables and contract assets which are assessed based on a provision matrix as at 31 December within the lifetime ECL (not credit impaired) was as follows:

Gross carrying amounts

	2020			2019		
Internal credit rating	Average loss rate	Trade receivables RMB'000	Contract assets RMB'000	Average loss rate	Trade receivables RMB'000	Contract assets RMB'000
Grade 1–2	**0.6%**	**2,258,716**	**338,198**	0.0%	1,600,121	258,148
Grade 3	**0.9%**	**1,328,754**	**313,293**	1.5%	1,378,806	322,186
Grade 4	**85.0%**	**45,018**	**5,559**	13.1%	75,746	9,007
Loss	**100%**	**60,907**	**—**	100%	38,081	—
		3,693,395	**657,050**		3,092,754	589,341

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors, adjusted probability of default, loss given default and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure that relevant information about specific debtors is updated.

The movements of impairment allowance of trade receivables are as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	**67,737**	45,830
Provision for impairment losses, net	**55,887**	21,907
At end of year	**123,624**	67,737

The movements of impairment allowance of contract assets are as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	**5,844**	2,633
Provision for impairment losses, net	**—**	3,211
At end of year	**5,844**	5,844

43. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of long term bank loans and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

31 December 2020

	On demand RMB'000	No later than 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and bills payables	**—**	**2,963,135**	**—**	**2,963,135**
Other payables and accruals	**102,474**	**—**	**—**	**102,474**
Interest-bearing bank borrowings	**—**	**1,815,134**	**533,017**	**2,348,151**
Lease liabilities	**—**	**5,424**	**4,782**	**10,206**
	102,474	**4,783,693**	**537,799**	**5,423,966**

31 December 2019

	On demand RMB'000	No later than 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and bills payables	—	2,880,646	—	2,880,646
Other payables and accruals	79,248	—	—	79,248
Interest-bearing bank borrowings	—	1,665,405	506,545	2,171,950
Lease liabilities	—	3,081	1,819	4,900
	79,248	4,549,132	508,364	5,136,744

43. Financial Risk Management Objectives and Policies (Continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments included in equity investments designated at FVTOCI (note 19) as at 31 December 2020. The Group's listed investments are listed on the stock exchanges and are valued at quoted market prices at the end of the reporting period.

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period, of the Group's profit before tax and equity.

	Carrying amount of equity investments RMB'000	**Increase/ (decrease) in equity*** RMB'000
31 December 2020		
Investments listed in:		
Hong Kong — Equity investments designated at FVTOCI	**38,803**	**3,880/(3,880)**
PRC — Equity investments designated at FVTOCI	**10,353**	**1,035/(1,035)**
31 December 2019		
Investments listed in:		
Hong Kong — Equity investments designated at FVTOCI	54,154	5,415/(5,415)
PRC — Equity investments designated at FVTOCI	17,289	1,729/(1,729)

* Excluding accumulated losses

43. Financial Risk Management Objectives and Policies (Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made to the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

The Group monitors capital using a gearing ratio, which is total debt divided by total assets. Total debt represents interest-bearing bank borrowings. The gearing ratios as at the end of the reporting periods were as follows:

	2020 **RMB'000**	2019 RMB'000
Total debt	**2,290,123**	2,073,869
Total assets	**11,270,083**	10,096,774
Gearing ratio	**20.3%**	20.5%

44. Partly-Owned Subsidiaries with Material Non-Controlling Interests

Details of the Group's subsidiary that have material non-controlling interests are set out below:

	2020	2019
Percentage of equity interest held by non-controlling interests:		
Willfar	**41.5%**	35%

	2020 **RMB'000**	2019 RMB'000
Profit for the year attributable to non-controlling interests:		
Willfar	**113,062**	78,124
Dividends paid to non-controlling interests of Willfar	**36,300**	—
Accumulated balances of non-controlling interests at the report date:		
Willfar	**1,042,152**	598,442

