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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

- Turnover amounted to RMB3,948.75 million (2019: RMB3,655.65 million), representing an increase of 8%.
- Revenue from Power AMI decreased by 5% to RMB1,633.61 million as compared with 2019.
- Revenue from Communication and Fluid AMI increased by 17% to RMB1,366.09 million as compared with 2019.
- Revenue from ADO increased by 23% to RMB949.05 million as compared with 2019.
- Net profit for the year attributable to owners of the Company amounted to RMB231.19 million (2019: RMB280.57 million).
- Basic earnings per share for the year amounted to RMB23.5 cents (2019: RMB28.4 cents).
- The board of directors has proposed a final dividend of HK$0.20 (equivalent to RMB0.17) per share for the year ended 31 December 2020.

The board of directors (the "**Board**") of Wasion Holdings Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (hereafter collectively referred to as the "**Group**") for the year ended 31 December 2020, together with the comparative figures for the year ended 31 December 2019, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	**2020** *RMB'000*	2019 *RMB'000*
Revenue	*3*	**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	*4*	**166,351**	137,106
Selling expenses		**(360,639)**	(329,319)
Administrative expenses		**(169,280)**	(179,596)
Research and development expenses		**(334,937)**	(245,722)
Impairment losses on financial assets and contract assets, net		**(55,887)**	(25,118)
Finance costs		**(96,262)**	(86,518)
Share of results of a joint venture		**–**	(4,000)
Share of results of associates		**–**	168
Profit before tax	*5*	**395,911**	414,634
Income tax expense	*6*	**(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
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	*8*	**RMB23.5 cents**	RMB28.4 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 *RMB'000*	2019 *RMB'000*
PROFIT FOR THE YEAR	**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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

	Notes	**2020**	2019
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,322,117**	1,288,959
Investment properties		**23,346**	28,407
Right-of-use assets		**188,114**	188,024
Goodwill		**313,272**	313,272
Other intangible assets		**511,201**	485,523
Investment in a joint venture		**—**	—
Equity investments designated at fair value through other comprehensive income		**78,775**	97,327
Financial assets at fair value through profit or loss		**—**	200,000
Loan receivables		**109,384**	—
Prepayments, other receivables and other assets		**132,308**	135,870
Deferred tax assets		**33,726**	21,230
		2,712,243	2,758,612
CURRENT ASSETS			
Inventories		**497,838**	541,345
Trade and bills receivables	*9*	**3,850,096**	3,238,445
Contract assets	*10*	**651,206**	583,497
Loan receivables		**—**	105,000
Prepayments, other receivables and other assets		**720,998**	820,114
Financial assets at fair value through profit or loss		**200,000**	—
Structured deposits		**80,000**	—
Pledged deposits		**302,229**	271,673
Cash and bank balances		**2,255,473**	1,778,088
		8,557,840	7,338,162
CURRENT LIABILITIES			
Trade and bills payables	*11*	**2,963,135**	2,880,646
Other payables and accruals		**258,600**	221,813
Interest-bearing bank borrowings		**1,787,997**	1,618,639
Lease liabilities		**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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AT 31 DECEMBER 2020

	2020	2019
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**502,126**	455,230
Lease liabilities	**4,337**	1,800
Deferred tax liabilities	**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	**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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2020

1. GENERAL INFORMATION AND BASIS OF PREPARATION

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.

The 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. The financial statements are 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 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.

(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 amendments 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.

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 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.

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:				
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**

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:				
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

Geographical information

(a) Revenue from external customers

	2020	2019
	RMB'000	*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	2019
	RMB'000	*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.

4. OTHER INCOME, GAINS AND LOSSES, NET

	2020	2019
	RMB'000	*RMB'000*
Other income		
Bank interest income	**35,999**	26,081
Interest income from structured deposits	**5,249**	3,631
Interest income from loan receivable	**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 investment 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.

5. PROFIT BEFORE TAX

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

	2020	2019
	RMB'000	*RMB'000*
Cost of inventories sold	**2,682,701**	2,378,163
Cost of service rendered	**13,623**	127,934
Depreciation of property, plant and equipment	**60,340**	60,403
Depreciation of investment properties	**598**	968
Depreciation of right-of-use assets	**14,169**	13,450
Amortisation of other intangible assets (excluding the deferred expenditure amortised)*	**6,949**	3,790
Lease payments not included in the measurement of lease liabilities	**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	**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)		
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	**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).

6. 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	2019
	RMB'000	*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	**(11,513)**	(7,620)
Total tax charge for the year	**51,742**	57,256

7. DIVIDENDS

	2020	2019
	RMB'000	*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.

8. 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 those share options granted to employees and consultants was higher than the average market price of the Company's shares during the years.

	2020	2019
	RMB'000	*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

9. TRADE AND BILLS RECEIVABLES

	2020	2019
	RMB'000	*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 receivables with a carrying amount of RMB5,000,000 (2019: RMB5,000,000) were pledged as security for the Group's bank loans.

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

	2020	2019
	RMB'000	*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

10. CONTRACT ASSETS

	2020	2019
	RMB'000	*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.

11. TRADE AND BILLS PAYABLES

	2020	2019
	RMB'000	*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	2019
	RMB'000	*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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

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.

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.

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.

Employees and Remuneration Policies

As at 31 December 2020, the Group had 3,222 (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.

Dividends

The Board has proposed a final dividend of HK$0.20 (2019: HK$0.20) per share to shareholders of the Company (the "**Shareholders**") whose name appear in the register of members of the Company on Tuesday, 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 will be paid on 23 July 2021.

Closure of Register of Members

The register of members will be closed for the following periods:

(a) For the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting to be held on Thursday, 3 June 2021 ("**AGM**"), the register of members will be closed on Saturday, 29 May 2021 to Thursday, 3 June 2021, both days inclusive. In order to qualify for attending and voting at the AGM, all transfer documents should be lodged for registration with the Company's branch share registrar in Hong Kong, Link Market Services (Hong Kong) Pty Limited situated at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong not later than 4:30 p.m. on Friday, 28 May 2021.

(b) For the purpose of determining shareholders who qualify for the final dividend, the register of members will be closed on Tuesday, 13 July 2021. In order to qualify for the final dividend, all transfer documents should be lodged for registration with the Company's branch share registrar in Hong Kong, Link Market Services (Hong Kong) Pty Limited situated at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong not later than 4:30 p.m. on Monday, 12 July 2021.

Purchase, Sale or Redemption of Listed Securities

During the year ended 31 December 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 year ended 31 December 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 year ended 31 December 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 year ended 31 December 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 annual results of the Group for the year ended 31 December 2020 have been reviewed by the Audit Committee.

SCOPE OF WORK ON THE RESULTS ANNOUNCEMENT BY AUDITORS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Company's auditor to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by the Company's auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's auditor on the preliminary announcement.

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. The annual report of the Company for the year ended 31 December 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

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

Non-executive Director
Kat Chit

By order of the Board
Wasion Holdings Limited
Ji Wei
Chairman

Hong Kong, 30 March 2021