Wasion Holdings Limited

威勝控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3393)

ANNUAL REPORT 2021

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Mr. Kat Chit

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Cheong Tat
Mr. Luan Wenpeng
Mr. Cheng Shi Jie
Mr. Wang Yaonan

COMPANY SECRETARY

Mr. Choi Wai Lung Edward *FCCA, FCPA*

AUTHORISED REPRESENTATIVES

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

INTERNAL CONTROL AND RISK MANAGEMENT COMMITTEE

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

PRINCIPAL BANKERS

In Hong Kong:

Hang Seng Bank
China Construction Bank (Asia) Corporation Limited
The Bank of East Asia, Limited
Dah Sing Bank, Limited
Standard Chartered Bank
Bank of Communications Hong Kong Branch

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

China Construction Bank
Bank of Communications

LEGAL ADVISER

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

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

www.wasion.com

STOCK CODE

3393

CORPORATE PROFILE

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

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

Wasion Holdings has long been focusing on the research and development, production and sales of total solutions relating to energy metering and energy efficiency management, the products and services of which have been extensively applied in energy supply industries for electricity, water, gas and heat, and large energy-consuming units of large-scale public infrastructure, petroleum and chemical, transportation, 5G communication, machine manufacturing, metallurgical and chemical fields and residents.

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

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

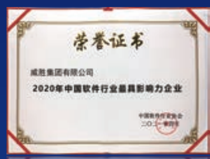
In January 2020, the Group's "Communication and Fluid AMI" business — Willfar Information Technology Company Limited (Stock Code: 688100), a 58.5% owned subsidiary of the Group — received approval from the China Securities Regulatory Commission to become the first company in Hunan Province to list on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

For research and development, the Group has developed State Grid multicore IoT smart power meters and Southern Grid multi-modular smart power meters that meet both the R46 standard and new national standard, and achieved the separation of legal metrology and non-legal metrology, providing smart power meters that are safe, reliable, upgradable and have wide range and long life to accommodate to the power market reform. In addition, the development of "domestic microchips" is a major national strategy and the Group will continue to pursue independent research and development of microchip to enhance its core competitiveness. The fifth generation of high-speed power-line carrier chip WTZ13 developed by the Group has passed the inspection of the State Grid Metrology Center, which means that the Group can meet the technical requirements of the State Grid and Southern Grid for the new generation of smart power meters, power distribution automation and power operation maintenance. Meanwhile, as for the prospects for prepayment devices in international markets, the overseas research and development team has worked to create a new series of smart prepayment products based on the new FM33A0 platform, achieving a unified upgrade of the platform and decreased product cost. These products have been successfully marketed in Asian, African and Latin American markets such as South Africa, Côte d'Ivoire, Madagascar, Uganda, Egypt, Nigeria, Uruguay and Russia, and have become a new generation of key products in the international prepayment market. At the same time, based on its in-depth research and system construction of the IEC62056 standard, COSEM/DLMS Blue Book and IDIS specifications, the Group has successively established enterprise function specifications based on the IEC62056 standard, laying a good foundation for a breakthrough in the future power meter market of the Group's new generation of anti-tampering technology.

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

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

6 QUALIFICATIONS, AWARDS AND MILESTONES



JANUARY

Wasion Group Limited ("Wasion Group") was awarded the "Benchmarking Enterprise for Implementing Standards of Management System of Integration of Informatization and Industrialization in Hunan Province in 2020 (2020年度湖南省兩化融合管理體系貫標標杆企業)" issued by the Industry and Information Technology Department of Hunan Province.

Wasion Electric Limited ("Wasion Electric") industrial zone was awarded the "Smart Energy Carbon Neutral Demonstration Park in 2021 (2021年度智慧能源碳中和示範園區)" by the Hunan Renewable Energy Society.

FEBRUARY

The medium- and low-voltage smart power distribution technology project of Willfar Information Technology Company Limited ("Willfar Information") was selected as one of the annual IoT projects of the Ministry of Industry and Information Technology.

MARCH

The "Development and Industrialization Project of Core Intelligent Terminals in Power IoT Smart Power Distribution Sectors (電力物聯網智能配電台區核心智能終端研製及產業化項目)" of Willfar Information was recognized as one of the 100 landmark projects of "Digital New Infrastructure" in Hunan Province by the Industry and Information Technology Department of Hunan Province.

The "Smart Park New Energy + IoT Application Demonstration Project (智慧園區新能源+物聯網應用示範項目)" of Wasion Electric was named on the list of 100 landmark projects of "Digital New Infrastructure" in Hunan Province.

APRIL

Wasion Group and Willfar Information was awarded the "Most Influential Enterprise" in China's software industry in 2020 by China Software Industry Association.

MAY

The "Key Technology and Application of Power Metering System Applicable to Competitive Power Market and Dual Interaction (適應競爭性電力市場和雙向互動的電能計量系統關鍵技術與應用)" project of Wasion Group was awarded the third prize for scientific and technological progress by Chinese Society For Measurement.

Willfar Information introduced Tencent's strategic investment to accelerate the integration of industry and Internet solutions, successfully implemented a number of joint solutions to build industry benchmarks, and dynamically launched digitally-intelligent cities projects in more than 20 regions.

JUNE

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

Willfar Information, Sanan Optoelectronics, Beijing Smart Chip (北京智芯) and Hunan Electric Appliance Science Research Institute jointly established a joint laboratory for wide-band gap semiconductors, laying a foundation for the comprehensive localization of next-generation power chips and modules.




JULY

The "Key Technology and Equipment Project for Improving Power Supply Capability through Internet of Things in Urban Smart Power Distribution Network (城市智慧配電網物聯化提升供電能力關鍵技術及裝備項目)" of Willfar Information was awarded the first prize for scientific and technological progress in Hunan Province.

AUGUST

Wasion's Brazilian subsidiary entered into the contract of tender award with the Brazilian Electricity Authority (巴西電力局), with contract value over RMB100 million for more than one million meters.

The "Key Technology and Large-scale Application Project of Smart Power Meter Industrialization (智能電能表產業化關鍵技術及大規模應用項目)" of Wasion Group was awarded the first prize for scientific and technological progress by China Instrument and Control Society.

SEPTEMBER

Willfar Information and CSG Digital Power Grid Research Institute jointly undertook the "Digital Power Grid Key Technologies", a key national research project, and completed the specification of marginal calculation chips as well as the software and hardware design for marginal calculation devices.

Wasion's Mexican subsidiary entered into a supply contract for power meters with the Federal Electricity Commission of Mexico (聯邦電力委員會), with contract value over RMB260 million for more than one million meters.

DECEMBER

Wasion Group's self-developed DDZM102-M A-level single-phase smart IoT power meter was the first in the industry to pass the full performance inspection of the State Grid Metrology Center and obtained the inspection report, which is qualified for large-scale promotion and application.

The "Digital Quality Platform Project for Smart Metering Products (面向智能計量產品的數字化質量平台項目)" of Wasion Group was approved by the Ministry of Industry and Information Technology of the PRC as the "Industrial Internet Pilot and Demonstration Project" in 2021.

Wasion Holdings Limited entered into a strategic cooperation framework agreement with China Power International Development Limited for the joint development of new energy and photovoltaic agriculture, energy storage, green power transportation and logistics services.

CORPORATE SPIRIT

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

TO ALL SHAREHOLDERS,

On behalf of the board of directors of Wasion Holdings Limited (the "Group"), I am pleased to present the operating results of the Group for the financial year ended 31 December 2021.

During the year under review, the Group recorded turnover of approximately RMB4.59 billion, representing an increase of 16.3% over last year. Net profit amounted to approximately RMB268 million, representing an increase of 16% year-on-year ("YoY"). Basic earnings per share stood at RMB0.272, representing an increase of 15.7% YoY. The board of directors proposed to pay a final dividend of HK$0.2 per share.

In 2021, guided by the 14th Five-Year Plan, increased investment was made in power grid to accelerate the transformation of new power systems. During the year under review, our Group recorded growth in revenue from all of the three main business segments. Specifically, revenue from Power AMI increased by 5% YoY, revenue from Communication and Fluid AMI increased by 26% YoY, with the value of signed contracts on hand reaching RMB1,770 million and revenue from ADO increased by 22% YoY. In terms of revenue by client category, revenue from power grid customers recorded an increase of 4.7% over last year, while revenue from non-power grid customers increased by 13.4% YoY. During the year under review, by seizing the opportunities arising from the economic recovery in overseas markets and proactively expanding international market, the Group was still able to record a revenue from overseas customers amounting to RMB712 million, representing a significant increase of 86.6% YoY, despite the uncertainties arising from the ongoing COVID-19 pandemic at a global scale.

During the year under review, in response to the national development strategy of new infrastructure, the Group continued to improve its NB-IoT, CAT1 and other products, successfully winning tenders from telecommunication operators in four provinces, namely Hunan, Hainan, Jiangsu and Shanxi. In terms of Internet of Things ("IoT") development, the Group's smart IoT power meter in line with the latest State Grid technical standards was the first to pass the inspection of the State Grid Metrology Center, and has completed delivery of the Shandong pilot project. Influenced by "Peak Emissions" and "Carbon Neutrality" policies, technologies, such as new energy, energy storage for microgrids, demand-side response and virtual power plants, have all progressed rapidly. In terms of power IoT, the Group is striving to make existing power-system infrastructure more efficient, and provide key technological support for power grid generation, transmission, transformation, distribution, and consumption. In terms of smart city, the Group provides full-level integrated solutions for the IoT of energy, being overall solutions that integrate hardware and software products at all levels to be applied in smart energy including power, water, gas and heat, smart fire protection and other fields, so as to provide customers with smart construction, operations and maintenance services, which has won high recognition. In December 2021, the Group officially entered into a strategic cooperation framework agreement with China Power and both parties will collaborate for projects in Ningxia, Hunan, Guangxi and other provinces.

Looking forward, State Grid and Southern Grid plan to invest a total amount of nearly RMB3 trillion during the "14th Five-Year Plan" period under the guidance of the "Peak Emissions" and "Carbon Neutrality" policies. Southern Grid proposed to list constructing distribution networks as a priority in its "14th Five-Year Plan", in order to promote developing multi-energy and complementary smart energy. The National Development and Reform Commission launched a number of policies during the year, which propose that new energy storage in China will transform from the initial stage of commercialization to large-scale development, propose to construct a well-established and multi-level unified power market system, and propose to promote green and high quality development of data centers, 5G and other new infrastructure. In addition, State Grid's continuous expansion of international markets in a steady manner will also bring more overseas development opportunities for domestic power equipment.

In terms of Power AMI business, by firmly sticking to power customers' policies and product standards as well as focusing on the key target markets of new power systems and smart utilities, the Group will, on one hand, persist in technology innovation to constantly reduce the cost and improve the quality of our products, thus enhancing core competitiveness. On the other hand, in the non-power grid customers market, the Group will grasp the development opportunities in cooperation with the commercial complexes, industrial and commercial logistics parks, transportation, schools, communication and other key industrial customers.

For the Communication and Fluid AMI business, harnessing the industry development of power IoT, IoE and intelligent power distribution networks, the Group will intensify innovative research and development of its core products, while maintaining strategic cooperation with Tencent and other leading internet companies and increasing investment in the research and development and sales in overseas markets.