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

	Willfar	
	2020 **RMB'000**	2019 RMB'000
Revenue	**1,366,088**	1,312,699
Total expenses	**(1,085,773)**	(1,088,706)
Profit for the year	**280,315**	223,993
Total comprehensive income for the year	**280,315**	223,993
Current assets	**2,884,090**	2,090,149
Non-current assets	**505,882**	502,241
Current liabilities	**(873,010)**	(870,792)
Non-current liabilities	**(4,917)**	(11,764)
Net cash flows from operating activities	**186,329**	229,185
Net cash flows (used in)/from investing activities	**(384,290)**	16,426
Net cash flows from financing activities	**507,820**	—
Net increase in cash and cash equivalents	**309,859**	245,611

45. Statement of the Financial Position of the Company

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**1,198,157**	1,210,918
Other non-current assets	**68,266**	85,366
Total non-current assets	**1,266,423**	1,296,284
CURRENT ASSETS		
Other receivables	**10,914**	10,076
Due from subsidiaries	**—**	245,680
Cash and bank balances	**6,914**	23,505
Total current assets	**17,828**	279,261
CURRENT LIABILITIES		
Other payables	**4,813**	3,876
Due to subsidiaries	**119,940**	—
Interest-bearing bank borrowings	**67,328**	72,988
Total current liabilities	**192,081**	76,864
NET CURRENT (LIABILITIES)/ASSETS	**(174,253)**	202,397
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,092,170**	1,498,681
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**—**	197,000
NET ASSETS	**1,092,170**	1,301,681
EQUITY		
Issued capital	**9,906**	9,947
Reserves (note)	**1,082,264**	1,291,734
Total equity	**1,092,170**	1,301,681

45. Statement of the Financial Position of the Company (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Merger reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Other reserve RMB'000	Share repurchase reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2019	1,435,617	198,399	27,730	(22,012)	33,164	(4,979)	(97,757)	1,570,162
Total comprehensive loss for the year	—	—	—	—	—	—	(22,174)	(22,174)
Shares repurchased and cancelled	(8,263)	—	—	—	—	8,285	—	22
Transaction costs attributable to subscription of shares	(12)	—	—	—	—	(50)	—	(62)
Shares repurchased and yet to be cancelled	—	—	—	—	—	(17,111)	—	(17,111)
Purchase of shares under share award scheme	—	—	—	(17,409)	—	—	—	(17,409)
Dividends paid	(221,694)	—	—	—	—	—	—	(221,694)
At 31 December 2019 and 1 January 2020	**1,205,648**	**198,399**	**27,730**	**(39,421)**	**33,164**	**(13,855)**	**(119,931)**	**1,291,734**
Total comprehensive loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(31,759)**	**(31,759)**
Shares repurchased and cancelled	**(13,814)**	**—**	**—**	**—**	**—**	**13,855**	**—**	**41**
Purchase of shares under share award scheme	**—**	**—**	**—**	**(1,384)**	**—**	**—**	**—**	**(1,384)**
Shares granted under share award scheme	**—**	**—**	**—**	**3,807**	**—**	**—**	**—**	**3,807**
Dividend paid	**(180,175)**	**—**	**—**	**—**	**—**	**—**	**—**	**(180,175)**
At 31 December 2020	**1,011,659**	**198,399**	**27,730**	**(36,998)**	**33,164**	**—**	**(151,690)**	**1,082,264**

46. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 30 March 2021.

RESULTS

	Year ended 31 December				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020** **RMB'000**
Revenue	2,607,504	2,927,989	3,340,321	3,655,646	**3,948,750**
Profit (loss) for the year attributable to:					
Owners of the Company	307,265	301,575	270,817	280,567	**231,190**
Non-controlling interests	640	36,221	59,954	76,811	**112,979**
	307,905	337,796	330,771	357,378	**344,169**

ASSETS AND LIABILITIES

	As at 31 December				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020** **RMB'000**
Total assets	7,493,091	7,884,054	8,608,295	10,096,774	**11,270,083**
Total liabilities	(3,315,377)	(3,224,104)	(3,866,011)	(5,250,374)	**(5,593,625)**
	4,177,714	4,659,950	4,742,284	4,846,400	**5,676,458**
Equity attributable to:					
Owners of the Company	4,148,619	4,166,072	4,186,660	4,216,317	**4,523,301**
Non-controlling interests	29,095	493,878	555,624	630,083	**1,153,157**
	4,177,714	4,659,950	4,742,284	4,846,400	**5,676,458**

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