Wasion Holdings Limited
威勝控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3393)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

- Turnover amounted to RMB1,687.70 million (Period 2019: RMB1,923.93 million), representing a decrease of 12%.
- Revenue from Power AMI decreased by 28% to RMB711.19 million as compared with Period 2019.
- Revenue from Communication and Fluid AMI increased by 9% to RMB636.49 million as compared with Period 2019.
- Revenue from ADO decreased by 4% to RMB340.02 million as compared with Period 2019.
- Net profit for the period attributable to owners of the Company amounted to RMB116.26 million (Period 2019: RMB170.29 million).
- Basic earnings per share for the period amounted to RMB11.8 cents (Period 2019: RMB17.0 cents).
- The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (Period 2019: HK6 cents per ordinary share).

The board of directors (the "**Board**") of Wasion Holdings Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (hereafter collectively referred to as the "**Group**") for the six months ended 30 June 2020, together with the unaudited comparative figures for the corresponding period in 2019 ("**Period 2019**"), as follows:

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

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Six months ended 30 June	
	Notes	**2020**	2019
		RMB'000	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*3*	**1,687,701**	1,923,930
Cost of sales		**(1,145,015)**	(1,342,659)
Gross profit		**542,686**	581,271
Other income, gains and losses, net		**91,286**	61,905
Administrative expenses		**(85,337)**	(84,923)
Selling expenses		**(148,812)**	(151,660)
Research and development expenses		**(126,967)**	(115,920)
Impairment losses on financial assets and contract assets		**(13,867)**	(8,406)
Finance costs		**(49,433)**	(38,002)
Share of results of a joint venture		**—**	(4,000)
Share of results of associates		**—**	171
Profit before tax	*4*	**209,556**	240,436
Income tax expense	*5*	**(35,664)**	(28,544)
PROFIT FOR THE PERIOD		**173,892**	211,892
Profit for the period attributable to			
— Owners of the parent		**116,264**	170,294
— Non-controlling interests		**57,628**	41,598
		173,892	211,892
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	*7*	**RMB11.8 cents**	RMB17.0 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PROFIT FOR THE PERIOD	**173,892**	211,892
OTHER COMPREHENSIVE (LOSS)/INCOME:		
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Change in fair value	**(11,026)**	11,528
Tax effect	**2,549**	(2,459)
	(8,477)	9,069
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(14,376)**	(4,453)
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	**(22,853)**	4,616
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**151,039**	216,508
Attributable to:		
Owners of the parent	**93,411**	174,910
Non-controlling interests	**57,628**	41,598
	151,039	216,508

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

	Notes	**30 June 2020** *RMB'000* **(unaudited)**	31 December 2019 *RMB'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,286,436**	1,288,959
Right-of-use assets		**185,942**	188,024
Investment properties		**28,108**	28,407
Goodwill		**313,272**	313,272
Other intangible assets		**504,022**	485,523
Investment in a joint venture		**—**	—
Equity investments designated at fair value through other comprehensive income		**86,330**	97,327
Financial assets at fair value through profit or loss		**—**	200,000
Prepayments, other receivables and other assets		**137,027**	135,870
Deferred tax assets		**27,882**	21,230
		2,569,019	2,758,612
CURRENT ASSETS			
Inventories		**611,559**	541,345
Trade and bills receivables	*8*	**3,737,689**	3,238,445
Contract assets	*9*	**628,866**	583,497
Loan receivables		**105,000**	105,000
Prepayments, other receivables and other assets		**641,634**	820,114
Financial assets at fair value through profit or loss		**200,000**	—
Structured deposits		**543,558**	—
Pledged deposits		**282,861**	271,673
Cash and cash equivalents		**1,659,930**	1,778,088
		8,411,097	7,338,162
CURRENT LIABILITIES			
Trade and bills payables	*10*	**2,687,660**	2,880,646
Other payables and accruals		**482,617**	221,813
Interest-bearing bank and other borrowings		**2,207,434**	1,618,639
Lease liabilities		**3,166**	3,048
Tax payable		**62,113**	50,583
		5,442,990	4,774,729
NET CURRENT ASSETS		**2,968,107**	2,563,433
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,537,126**	5,322,045

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AT 30 JUNE 2020

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION
FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Company is incorporated In the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors consider the immediate and ultimate holding company to be Star Treasure Investments Holdings Limited, a limited liability company incorporated in the British Virgin Islands (the "BVI"). The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies, and the Company's 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.

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS39 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 impact of the revised HKFRSs are described below:

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

(b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

(c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

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

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

3. REVENUE AND OPERATING SEGMENT INFORMATION

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

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

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

- Advanced distribution operations segment, which engages in the manufacture and sale of smart power distribution devices and provision of smart power distribution solution and energy efficiency solution.