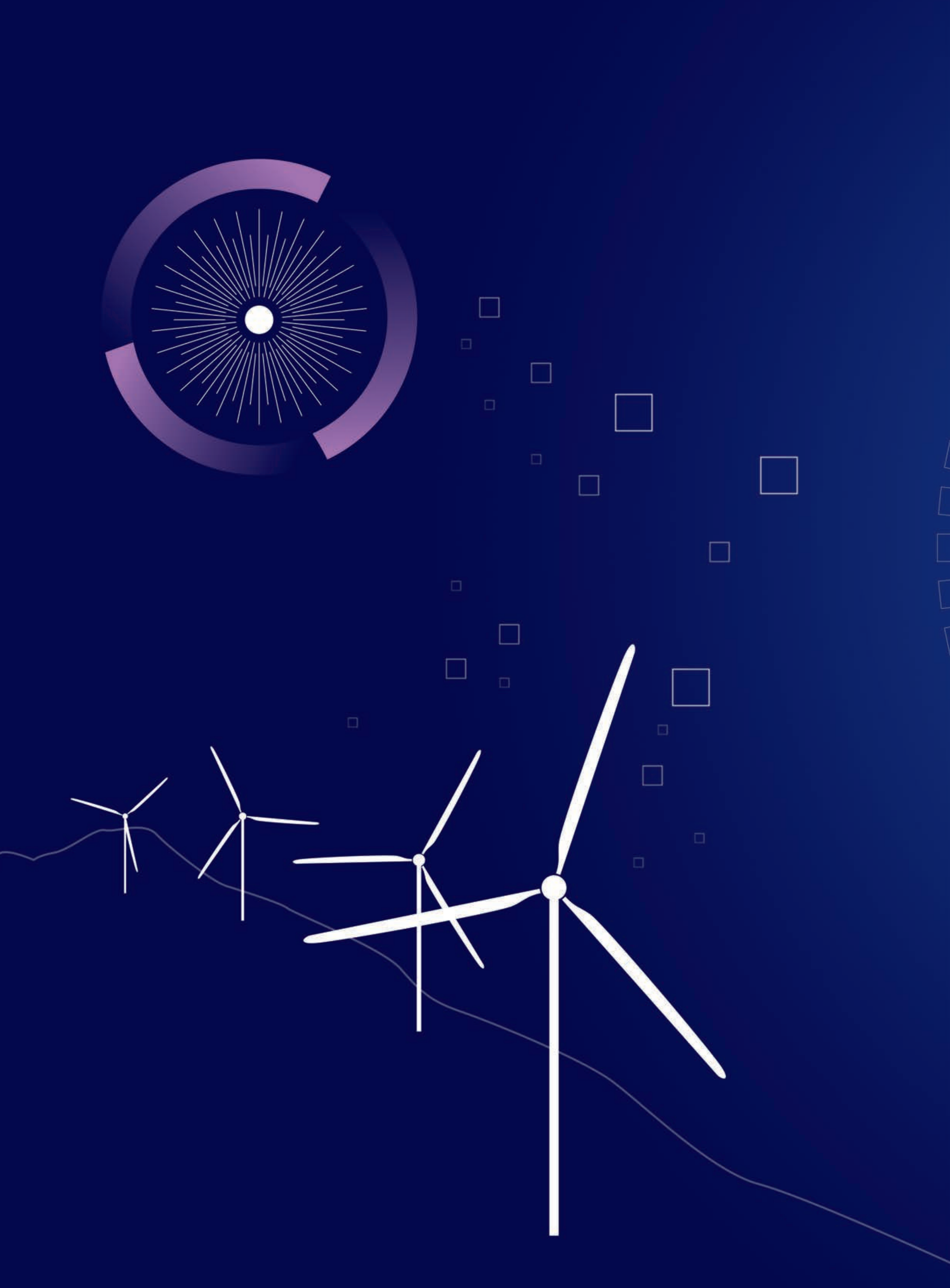
For ADO business, the Group firmly grasps the development opportunities for new power systems amid large-scale new energy connections to grids and large-scale electric and electronic devices connections to grids to focus on the development of intelligent power distribution. Meanwhile, by taking advantage of the opportunity of "Dual Carbon", the Group proactively develops new energy + and energy-storage products and solutions, which have formed an integrated solution for energy sourcing, networking, loading and storage in different scenarios and sectors, thereby accelerating development.

For the international market, the Group is actively expanding in overseas markets. On one hand, the Group steadily builds local factories with subsidiaries centering on the core market and improves its local language abilities. On the other hand, the Group selects appropriate development strategies according to local market policies — selling components and providing technical guidance in countries with high barriers to build factories; and building factories in countries with high tariffs, in order to mitigate policy and tax risks.

Looking forward, the Group will consistently adhere to the principle of "Aggressive with Keen Determination and Achieving Growth through Innovation". It will make innovation in market competitiveness by following the trends and keeping up with customer demand. With the gradual shift from satisfying demands to creating demands and leading the demands, the Group has made innovation in the market models actively and steadily. It will also make innovation in product competitiveness by focusing on the innovation and development of smart security, intelligent water conservation and hydrology, green energy transportation and other new businesses and strengthening intelligent use of electricity, chips, sensing, communication modules and other new development forces, enabling new sectors, new business forms and new models to catalyze further development and create greater value. Through all these efforts, the Group commits to becoming a world-class energy metering and energy saving expert throughout the world.

Yours faithfully,
Ji Wei
Chairman

Hong Kong, 28 March 2022



MOTTOS OF OPERATION

PERFECT WORK WITH
PASSION AND SUCCESS
ACHIEVED WITH
INTEGRITY

FINANCIAL REVIEW

Financial Highlights

	2021 RMB'000	2020 RMB'000
Revenue	**4,590,762**	3,948,750
Gross profit	**1,498,770**	1,246,565
Profit attributable to owners of the Company	**268,084**	231,190
Total assets	**12,672,139**	11,270,083
Equity attributable to owners of the Company	**4,631,926**	4,523,301
Basic earnings per share (RMB)	**0.272**	0.235
Diluted earnings per share (RMB)	**0.272**	0.235

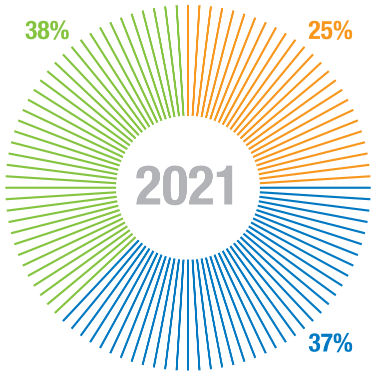
Key Financial Indexes

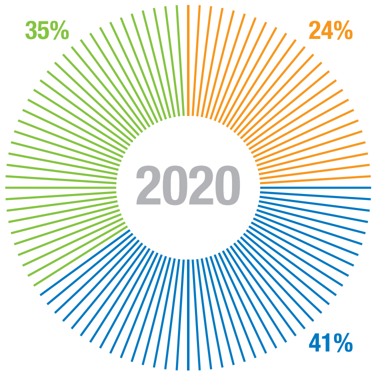
	2021	2020
Gross profit margin	**33%**	32%
Operating profit margin	**12%**	12%
Net profit margin	**9%**	9%
Return on equity of the shareholders (Note)	**6%**	5%
Current ratio	**1.67**	1.69
Quick ratio (Current assets excluding inventories divided by current liabilities)	**1.49**	1.59
Inventory turnover period (Days)	**88**	70
Trade receivable turnover period (Days)	**316**	328
Trade payable turnover period (Days)	**370**	395
Gearing ratio (Total borrowings divided by total assets)	**22%**	20%
Interest coverage (Operating profit divided by finance costs)	**5.76**	5.11

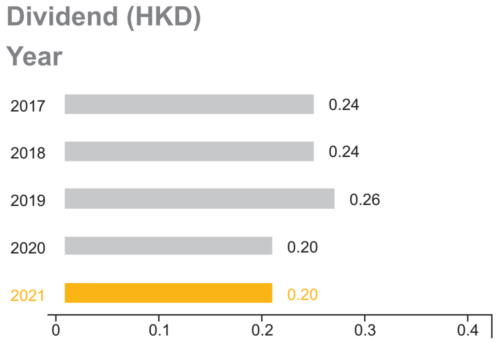
Note: Profit attributable to owners of the parent divided by equity attributable to owners of the parent.

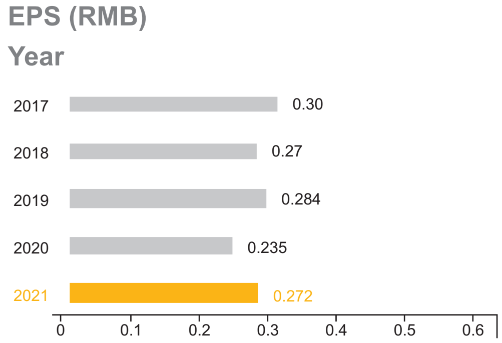
Revenue Breakdown by Business Segments

Power Advanced Metering Infrastructure
Communication and Fluid Advanced Metering Infrastructure
Advanced Distribution Operations



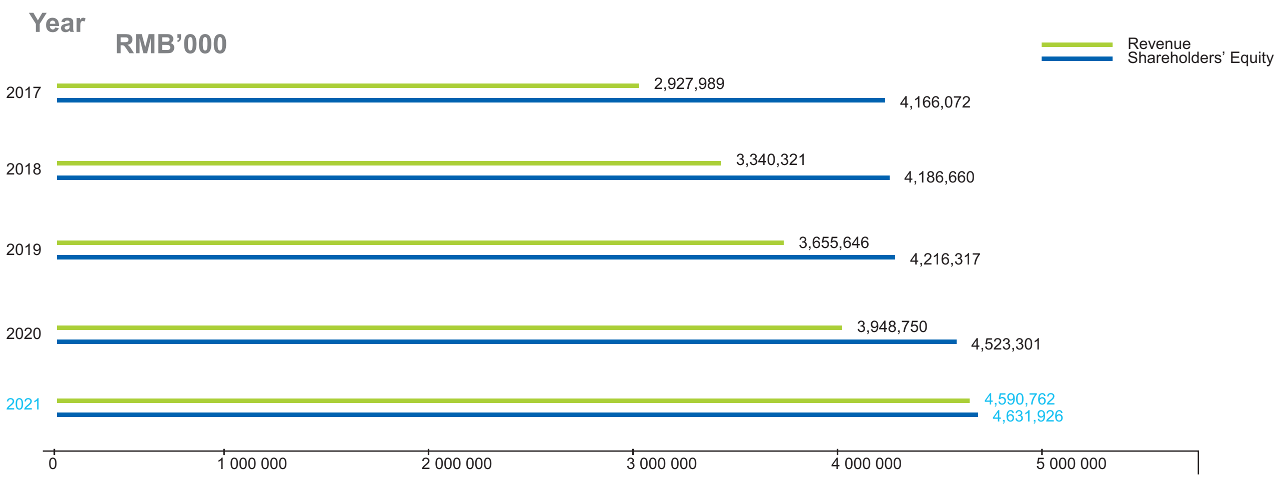






FIVE YEARS' FINANCIAL SUMMARY

Five Years' Financial Information



	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	**4,590,762**	3,948,750	3,655,646	3,340,321	2,927,989
Profit for the year attributable to owners of the Company	**268,084**	231,190	280,567	270,817	301,575
Total assets	**12,672,139**	11,270,083	10,096,774	8,608,295	7,884,054
Total liabilities	**6,592,277**	5,593,625	5,250,374	3,866,011	3,224,104
Equity attributable to owners of the Company	**4,631,926**	4,523,301	4,216,317	4,186,660	4,166,072

FINANCIAL REVIEW

Revenue

During the year under review, revenue increased by 16% to RMB4,590.76 million (2020: RMB3,948.75 million).

Gross Profit

The Group's gross profit increased by 20% to RMB1,498.77 million for the year ended 31 December 2021 (2020: RMB1,246.57 million). The overall gross profit margin is 33% in 2021 (2020: 32%).

Other Income

The other income of the Group amounted to RMB190.54 million (2020: RMB166.81 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 2021 amounted to RMB8.13 million (2020: RMB0.46 million) which comprised mainly of impairment of goodwill, foreign exchange losses, net and fair value gains on financial assets at FVTPL.

Operating Expenses

In 2021, the Group's operating expenses, including selling expenses, administrative expenses and research and development expenses amounted to RMB1,039.59 million (2020: RMB864.86 million). Operating expenses accounted for 23% of the Group's revenue in 2021, representing an increase of 1% as compared with 22% in 2020.

Finance Costs

For the year ended 31 December 2021, the Group's finance costs amounted to RMB99.27 million (2020: RMB96.26 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 2021 amounted to RMB572.00 million (2020: RMB492.17 million), representing an increase of 16% 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 2021 increased by 16% to RMB268.08 million (2020: RMB231.19 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 operating and financing activities.

As at 31 December 2021, the Group's current assets amounted to approximately RMB9,588.34 million (2020: RMB8,557.84 million), with cash and cash equivalents totaling approximately RMB2,578.95 million (2020: RMB2,255.47 million).

As at 31 December 2021, the Group's total borrowings amounted to approximately RMB2,836.90 million (2020: RMB2,290.12 million), of which RMB2,046.57 million (2020: RMB1,787.99 million) will be due to repay within one year and the remaining RMB790.33 million (2020: RMB502.13 million) will be due after one year. In 2021, the interest rate for the Group's bank borrowings ranged from 1.18% to 5.22% per annum (2020: 2.20% to 5.55% per annum).

The gearing ratio (total borrowings divided by total assets) increased by 2% from 20% in 2020 to 22% in 2021.

Acquisitions

On 29 December 2021, Wasion Group Limited, a wholly owned subsidiary of the Company, has completed the acquisition of 100% of share capital of Changsha Zomkun Electronic Science & Technology Co., Ltd. ("Zomkun") from independent third parties at an aggregate consideration of RMB100,000,000. Zomkun is a company established in the PRC which engaged in the R&D, manufacturing and sales of relay used in smart meters. The acquisition is to integrate the upper stream supply chain for the Group's products and enable the Group to secure a stable source of relay, reduce operating costs and enhance profitability.

Emolument Policy

As at 31 December 2021, the Group had 3,578 (2020: 3,222) staff members. The staff costs (including other benefits and contributions to defined contribution retirement plan) amounted to RMB486.15 million (2020: RMB384.78 million) in 2021. Employee remuneration is determined on performance, experience and prevailing market conditions of the employees, with compensation policies being reviewed on a regular basis. The aggregate amount of the emoluments of the Company's directors was RMB2.48 million (2020: RMB3.69 million) in 2021.

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

Share Option Scheme

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

Share Award Scheme

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

Exchange Rate Risk

Most of the businesses of the Group are settled in Renminbi while businesses in foreign currencies are mainly settled in USD. The fluctuation of exchange rate of both currencies will have certain impact on the Group's business which are settled in foreign currencies. As far as possible, the Group aims to achieve natural hedging by investing and borrowing in the functional currencies. Where a natural hedge is not possible, the Group will mitigate foreign exchange risks via appropriate foreign exchange contracts. During the year under review, the Group has entered into foreign exchange forward contracts with notional amount of USD10.50 million with a commercial bank to minimise the exposure to fluctuations in foreign currency exchange rates of USD revenue received from overseas customers.

Charge on Assets

As at 31 December 2021, 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 buildings are pledged to banks as security for bank loans to the Group.

Capital Commitments

As at 31 December 2021, the capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial information amounted to RMB51.51 million (2020: RMB38.80 million).

Contingent Liabilities

As at 31 December 2021, the Group had no material contingent liabilities.

MARKET REVIEW

Macro Environment

In 2021, the COVID-19 pandemic continued to ravage the world with new variants emerging. Intermittent flare-ups of the virus have caused ever more people to be infected, slowing the pace of recovery in various industry segments across the world. However, with the rollout of vaccination programs worldwide, a higher percentage of the global population has now been vaccinated, and the pandemic's impact on global economic growth has diminished. Industries have gradually formulated business strategies under the "new normal" and successfully turned crises into opportunities, enabling steady economic recovery. In terms of operational activities, some sectors have returned to — and even exceeded — pre-pandemic levels in 2019. Thanks to its concerted efforts to fight COVID-19, the Chinese government has successfully contained the pandemic and given the country's economy renewed impetus by adopting a "dual circulation" development strategy, i.e. domestic plus international circulation, with domestic circulation the main driver. In 2021, China's economic growth ranked among the highest of the world's major economies, becoming a significant force in leading global economic recovery. According to the National Bureau of Statistics, China's GDP in 2021 was RMB114.367 trillion, representing an 8.1% year-on-year ("YoY") increase. Amid profound changes of a kind unseen in a century and the global pandemic, China's economy has steadily recovered. Though global energy prices keep soaring, China's energy market, with its once tight power supply, has gradually eased, effectively meeting the population's needs and maintaining livelihoods. At the same time, the Chinese government remains committed to achieving the "Dual Carbon" goals of "Peak Emissions" and "Carbon Neutrality" to ensure social and global sustainable development. China's installed capacity of renewable power in 2021 exceeded one billion kW of annual power generation through new energy topping one trillion kWh for the first time, maintaining a leading position. However, despite the rapid increase in China's vaccination rate, the spread of new COVID-19 variants is creating uncertainty and the economy still faces serious challenges.

Review of the Power Grid Industry

During the year under review, China's overall electricity consumption was 8.3128 trillion kWh, representing an increase of 10.3% YoY. The State Grid Corporation of China ("State Grid") installed 44,000 km of alternating current projects (of 110 kV and above), totalling 280 million kVA and completing 101.4% of its annual plan. In 2021, State Grid invited tenders for smart power meters worth approximately RMB20 billion, a 50% increase compared to 2020. During the year under review, State Grid completed RMB402.48 billion of investment in power grid infrastructure. China Southern Power Grid Company Limited ("Southern Grid") completed RMB135.7 billion of investment in fixed assets, and green financial business totalling RMB21.45 billion. Two "Southern Grid Dual Carbon" industrial funds were launched raising RMB2.8 billion to support the development and construction of new energy projects. Moreover, during the year under review, electric consumption by Southern Grid grew to 1,450.6 billion kWh across five provinces, representing an increase of 11.1% YoY, higher than the national average, with electricity consumption in tertiary industries rebounding strongly to 22.1%.

Review of Major Policies for the Power Grid Industry

Guided by China's 14th Five-Year Plan, total investment in the power grid nationally will be worth approximately RMB3 trillion, of which State Grid plans to invest around RMB2.23 trillion and construct ultra-high voltage "24 AC and 14 DC" projects comprising more than 30,000 kilometers of lines with a conversion capacity of 340 million kVA. Given the goals of "Peak Emissions" and "Carbon Neutrality", constructing more robust grids, especially ultra-high voltage networks, can solve most problems for large-scale renewable energy transmission, and trans-provincial and trans-regional needs in China. Moreover, during the "14th Five-Year Plan" period, creating an intelligent distribution network and constructing new power systems will be core developments. At the end of 2021, Southern Grid issued its "White Paper on Digital Power Grid Practices", introducing construction processes for digitalizing power grids with business and sustainably closely integrated. To achieve the goals of "Dual Carbon", Southern Grid established a "Dual Carbon Big Data Center" to advise municipal and district governments in conducting carbon monitoring, carbon governance, carbon trading and dual control of energy consumption. In the "14th Five-Year Plan of Southern Grid for Power Grid Development", constructing distribution networks is listed as a priority, with RMB320 billion of investment set aside to promote developing multi-energy and complementary smart energy. Furthermore, Southern Grid officially launched "Fuxi", China's first dedicated electric power master chip based on domestic command architecture and domestic core, ensuring core intellectual property for the chip is independently controlled.

Review of the Group's Overall Performance

As an expert in energy metering and energy-efficiency management, the Group recorded a total turnover of RMB4,590.76 million (2020: RMB3,948.75 million) in its three main business segments during 2021 representing a 16% increase YoY; and a gross profit of RMB1,498.77 million (2020: RMB1,246.57 million), representing a 20% increase YoY. The Group's overall gross profit margin was 33% (2020: 32%), representing an increase of 1 percentage point YoY. This increase was due to the ongoing cost reduction measures undertaken by the Group in 2021 including continual increase of investment in research and development ("R&D") of smart-manufacturing platforms to improve efficiency and optimize product structure by increasing the proportion of high-margin products. Net profit attributable to the Company's owners was RMB268.08 million (2020: RMB231.19 million), representing a 16% increase YoY.

BUSINESS REVIEW

Power Advanced Metering Infrastructure ("Power AMI")

Business Overview

Power AMI focuses on the R&D, production and sale of smart power meters. It also offers energy-efficient management solutions with a product range that mainly comprises single-phase and three-phase power meters, and other smart metering devices. Power AMI's main customers are primarily power grid and non-power grid, both domestic and overseas. Power grid customers include State Grid, Southern Grid and more than 60 local power companies, while non-power grid customers range from large-scale public infrastructures with high energy-consumption needs to petroleum & petrochemicals, transportation, machine manufacturing, metallurgical and chemical industries, and residential users.

Review of Business

During the year under review, the Group's Power AMI business recorded a turnover of RMB1,714.45 million (2020: RMB1,633.61 million), representing an increase of 5% YoY, accounting for 37% of the Group's total turnover (2020: 41%). Gross profit margin was 32% (2020: 30%). The Group's power grid customers and non-power grid customers accounted for 51% and 49% of turnover, respectively (2020: 47% and 53%).

Order Data in the Year under Review

During the year under review, the Group's Power AMI business secured orders totalling RMB1,530 million, representing an 8.67% increase YoY. Of this, bids from power-grid customers were worth approximately RMB1,041 million (2020: RMB926 million), representing a 12.40% increase YoY. This increase was mainly due to the increase in demand for power meters from State Grid over last year, and the uplift from increasing unit prices for products that resulted from changes in the technical standards for these products. Bids from non-power grid customers were worth approximately RMB489 million (2020: RMB482 million), representing a 1.50% increase YoY. Reasons for this modest increase include the competitive low-price competition mode adopted by manufacturers, and the designation of procurement channels of metering product packages by power companies which led to declining demand for traditional package business, resulting in weak growth. During the year under review, the Group won a contract worth RMB637 million in centralized tenders organized by State Grid, the highest for the last five years. The Group also won a contract worth RMB81 million in the first centralized tender from Southern Grid in 2021, winning all four sections. Benefiting from the intelligent asset management requirements of distribution network equipment, the Group's intelligent storage products also won bids in the State Grid and Southern Grid regions, with total contracts worth more than RMB40 million.