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

Six months ended 30 June 2020 (unaudited)

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

Six months ended 30 June 2019 (unaudited)

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

An analysis of revenue is as follows:

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

Revenue from contracts with customers

(i) ***Disaggregated revenue information***

For the six months ended 30 June 2020 (unaudited)

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

For the six months ended 30 June 2019 (unaudited)

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

4. PROFIT BEFORE TAX

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

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

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

** Included in "Cost of inventories sold".

5. INCOME TAX

No provision for Hong Kong Profits Tax has been made as the Group did not earn any income that was subject to Hong Kong Profits Tax during each of the six months ended 30 June 2019 and 2020.

Tax on profits assessable in the PRC has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% (30 June 2019: 25%), except that certain PRC subsidiaries which are approved as enterprises that satisfied the condition as high technology development enterprises and obtained the Certificate of High New Technology Enterprise can continue to enjoy the preferential tax rate of 15% for a consecutive three years from year 2017 to 2019, year 2018 to 2020 or year 2019 to 2021.

In addition, according to relevant laws and regulations promulgated by the State Administration of Tax of the PRC, certain of the subsidiaries established in the PRC engaging in research and development activities are entitled to claim additional 50% to 75% of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the period. The qualified PRC subsidiaries can enjoy the additional deduction of 75% of qualified research and development expenses for a consecutive three years from year 2018 to 2020.

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

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

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

6. DIVIDENDS

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

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

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

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

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

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

Note: The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award scheme of the Company.

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

8. TRADE AND BILLS RECEIVABLES

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

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

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

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

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

9. CONTRACT ASSETS

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

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

10. TRADE AND BILLS PAYABLES

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

Macro Environment

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

Review of Power Grid Industry Data

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

Review of Major Policies of the Power Grid Industry

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

Review of the Group's Overall Performance

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

Business Review

Power Advanced Metering Infrastructure ("Power AMI")

Business Overview

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

Review of Business

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

Order Data in the Period under Review

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

Review of Development of Power AMI Business and Relevant Policies

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

Prospects of Power AMI Business

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

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

Communication and Fluid Advanced Metering Infrastructure (“Communication and Fluid AMI”)

Business Overview

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

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

Review of Business

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

Order Data in the Period under Review

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

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

(i) Communication Business

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

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

(ii) Water Business

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

Prospects of Communication and Fluid AMI

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

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

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

Advanced Distribution Operations ("ADO")

Business Overview

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

Review of Business

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

Order Data in the Period under Review

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

Review of ADO Business and Relevant Policies

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

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

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

Prospects of ADO Business

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

International Markets

Global Smart Power Meter Data

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

Results Review

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

Order Data in the Period under Review

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

Market Development of Each Country

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

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

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

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

Future Development of International Markets

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

Research and Development ("R&D")

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

Power AMI Business

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

Communication and Fluid AMI Business

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

ADO Business

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

International Markets

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

Financial Review

Revenue

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

Gross Profit

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

Other Income

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

Other gains and losses

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

Operating Expenses

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

Finance Costs

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

Operating Profit

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

Profit Attributable to Equity Shareholders of the Company

The profit attributable to equity shareholders of the Company for the six months ended 30 June 2020 decreased by 32% to RMB116.26 million (Period 2019: RMB170.29 million) as compared with the corresponding period of last year.

Liquidity and Financial Resources

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

As at 30 June 2020, the Group's current assets amounted to approximately RMB8,411.10 million (31 December 2019: RMB7,338.16 million), with cash and cash equivalents totaling approximately RMB1,659.93 million (31 December 2019: RMB1,778.09 million).

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

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

Exchange Rate Risk

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

Charge on Assets

As at 30 June 2020, the pledge deposits are denominated in Renminbi and are pledged to banks as security for bills facilities granted to the Group. In addition, the Group's land and buildings are pledged to banks as security for bank loans to the Group. Certain equity instruments designated at fair value through other comprehensive income are pledged as security for other loans to the Group.

Capital Commitments

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

Contingent Liabilities

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

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 30 June 2020:

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

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

Change of auditor

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

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

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

Employees and Remuneration Policies

As at 30 June 2020, the Group had 3,503 (31 December 2019: 3,460) staff. Employee remuneration is determined on performance, experience and prevailing market conditions, with compensation policies being reviewed on a regular basis. The Company has adopted a share option scheme to recognize and acknowledge the contributions made or will be made to the Group by the eligible participants. The Company has also adopted a share award plan 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.

Interim Dividend

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

Purchase, Sale or Redemption of Listed Securities

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

Compliance with the Corporate Governance Code of the Listing Rules

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

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

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

Model Code for Securities Transactions

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

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

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

AUDIT COMMITTEE

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

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

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

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE AND THE COMPANY

The electronic version of this announcement will be published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.wasion.com. An interim report of the Company for the six months ended 30 June 2020 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

As at the date of this announcement, the directors are:

Executive Directors
Ji Wei
Cao Zhao Hui
Li Hong
Zheng Xiao Ping
Tian Zhongping

Non-executive Director
Kat Chit

Independent non-executive Directors
Chan Cheong Tat
Luan Wenpeng
Cheng Shi Jie
Wang Yaonan

By order of the Board
Wasion Holdings Limited
Ji Wei
Chairman

Hong Kong, 28 August 2020