Review of Developments in Power AMI Business and Relevant Policies

During the year under review, the Group's power grid business remained the prime main source of revenue. Sales growth came mainly from revisions in the technical standards which led to the repricing of products for State Grid and Southern Grid. In terms of non-power grid business and developing the new infrastructure market, the Group continued to improve its NB-IoT, CAT1 and other products, successfully winning tenders from telecommunication operators in Hunan, Hainan, Jiangsu and Shanxi provinces. Growth remained stable for commercial complexes, industrial and commercial logistics parks, transportation, schools, communication and other fields. Influenced by "Peak Emissions" and "Carbon Neutrality" policies, power grid enterprises adopted an electrical energy replacement strategy to reduce carbon emissions produced by the consumption of traditional fossil fuels. Technologies such as energy storage for microgrids, demand-side response, and virtual power plants have all progressed rapidly, as has precise metering which is at the core of green-energy-saving technologies. In November, last year, the Central Committee for Deepening Overall Reform issued its "Guiding Opinions on Accelerating the Construction of a National Unified Power Market System". This aims to improve the multi-level unified power market system, perfect electricity price transmission mechanisms, and promote the orderly integration of new energy into market transactions. According to statistics from the China Association of Automobile Manufacturers, combined sales of new energy vehicles from January to November 2021 totalled 3,023,000 units, representing a 127.8% increase YoY. Among these, sales of new energy passenger vehicles increased 133.8% YoY.

Prospects for Power AMI Business

For the power grid market: Benefiting from the continuous implementation of the GB/T17215 series of national standards that align with IR46 international recommendations, demand for products from the power grid industry is expected to steadily increase. With spot electricity trading being steadily reformed, renewable electricity generation and domestic substitution have become a key development focus, further boosting demand for high-end products.

For the non-power grid market: Benefiting from the ongoing launch of new products and revised sales targets for the non-power grid market, the Group is currently shifting from solely selling power-meter products to providing one-stop power metering and charging solutions. This will be the Group's prime sales objective in the non-power grid industry throughout 2022. Given its industry-leading technical expertise in high-end products, the Group will focus on developing China's five major power generation groups in 2022, and gradually realize the domestic substitution of gateway power meters for wind and solar power, traditional thermal power, hydropower and other new power sources. This year, the Group will continue focusing on total solutions for industrial and commercial parks, apartments and commercial complexes; government initiatives such as street lamp metering at airports and high-speed railway stations; and energy-saving schemes for university dormitories, classrooms and hospitals. In December 2021, the National Development and Reform Commission issued its "Implementation Plan for Meeting the Requirements of 'Peak Carbon Emissions' and 'Carbon Neutrality' Targets and Promoting Green and High Quality Development of Data Centers, 5G and Other New Infrastructure". This sets out how green electricity consumption at data centers can be enhanced through special self-built lines and bilateral trading, promoting the use of renewable energy from the nearest feasible location. Applying the Group's energy-saving products to 5G communications will create even more market opportunities.

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

Business Overview

Our Communication and Fluid AMI business focuses mainly on reshaping energy management for power, water, gas and heat with technologies ranging from chip substrate design to data perception and acquisition, and routing networks. It also includes communication technologies that ensure high-speed data transmission and stable connections for communication networking technologies, providing a full-chain Internet of Energy ("IoE") solution, and offering users digital solutions such as data management. In terms of power Internet of Things ("IoT"), the Group is striving to make existing power-system infrastructure more efficient, and provide key technological support for power grid generation, transmission, transformation, distribution, and consumption. This will gradually extend to smart water services, smart fire protection, smart street lamps, smart charging and other smart-city applications. The Group's Communication and Fluid AMI business, Willfar Information Technology Company Limited (stock code: 688100, a 58.5% shareholding subsidiary of the Group), is Hunan Province's first company to list on the STAR Market of the Shanghai Stock Exchange. It was also a constituent stock of the STAR Market New Generation Information Technology Index.

Review of Business

During the year under review, the Group's Communication and Fluid AMI business recorded a turnover of RMB1,719.37 million (2020: RMB1,366.09 million), representing a 26% increase YoY, and accounting for 38% of the Group's total turnover (2020: 35%). Gross profit margin was 36% (2020: 34%). The Group's power grid customers and non-power grid customers accounted for 45% and 55% of turnover, respectively (2020: 56% and 44%).

Order Data in the Year under Review

As of 31 December 2021, the total value of signed contracts on hand reached RMB1,770 million, laying a strong foundation for the Groups future growth.

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

During the year under review, the "Dual Carbon" goals continued driving the transformation and upgrading of new power systems, and accelerated the development of power IoT, IoE and intelligent power distribution networks. State Grid, Southern Grid and local grid companies are the main investors in power grids and have accelerated construction of new power systems. Total investment in power grids is expected to increase and the investment structure to improve during the "14th Five-Year Plan" period.

On 12 January 2022, the State Council unveiled its "Plan to Facilitate the Development of the Digital Economy in the 14th Five-Year Plan Period." This confirms that it will continue promoting digital industrialization and industrial digitalization during the "14th Five-Year Plan" period, transforming and upgrading traditional industries, and strongly supporting the transition to a digital China. Digitally-intelligent cities will continue providing opportunities to develop new applications and digital economy. In fields such as smart water, smart fire protection, energy monitoring, new energy vehicles and other markets, digitally-intelligent cities will drive market demand, guided by relevant policies, and create a new era of vibrant construction.

In view of market trends, the Group continued to increase investment in product R&D according to the technological development of IoE and digital-intelligent cities under the new situation and the mainstream market demand. (I) IoE: The Group was awarded CMMI-ML5 certification, the highest maturity level for international software maturity model, becoming one of the few enterprises in the world that can provide high-quality software integration for the global market. Developing "domestic microchips" is a key national development focus, and the Group launched various modules based on fifth-generation HPLC chips, as well as micro-power and Wi-SUN modules, with the anti-noise and anti-interference performance of the former about ten times better than the previous generation. (II) Digital-intelligent cities: Taking an "IoT Platform" as the foundation, the Group accessed intelligent equipment at the sensing layer, launching integrated energy solutions, smart fire protection, smart power, smart water and smart parks to eliminate isolated information islands and offer data-sharing to customers — with several such projects successfully completed. (III) Partnering with technology giants: During the year under review, the Group cooperated with Tencent to launch a joint solution for smart cities, becoming Tencent's strategic partner in the IoT field. The Group also benefitted from Tencent's strategic investment to develop industrial Internet and digitally-intelligent cities.

Prospects for Communication and Fluid AMI Business

As the world moves gradually towards zero carbon emissions, green and sustainable development will reshape the means of production and our way of life. An energy mix in which electricity plays the leading role will support the transformation and upgrading of the industrial economies. With such goals and opportunities, the Group will stay committed to providing services for the digital power grid and the construction of digitally-intelligent cities, and the layout of energy IoT application systems, IoT chips, intelligent devices and other core technologies and products. Focusing on energy and information flows, the Group will provide customers with highly-efficient low-carbon solutions from data perception and communication networking to data management, thereby contributing to the construction of new power systems and digital twin cities. Given ongoing innovation of key technologies for new power systems, the Group will continue optimizing products to maintain its leading market share and realize source-network-load-storage integration through integrated energy management.

China's IoT industry for digitally-intelligent cities is predicted to be worth over RMB2.7 trillion by 2025. From water, electricity, gas and heat utilities to various segments of digital-intelligent cities, the development of the IoT industry will continue to be driven by clear policies. The Group will strive to be a unicorn in the energy IoT sector. It will increase investment in R&D and sales in overseas markets, actively participate in the economic development and IoE construction along the "Belt and Road", seize opportunities for constructing energy infrastructure in emerging markets such as Latin America and Africa, and further increase its share of the IoT market in cities around the world.

Advanced Distribution Operations ("ADO")

Business Overview

The Group's ADO business focuses on advanced distribution products and solutions, as well as new energy, energy storage, and green travel products and solutions. It is developing these in four areas: clean energy, smart grids, electric transportation and energy storage industrialization. Together, they form an integrated solution for energy sourcing, networking, loading and storage in different scenarios and sectors, providing advanced technology and product support for the national goals of "Peak Emissions" and "Carbon Neutrality". Customers primarily fall into three categories: power grid customers (including State Grid and Southern Grid); key industrial customers (including metros, rail transport, hospitals, and data centers); and renewable energy customers (including China's five major power generation groups and other new energy investors).

Review of Business

During the year under review, the Group's ADO business recorded a turnover of RMB1,156.94 million (2020: RMB949.05 million), representing an increase of 22% YoY, and accounting for 25% of the Group's total turnover (2020: 24%). Gross profit margin was 28% (2020: 31%). The Group's power grid customers and non-power grid customers accounted for 31% and 69% of turnover, respectively (2020: 39% and 61%).

Order Data in the Year under Review

During the year under review, the Group's ADO business secured orders worth RMB2,103 million, representing a 42% increase YoY. Of these, contracts won from the power-grid market had a combined value of RMB991 million (2020: RMB853 million), representing a 16% increase YoY. This increase in orders was mainly due to: (I) The Group was successful in bidding for State Grid projects; (II) Bestselling products, such as primary and secondary integrated intelligent ring network cabinets, pole-mounted circuit breakers, realized intelligentization, and ring network cabinets all performed well. Contracts won in the non-power grid market were worth RMB1,112 million (2020: RMB629 million), representing a 77% increase YoY which was mainly due to: (I) The steady growth of key industry sectors such as data centers, rail transport and medical care; (II) Breakthroughs achieved in the green travel market by innovations such as charging and power exchange for low-speed two-wheel vehicles and heavy trucks, energy-efficient base stations and new energy solutions.

Review of Development of ADO Business and Relevant Policies

The government has proposed constructing a power system primarily based on new energy as a key path to achieving the twin goals of "Peak Emissions" and "Carbon Neutrality". This will create immense development opportunities for new energy, energy storage, electric energy substitution, smart grid, digital distribution and other fields. In terms of the power grid market which is facing increasing distribution demands from the new power system, the Group continued to win contracts from State Grid and Southern Grid, but also steadily expanded new cooperation modes to ensure the stable development of the power grid business. The Group's power grid business grew in terms of scope, frequency and volume, and it won several project tenders from power grid companies. It continued winning tenders in the five base markets of Beijing, Shandong, Jiangsu, Hunan and Guangdong, and successfully expanded into the five new markets of Shanxi, Jilin, Sichuan, Hebei and Gansu. In terms of the end-user market, long-term customer orders represented by data centers have hit record highs, ranking among the highest in the industry. In the rail transport sector, the Group won the tender for Wuhan Metro Line 19. It has also established a loyal customer base in industries such as electronic chips and environmentally-friendly water treatment, promoting the substantial growth of market performance in key industries. Currently, products conforming to State Grid's new standards and the complete sets of integrated pole-mounted circuit breakers have entered the first echelon of State Grid standardized product development. The Group has become one of the few manufacturers that can independently design and manufacture permanent magnet normal-pressure sealed ring network cabinets.

Looking to the future of the new energy market, the National Development and Reform Commission and the National Energy Administration jointly issued its “Guidelines on Accelerating the Development of New Energy Storage (Draft)” in July 2021. This proposes that new energy storage in China during the 14th Five-Year Plan period will transform from the initial stage of commercialization to large-scale development with a target of more than 30 gigawatts capacity of new energy storage to be installed by 2025. By the end of 2020, the cumulative installed capacity of domestic electrochemical energy storage was about 3.3 gigawatts, indicating that there is room for it to grow ten-fold in the next five years. The Carbon Neutral Roadmap of China’s Energy Industry forecasts that photovoltaic capacity in China will grow by 200 gigawatts annually from 2030 to 2060. During the year under review, the Group cooperated closely with core resource customers in green travel business, achieving “Internet + State Grid and Southern Grid + Tower Energy” multi-field layout, and providing a full range of products and systems for State Grid Shandong and Sichuan Electric Companies based on their standard system. During the year under review, the Group re-established its professional energy storage business unit, and completed construction of a production workshop for high-level energy storage products, as well as a series of large, medium and small energy-storage products. At the same time, the Group made introductions to around ten industrial parks and another ten or so counties and cities in Hunan Province to secure a number of smart new energy and energy storage projects. The first industrial park source-network-load-storage integration green low-carbon demonstration project in Hunan Province led by the Group was officially approved and actual construction has begun. On 16 December 2021, the Group officially entered into a strategic cooperation framework agreement with China Power International Development Limited (“China Power”) and both parties will collaborate in Ningxia, Hunan, Guangxi and other provinces to rapidly expand ADO’s new energy market.

Prospects for ADO Business

In 2022, the Group will seize opportunities to construct new power systems and layouts in new business development tracks such as new energy connections to grids, DC switchgear and automation. With increasing numbers of tenders from State Grid and steady expansion of its coverage, as well as Southern Grid’s ongoing consolidation and the growing reputation of its brand, the Group is realizing the transformation of conventional products from available to complete and some products from available to excellent, and its overall core competitiveness has rapidly improved. The Group will provide high-quality products and services for industry-users and the end-user market, upgrading digital power distribution and integrated energy-efficiency solutions. For prime industry customers, the Group will pursue closer collaborations, maintaining long-term relationships with stable suppliers, and expand into key industries across the overall market.

Regarding the new energy industry, the Group will closely adhere to national policies, accurately position itself, and focus on the Hunan Province market as well as the power generation, cement and industrial real estate sectors. It will vigorously develop the three core businesses of low-speed power exchange, user-side energy storage products and systems; distributed photovoltaic; and enterprise-level source-network-load-storage integration. At the same time, the Group will seek greater cooperation with strategic customers such as China Power and grow new business segments such as centralized power stations, generation-side energy storage and heavy-truck power exchanges. Turning to green travel business, the Group will provide high-quality services to key customers such as Internet leaders Hello Inc. and Didi Chuxing; State Grid Electric Company and Tower Energy. It will do this through mass-producing energy-efficient, intelligent power-exchange cabinets and developing its own power-exchange system solutions — thereby becoming a leader in this field. By providing energy storage products and solutions, it will simultaneously target the generation-side, grid-side and user-side markets, significant advancing its capabilities in these areas.

International Markets

Global Smart Power Meter Information

Advanced Metering Infrastructure ("AMI") with smart power meter as a core offering, has expanded its product portfolio from power meters to complementary communication modules, terminals and front-end meter reading software. It now also offers customized solutions and engineering, operations and maintenance services. The depth and breadth of key markets offer power meter companies considerable room for growth.

Data from Market Research Future's research report on the global smart power meter market forecasts that it will be worth USD43.31 billion in 2027 with compound annual growth of 8.93% during 2021 to 2027. According to data released by the Qianzhan Industry Research Institute, smart power meter penetration in the EU market is expected to reach 83% in 2022 and 100% by 2025. Overseas markets have not yet reached saturation, leaving significant market space for smart power meter companies to expand their share.

Review of Business

During the year under review, overseas business turnover was RMB712.45 million (2020: RMB381.97 million), representing an increase of 87% YoY. This was due to the Group making steady progress in mature markets such as Egypt, Indonesia and Bangladesh. The three overseas factories in Mexico, Brazil and Tanzania were now all opened and operating smoothly and have entered a rapid-development stage. New growth markets are emerging in Central & North America, South America, West Africa, East Africa and the Middle East; and the Group's partnership projects with Siemens and Itron have enabled it to expand into new markets such as Malaysia, Singapore, Switzerland and Benin.

Order Data in the Year under Review

During the year under review, the Group secured approximately RMB1,149.72 million worth of overseas orders, representing an increase of 10.6% YoY.

Market Developments in Each Country

Across Asia, the Group continued to be a leading supplier of industrial and commercial meters to Indonesia. After being added to the supplier list for residential pre-paid power meters, it won the contract for a smart power meter pilot project and delivered over 50,000 smart meters and AMI solutions during the year under review, thereby becoming the country's main supplier of replacement AMI technology. In Bangladesh, the Group successfully conducted systems access, technology promotion and intelligent transformation pilot work for four major power distribution companies, delivering over 200,000 pre-paid smart power meters and broadband carrier communication AMI technical solutions. The Group has become one of the country's three major local suppliers and the main promoter for pilot projects for smart water and gas services. In Malaysia, the Group is one of the country's main suppliers and recently secured the annual renovation procurement contract from Tenaga Nasional Berhad (TNB), moving it up to the number two position in terms of overall market share. In Central Asia, the Group's cooperation channels and market share are increasing rapidly, and it delivered a bulk order for smart power meter packages. In the Middle East, the Group has explored the needs of existing customers and successfully renewed AMI contracts with Saudi Arabia for large numbers of smart power meters, communication modules and old meter integrators. While expanding its core business, the Group is making good progress in penetrating the markets of adjoining countries.

In Africa, the Group continued to be a major supplier in Egypt's power metering market, successfully completing a smart AMI pilot project which was well received by users. In West Africa, the Group is one of Côte d'Ivoire's three major suppliers and its market share has increased as compared with 2020. Through actively developed neighbouring markets, the Group obtained bulk orders from Nigeria, Guinea and Ghana. In Tanzania, a manufacturing plant owned by the Group's subsidiary commenced operations, localizing production capacity, quality and service level, and securing a stable market share. At the same time, the Group partnered with Chinese SEOs and factories, reaching out to East African markets such as Uganda and Kenya.

In South America, the Group's Brazil subsidiary strengthened its operational and delivery capabilities, and completed local certifications, manufacturing and engineering implementation capacity construction projects for smart power meters and complementary AMI products. During the year under review, the Group won bids from multiple Brazilian power companies for power meter projects with contract value worth more than RMB100 million. The Group successfully completed AMI projects for Copel Celesc and other Brazilian power companies and deployed over 100,000 smart power meters, building a solid foundation for its continued expansion into Brazil's AMI market. The Group's Mexican subsidiary secured a contract for smart power meters worth over RMB260 million from the Comisión Federal de Electricidad of Mexico ("CFE"), becoming one of its primary suppliers. The first phase of construction for a new factory in Mexico was completed with an annual production capacity of two million meters. Phase II of construction has commenced which will increase the annual production capacity to three million meters. In Ecuador, the Group won major orders for power metering equipment from five local power authorities, further increasing its market share. The Group also played a key role in projects for Colombia, Chile and Peru, and made significant breakthroughs in these markets with contract orders continuing to grow. In North America, the Group signed a strategic cooperation agreement with Trilliant and achieved solid business results. It is also planning to further expand its business in the US and Canadian markets over the next few years.

In Europe, the Group maintained steady partnerships with Siemens and Itron. During the year under review, orders from the Group's project with Siemens in Austria continued to grow, and orders for smart power meters were successfully completed. Through its project with Itron, the Group has delivered orders to Switzerland and other markets.

Future Development of International Markets

The Group will focus on stabilizing its market share in key markets and adopt an expansion strategy of steadily building local factories with subsidiaries; improving its local language abilities and infrastructure to access surrounding markets. In addition to better understanding customer needs in existing markets and improving product quality and service levels, the Group will actively explore new markets.

In Southeast Asia, the Group is choosing Indonesia and Bangladesh as bases from where it can develop new markets including Malaysia, Thailand, Singapore, Vietnam, the Philippines, Laos, Sri Lanka and Pakistan. Focusing on AMI solutions based on broadband carrier communications technologies, the Group will expand its product portfolio from power meters to AMI solutions. An enhanced product structure will help boost the Group's profitability. The Group will also expand its business into countries such as Tajikistan, Uzbekistan, Kyrgyzstan and Mongolia. In the Middle East, with Saudi Arabia as its center, the Group aims to steadily penetrate markets in Kuwait, Jordan, the UAE and Qatar.

Tanzania will be the Group's East Africa base from where it can access Uganda, Kenya and other neighbouring countries. From its base in Egypt, the Group has steadily expanded its business into neighbouring North African countries. The Group plans to promote integrated energy efficiency and power AMI transformation for approximately 40 million Egyptian households over the next five to ten years. In West Africa, the Group will prioritize the construction of a factory in Nigeria with its subsidiary, focusing on the Côte d'Ivoire, Guinea and Nigeria markets, and gradually expanding into neighbouring countries such as Benin, Cameroon, Niger, Mali, Mauritania and Sierra Leone. The business will be focused on smart pre-paid solutions based on the narrowband narrow-wave G3-PLC communication standard, thereby enhancing its technological edge and overall profitability.

In South America, the Group's Brazilian subsidiary, which is one of the three local companies currently operating, is predicted to secure 30% of the market. The Group will actively develop the neighbouring markets of Ecuador, Colombia, Chile, Peru and Argentina — and use the Brazilian factory's R&D, manufacturing and service capabilities to expand its footprint in South America. The Group's subsidiary in Mexico will continue the second phase of construction of the local factory. It will improve its R&D, manufacturing and local-service capabilities, to secure the largest market share for residential CFE's single-phase power meters. The Group's Mexican subsidiary will actively bid for CFE's industrial and commercial power meters and AMI contracts, striving to become a mainstream supplier in this market. Using the R&D, manufacturing and service capabilities of its Mexican factory, the Group will reach out to the ANSI standard power meter markets in Canada, the US and Central & North America. With a focus on Wi-SUN-based AMI solutions, the Group will proactively initiate pilot projects and bid for major AMI projects. The Group will transition from being a mainstream power meter supplier to an integrated AMI solution provider, supporting market developments and enhancing profitability through diverse products and advanced technologies.

Through its partnership with Siemens in Europe, the Group expects to win 25% of the Austrian market, while continuing to develop business in other countries. In other markets, the Group will actively promote upstream and downstream collaboration with internationally renowned companies including Itron, Landis+Gyr and Trilliant. At the same time, it will closely collaborate with large Chinese SEOs and business competitors to advance integration within the AMI industrial chain, improve overall competitiveness, and jointly develop the international AMI market.

Research and Development ("R&D")

To drive innovation, the Group invests substantially in R&D, follows the national policies of peak emissions and carbon neutrality, and harnesses new developments in the market transformation of smart power grid and the building of smart cities. While continuing to satisfy customer needs, the Group also champions new technologies. During the year under review, the Group was granted 238 patents and authored 126 software copyrights, boosting the total number of valid patents and software copyrights to 1,494 and 1,351, respectively.

Power AMI Business

During the year under review, one of the Group's newest products — its high-precision gateway power meter — met the highest levels for all metrics, and passed the inspection of several provincial power grid metrology centers, representing the highest technical level in China. The smart IoT power meter in line with the latest State Grid technical standards was the first to pass the inspection of the State Grid Metrology Center, and has completed delivery of the Shandong pilot project. During the year under review, the Group successfully developed single-phase and three-phase fee-control meters that meet the Southern Grid standards, and passed the prototype inspection. A series of pilot projects for its newly-developed photovoltaic metering power meter have been successfully conducted. Regarding metering technologies, the Group achieved the highest power quality level in both frequency-metering algorithm research and harmonic compensation methods. Moreover, the lightweight deep learning network technology for low-voltage side load recognition pioneered by the Group has been applied to State Grid's IoT meters and photovoltaic metering products.

Communication and Fluid AMI Business

During the year under review, the Group focused on researching new-type power systems, marginal calculation and communication technologies leading to fruitful innovations. The Group provides full-level integrated solutions for the IoT of energy from data perception and communication networks to data management. Its "Blockchain-based Integrated Energy Service Platform Project" was included in the shortlist of blockchain + energy projects by 17 of China's ministries and commissions including the Office of the Central Cyberspace Affairs Commission and the General Office of the State Council. Furthermore, the Group was the only non-grid enterprise involved in the "Digital Power Grid Key Technologies", a key national research project conducted by the CSG Digital Power Grid Research Institute. To empower the industry through its core products, the Group launched its smart fire protection cloud platform system V3.0 in 2021. The WFET-1900 energy controller launched for the digital power grid has received the approval of scientific and technological achievements by the Hunan Provincial Instruments and Meters Association. The Wi-SUN communication microchip module, which the Group independently developed, has obtained Anatel certification. In view of intelligent digital cities, the Group launched its module-based NB-IoT water meter with current monitoring that enables remote battery life prediction and circuit fault self-diagnosis for low-power devices in 2021.

ADO Business

The Group has accelerated R&D to innovate its core technologies, seeking to provide standardized, differentiated and intelligent products and services for medium- and low-voltage power distribution under the IoT framework. As for low-voltage power distribution, the Group made breakthroughs in topology-identification technology, modular interchangeability and miniaturization technology — and created products such as the smart metering switch, the Bluetooth micro disconnection, and the smart residual current circuit breaker, all of which are being mass-produced. Regarding medium-voltage power distribution, the Group developed its primary and secondary integrated pole-mounted circuit breakers based on the new standards. It also created a prototype magnetron pole-mounted circuit breaker to provide a multi-level differential feeder automation plan. The Group completed trial production for a decentralized controller prototype that meets State Grid's new standards and completed a standardized design for a ring network cabinet, undertaking independent research and production to significantly reduce costs. Turning to complete smart electrical products, high- and low-voltage intelligent switchgear has become the physical foundation for digital platforms and a carrier of primary and secondary integration. The Group completed trial production of prototypes for the power cabinet series and 550 miniaturized high-voltage switchgear. In the field of new energy, the Group collaborated with universities and colleges within China to conduct basic research into BMS + PCS, and completed trial production for a PV-storage-charge integration machine and BMS prototype. Regarding intelligent new energy solutions, the Group built source-grid-load-storage integration demonstration projects for industrial parks and enterprises in various cities including Changsha, Xiangtan, Yueyang and Hengyang. In terms of energy storage equipment, with lithium iron phosphate battery materials as the prime focus of technological development, the Group researched, developed and produced 1000V and 1500V air-cooled energy storage battery cabinets and a 1500V water-cooled energy storage battery cabinet, successfully achieved battery module-level fire safety monitoring and rapid positioning fire protection system applications. As for low-speed electric vehicle battery swap-related products, the Group successively launched these for merchants and individuals targeting takeaway and express delivery personnel, and set up an R&D center in Shenzhen for integrated operational management.

International Markets

Closely reviewing market demand and international development trends, the Group has utilized software and hardware CBB shelf and bottom decoupling technology to greatly reduce both the length of the R&D cycle and costs. Despite the shortage of materials in 2021, the Group completed the following projects: the R&D and promotion for a single-phase and three-phase ANSI meters in Mexico based on the new platform and a Wi-SUN-based smart power meter AMI solution and promotion in Brazil; the R&D and delivery of LoRa Walk-by-based low-cost meters in Ecuador; and a BPLC-based new smart power meter AMI solution that was delivered in Indonesia. The Group also completed R&D for its aMeter series, obtaining MID, IDIS and UL50 certification, and successfully delivering the products to various markets.

OTHER INFORMATION

Utilisation of Net Proceeds from the IPO of Willfar Information Technology on the STAR Market

The net proceeds from the initial public offering ("**IPO**") of shares of Willfar Information Technology Company Limited ("**Willfar Information Technology**") on the STAR Market of Shanghai Stock Exchange ("**STAR Market**") on 21 January 2020 amounted to approximately RMB610.83 million and the below table sets out the use of the net proceeds from the listing date up to 31 December 2021:

Intended use of net proceeds	Net proceeds RMB'000	Amount utilised from date of listing to 31 December 2020 RMB'000	Amount utilised during the year ended 31 December 2021 RMB'000	Unused proceeds RMB'000
(1) Expansion of production capacity and technological upgrade of monitoring equipment applied in the perception layer of IoT	60,292	8,869	6,079	45,344
(2) Expansion of production capacity and technological upgrade of fluid sensing equipment applied in the perception layer of IoT	62,940	5,266	5,891	51,783
(3) Expansion of production capacity and technological upgrade of products applied in the network layer of IoT	204,873	39,581	51,818	113,474
(4) Construction of comprehensive research and development centre for IoT	146,951	11,942	16,897	118,112
(5) Replenishment of working capital	135,778	127,469	4,665	3,644
	610,834	193,127	85,350	332,357

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

SUMMARY

The report has been the seventh corporate social responsibility report released by Wasion Holdings Limited ("Wasion", the "Group" or "We"), together with its annual report, since 2015. Prepared in accordance with the reporting principles of materiality, quantification, balance and consistency, and with a focus on the substantive issues of Wasion Holdings' fulfillment of social responsibilities, the report discloses Wasion Holdings' performance in social responsibility governance and in fulfilling its responsibility in both environmental and social aspects in 2021, as well as its commitment to responsibility in 2022.

(1) Subject company

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

(2) Time period

The report covers a period from 1 January 2021 to 31 December 2021.

(3) Release cycle

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

(4) Data clarification

If there is any discrepancy in the economic performance data of 2021 disclosed in the report, the financial report shall prevail.

(5) Basis of preparation

The report complies with the requirements under the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and has been prepared in accordance with the G4 Edition of Global Reporting Initiative (GRI) Sustainable Development Reporting Guidelines, CASS-CSR4.0 the Guidelines for the Preparation of Corporate Social Responsibility Reports in China and GB/T36001-2015: Guideline on the Compilation of Corporate Social Responsibility Report.

(6) Statement of verification

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

(7) Statement of change

The scope and other category of the report have no significant change to the 2020 Corporate Social Responsibility Report of Wasion Holdings Limited.

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

To obtain the hard copy of 2021 Corporate Social Responsibility Report of Wasion Holdings Limited, please contact us at:

Address: No. 468 Tongzi Po West Road, High-tech Development Zone of Changsha, Hunan Province, China.
Postcode: 410205
Tel: 0731-8861 9888

I. ABOUT WASION

Wasion Holdings Limited is a leading provider of overall solution for smart metering, smart power distribution and energy efficiency management in China and is committed to becoming a global energy metering and energy saving expert. Listed on the Main Board of Hong Kong Exchange in December 2005, this Group is a leading IoT solution provider and service operator in advanced energy metering, advanced distribution and energy efficiency management and smart utilities both in China and in the world.

Wasion is concentrating on the R&D, production and sales of overall solution for energy metering and efficiency management. Its products and services are extensively applied in power, water, gas, heat and other energy supply industries, as well as large infrastructures, petroleum and petrochemical, transportation, machinery manufacturing, metallurgy, chemical and other large energy users and residential users.

In the face of major ongoing changes in China and the world in energy production and energy consumption patterns, in the face of great social responsibilities and development opportunities in energy saving and emission reduction, and in the face of new demand of smart grid, Wasion will, keeping in mind its mission of “energy metering and energy saving expert” and persisting in its core values of “Perfect Work with Passion, and Success Achieved with Integrity”, continue to innovate, never stop, strive to create Wasion into a bellwether in smart grid and smart metering field in China, and become a major supplier in smart grid and smart metering field in the world. It is committed to create Wasion brand into a borderless famous international brand.

Looking forward, every city, every enterprise and every family will be benefited from Wasion’s products, technologies and services.

II. STATEMENT OF THE BOARD ON ESG

Nowadays, the environmental protection storm of green & low-carbon, carbon peaking & carbon neutrality (double carbon) and emission reduction sweeps the world. Building a modern new energy system has become the main theme of the development of human society. The Board closely follows the national strategic development trend, actively responds to the development concept of “double carbon and emission reduction”, focuses on the construction, promotion and supervision of corporate ESG affairs, and continues to fulfill its social responsibilities.

The Group has established a social responsibility management and operation mechanism with the Board at the core drive and full participation of stakeholders, has established and improved its organizational structure of social responsibility to keep the key focus and active promotion of ESG-related affairs of the Company, has merged the social responsibilities into its medium and long-term development strategy, has formed a strategic consensus of “the energy technology progress and innovation are the key driving force and inevitable choice to achieve the goal of double carbon”, has actively assumed its social responsibilities and has promoted the continuous improvement of its social responsibility performance.

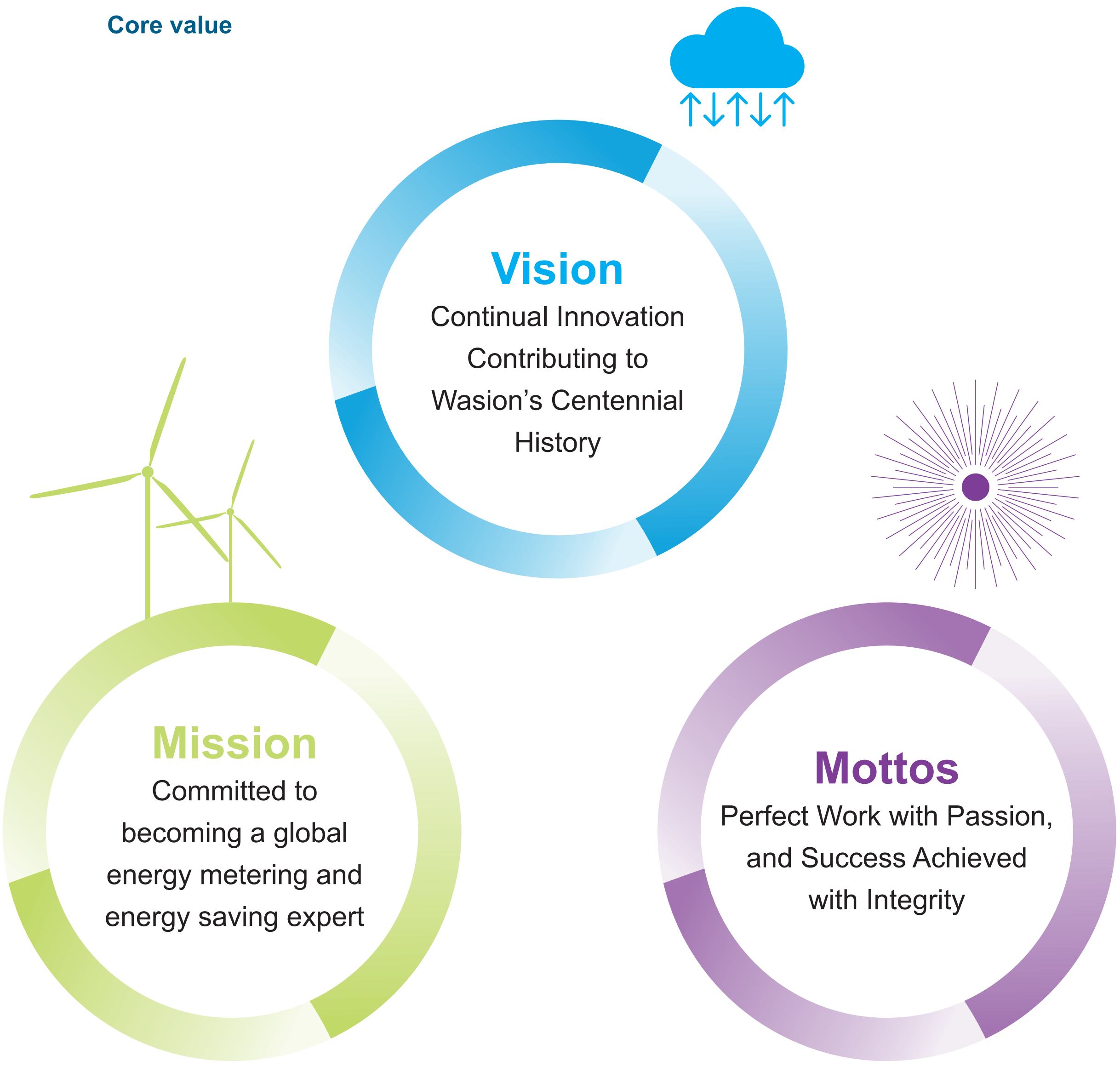
2.1 Building a Harmonious Corporate Culture

Culture drive

Wasion adheres to its great mission of "committed to becoming a worldwide energy metering expert". On its blueprint of sustainable development strategy, it builds the green & low-carbon development concept, roots the low-carbon development into its core values and comprehensively promotes the green & low-carbon development and the high quality development.

On the road of exploring green sustainable development, Wasion, holding its original intention of "Effective energy saving for a better world!", continuously improves its core competitiveness in energy metering and energy saving field to provide more accurate, more reliable and more intelligent products and system services, and improves its system integration capability in smart power distribution field to provide safer, more efficient and more professional system solutions and comprehensive services. With sustainable and competitive advantages and overall profitability, the Group creates more and greater value for users, employees, shareholders, industries, suppliers and distributors, communities, countries and society.

Core value



Based on Wasion's strategic requirements of the "5th five-year plan", to give full play to the role of culture in guiding, encouraging, restricting and condensing in the development of an enterprise, in the year 2021, Wasion raised the construction policy of "integration of core values and development strategy, and integration of core values and operation management" based on its strategic deployment of corporate culture, which realizes the deep integration of corporate culture and management and promotes the sustainable healthy development. To promote the full implementation of Wasion's values and codes, implant Wasion's corporate culture into Wasion people's soul and merge it into Wasion people's action, the Group planned and held "corporate culture training" series activities, which roots Wasion culture everywhere for prosperity.

Through selection and training of "Corporate Culture Internal Trainer", every internal trainer will sow the seeds of corporate culture like a dandelion

Strategic focus

Wasion takes "following the rapid development of the application of energy IoT and information technology, following the forefront of internal and external resource environment and industry competition and earnestly fulfilling corporate social responsibilities, constantly create new value and wealth for society and mankind, and constantly win the respect of stakeholders" as its value, and clearly specifies the development strategy of "Wasion Brand", "Wasion Digitalization", "Wasion IoT", "Wasion Value", "Wasion Internationalization" and "Wasion Well-being" in the "Fifth Five-year Plan". Driven by "Wasion Digitalization" at its core, with enhancement of innovation ecology and promotion of energy saving and emission reduction, with reaching the carbon neutrality and realizing the start connection as key point, Wasion continuously explores the development space of energy metering and carbon neutrality, and promotes the trended and intelligent and green development of energy metering industry, supporting the achievement of the ultimate goal of "Wasion Well-being".

2.2 Creating the "Success Achieved with Integrity" Management Mechanism

Sustainable development organizational structure

The Board attaches great importance to the high-quality sustainable development of the enterprise. Guided by "Perfect Work with Passion, and Success Achieved with Integrity", it continuously enriches the strategic meanings of corporate social responsibilities, continuously improves the governance framework and operation mechanism of social responsibilities, promotes green sustainable development and continuously improves the management mechanism of corporate sustainable development with the sense of mission and consciousness of knowing responsibilities, assuming responsibilities and performing responsibilities.

- Keep focusing on the stakeholders' interests and make clear that Wasion public welfare and Wasion responsibilities are important parts of "Wasion Value".

- Identify and confirm "community of interests, fortune and career" which are source power and core strength of sustainable development for empowerment in realizing "Wasion Well-being".

- Set permanent Social Responsibility Performance Team (SPT) to guide and promote the stable implementation of all affairs.

- Offer training to enhance the awareness of social responsibility in an overall way and continuously build the ability of SPT members.

- Highlight to motivate and encourage employee representatives to play a role of bridge and link to spread the development concept of corporate social responsibilities.

The Board

Main responsibilities

Formulate the management strategies, policies and objectives of Group's social responsibilities, and supervise their implementation

SPT

Main responsibilities

Regularly carry out risk assessment and supervise the activities related to the Group's social responsibility

Team leader

(president, vice president and other senior management)

- Aiming at the strategic objectives of social responsibilities, implement the work plan of social responsibilities in an overall way
- Organize key risk assessment to promote the continuous improvement of social responsibility management and practice
- Review the achievement of work objectives
- Communicate with many stakeholders and internal and external institutions to obtain relevant information in the field of social responsibilities and provide basis and support for the decision made by the Board
- Report the implementation of work plan of social responsibilities to the Board

Member

(head of function department, employee representative, trade union representative, health and safety representative, etc.)

- Implement the work plan of social responsibilities
- Publicize the concept of corporate culture and social responsibilities in its business scope to create a green, low-carbon and sustainable development environment and atmosphere
- Collect and transmit relevant information and give suggestions on improvement of social responsibility management performance

Wasion establishes an integral comprehensive management system based on quality management, environmental management, occupational health and safety management in line with relevant standards formulated by ISO. It vigorously promotes institutionalized, process-oriented and standardized management to continuously improve the lean management ability of the Group. In addition, Wasion introduces and promotes QC080000 standard to strengthen the control of hazardous substances in the production process, providing support to Wasion to implement “double carbon” policy.

Company name	Management system coverage				
	ISO9001	ISO10012	ISO14001	ISO45001	SA8000
Wasion Group Limited	●	●	●	●	●
Willfar Information Technology Company Limited	●	●	●	●	○
Wasion Electric Limited	●	●	●	●	○

●: represents that Wasion has established this standard and merged it in its integral management

○: represents that Wasion has promoted this standard without the certification of the third party

Certificates

Stakeholder communication strategy

ESG performance of an enterprise is not only a comprehensive indicator to effectively measure the sustainable development ability of the enterprise in coping with climate change and achieving carbon neutrality goals, but also a basic condition for the realization of its carbon neutrality objective. We well understand its importance and significance for an enterprise to achieve its strategic goal of sustainable development. Based on the practical situation of the Group, by building ESG data collection system, improving the responsibility communication channels of stakeholders, optimizing the evaluation procedures of substantive issues, and actively responding to the expectations of stakeholders, it thoroughly implements ESG action objectives and relevant management practices.

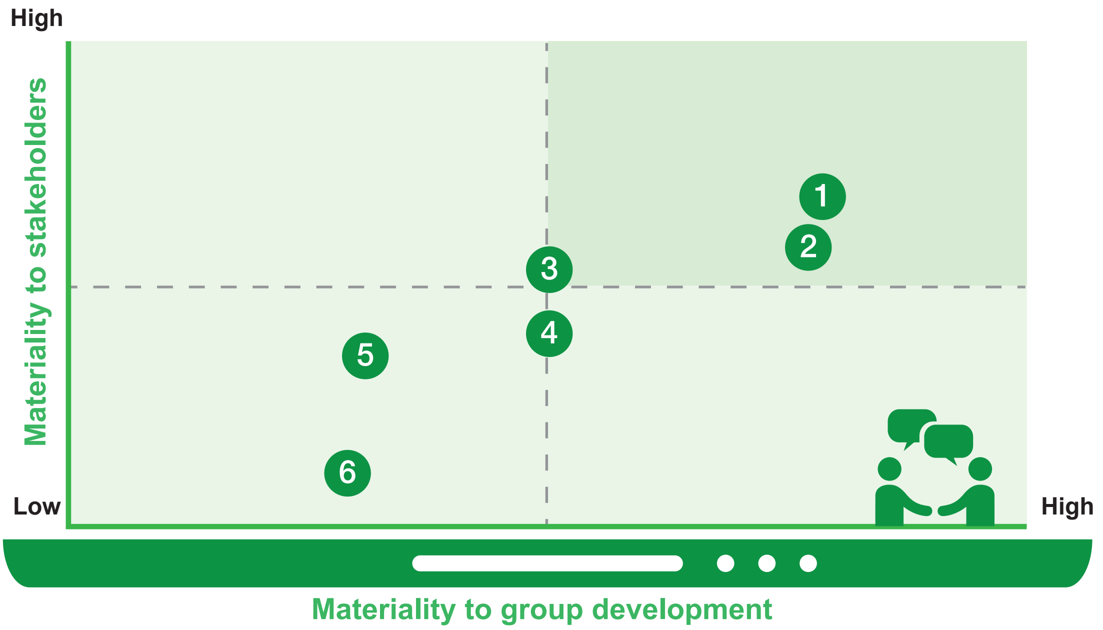
Mainly considering the factors, such as responsibility, influence, strategic intention, proximity, dependence and representativeness, we define and classify the stakeholders of the Group and collect their demand multi-dimensionally and systematically which provide the basis for research of key substantive issues of the Group.

Dimension	Requirement	Responsibility communication and practice
Country	Double carbon and double control policies and response measures, tax payment according to law, compliant management and clean government construction	Supervision and inspection, meeting discussion, benchmarking enterprise competition evaluation, and information disclosure
Society	Energy saving and consumption reduction, environmental protection policies and measures and social welfare	Supervision and inspection, public media publicity, volunteer activities, and charitable donations
User	Low-carbon environmental protection, quality service, product safety and reliability, and brand advantage	Satisfaction survey, hotline, petition communication, new product launch, and public media
Employee	Career development, health and rights, compensation and welfare	Employee representative meeting, collection of rationalization suggestions, employee symposium, satisfaction survey, and internal media
Shareholder	Corporate development and governance, risk control, brand advantage, and reasonable return on investment	General meeting of shareholders, publicity by public media, reception of visitors, and information disclosure
Supplier	Brand advantages, innovative marketing methods, compliance with business ethics and common development	Supplier conference, bidding evaluation, strategic cooperation, and electronic information platform
Community	Green public welfare, low-carbon environment-friendly products, voluntary activities	Public media publicity, public welfare activities, cultural and sports activities, and product performance publicity
Industry	Low-carbon environmental protection, industry innovation and development, product life cycle research, and fair competition	Trade fairs, industry exchanges and learning, symposiums, workshops and industry forums

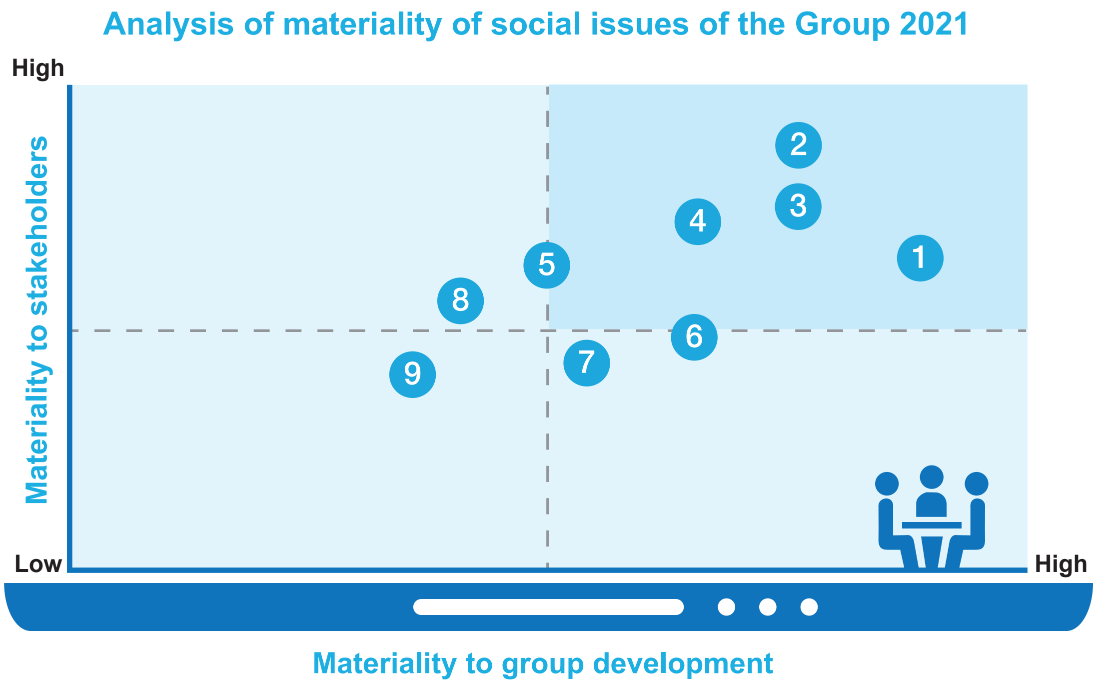
Substantive issue export and realization idea

- Based on the global values consciousness of the community of fortune of mankind, follow the characteristics of the times of social development nowadays
- Match with national “double carbon” objective
- Introduce multi-dimensional and systematic stakeholder communication and research results
- Conform to the characteristics of the industry and refer to ESG management practice of the same industry
- Screen based on key issues included in “internal substantive issues” and “external substantive issues”
- Analyze with a matrix diagram
- Evaluate the relevance and closeness of two dimensions, i.e. “materiality to stakeholders” and “materiality to group’s development”
- Report to the senior management for reviewing, confirming and approving
- Take the key issues as the direction of sustainable development of the Group, analyze the relevance of key issues from the perspective of product life cycle, display and organically combine in strategic planning, business development and resource allocation and continue to promote the implementation of responsibilities for substantive issues

Analysis of materiality of environment issues of the Group 2021

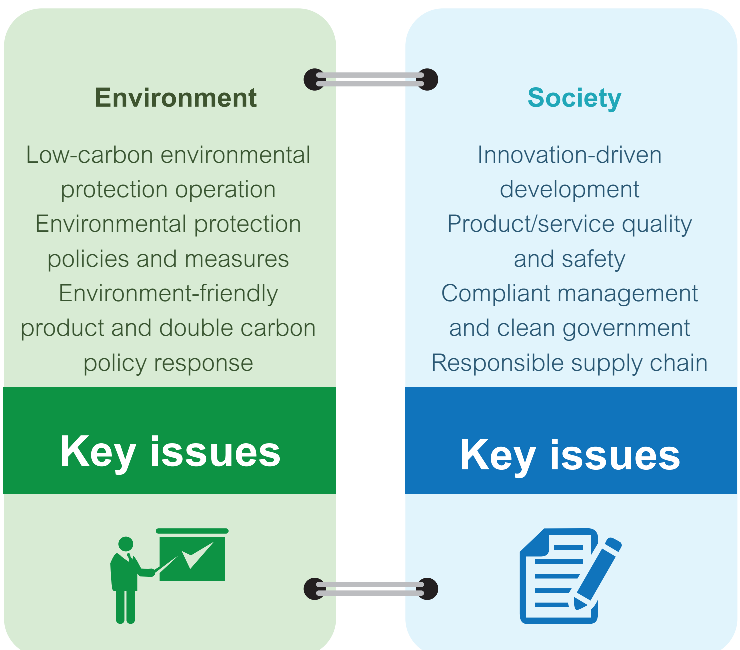


1.	Low-carbon environmental protection operation	2.	Environmental protection policies and measures
3.	Impact of environment-friendly product and double carbon policy	4.	Product life cycle management
5.	Ecological impact	6.	Green public welfare



1. Industry innovation and development
2. Product quality and safety
3. Quality service
4. Sustainable profitability
5. Compliant management and integrity culture construction
6. Responsible supply chain and develop together
7. Risk control
8. Brand advantage
9. Social welfare and volunteer activities

Focusing on responsibilities, strategic intention, influence, representativeness and other factors, summarize the key substantive issues in the sustainable development.



Key indicator establishment

In accordance with the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, by persisting in the reporting principle of materiality, quantification and consistency, considering the relevance, concreteness, measurability, feasibility and other factors, on the premise of participation of main stakeholders, the Group defines the key ESG performance indicators of Wasion Holdings Limited in 2021.

— Environment

- **Environmental protection**
  Low-carbon operation and environmental protection awareness
- **Natural resources and use**
  Policies and measures for energy saving, emission reduction and consumption reduction
- **Emissions**
  Greenhouse gases, wastewater, waste gas and wastes
- **Climate change**
  Identification and response policies

— Society

- **Employment**
  Diversification, anti-discrimination, occupational health, and training development
- **Labor standards**
  Prevention of child or forced labor
- **Supply chain management**
  Green supply chain and common development
- **Product responsibility**
  Innovation-driven development, customer-centered and information security
- **Social contribution**
  Clean government policies and public welfare undertakings

Statistics and evaluation of energy saving and emission reduction objective

On the road of exploring green sustainable development, Wasion, holding its original intention of "Effective energy saving for a better world", earnestly implements the general requirements of international energy saving, emission reduction and low-carbon development, energetically builds the high-end green manufacturing, and promotes the low-carbon green transformation. Considering its practical situation and based on the characteristics of this industry, Wasion determines the energy saving and emission reduction objective in 2021.

Types of emissions	Main sources
Sewage	Domestic sewage
Waste gas	Welding waste gas, canteen catering waste gas
Solid waste	Tin slag, a small amount of waste electronic components, outer package of raw and auxiliary materials, a small amount of waste outer package, domestic garbage of employees and kitchen garbage of canteen
Greenhouse gas	Use of electricity and natural gas

	2020 objective	2021 objective
Energy consumption-gas	<130 m^3	<130 m^3
Energy consumption-electricity	<5,800 KWh	<5,600 KWh
Energy consumption-water	<146 ton	<144 ton

	Total consumption	Average consumption per million of annual income	Evaluation on annual objective achievement
Natural gas (m^3)	498,033	108	Achieve
Electric energy (KWh)	22,220,499	4,840	Achieve
Water (ton)	622,975	136	Achieve
Packaging material[1] (ton)	2,246	0.49	Achieve

	2020 objective	2021 objective
Greenhouse gas emissions	<4.2 ton	<4 ton
Sewage discharge	<95 ton	<92 ton
Harmless waste domestic garbage	<0.5 ton	<0.5 ton
Hazardous waste	<0.003 ton	<0.003 ton

	Total emissions (ton)	Average emission per million of annual income	Evaluation on annual objective achievement
Greenhouse gas[2]	15,536	3.38	Achieve
Domestic sewage	418,542	91	Achieve
Solid waste Domestic and kitchen waste	1,473	0.3	Achieve
Solid waste Tin slag	11.4	0.002	Achieve
Solid waste Waste paper and plastic	351	0.1	Achieve

1 The packaging materials are mainly cartons and a small amount of wood.

2 The carbon emission shall be calculated in accordance with GHG Protocol released by World Business Council for Sustainable Development (WBCSD) and World Resources Institute (WRI), Guidelines for Reporting Environmental Key Performance Indicators released by Hong Kong Exchanges and Clearing Limited (HKEX), and China Regional Power Grid Baseline Emission Factors and Guidelines for Accounting Methods and Reporting of Greenhouse Gas Emissions from Electronic Equipment Manufacturing Enterprises (Trial) released by National Development and Reform Commission (NDRC) for responding to climate changes.

2.3 Focusing on Energy Efficiency Smart Management Brand Image

Brand leading

Brand, as an intangible asset of an enterprise, condenses the cultural connotation, innovation achievements and value trend of the enterprise. Wasion brand has become a bellwether of leading supplier of energy metering equipment, systems and services over the past 20 years of intensive cultivation since its establishment. In recent years, the Group has continued to enhance its brand awareness and reputation, and strived to build a high-quality brand with both quality-"hard strength" and culture-"soft strength"; besides, it has made great efforts to explore overseas markets, so that Wasion brand can go out of China and into the world. Its brand value continues to grow. In our leapfrog development, we actively fulfill our social responsibilities to let every city, every community, every enterprise and every family be permanently benefited from Wasion's products, technologies and services.

Wasion showing its new low-carbon intelligent products and intelligent energy solutions in domestic and foreign expositions

- Wasion Group was honored with Industrial Internet Pilot Demonstration Project in 2021 by MIIT
- Wasion Group's project, Key Technologies and Large-scale Application of Intelligent Power Meter Industrialization, won the first prize of scientific and technological progress of China Instrumentation Society in 2021
- Wasion Group won the title of "Strong Party Building and Robust Development" Benchmarking Leading Enterprise in 2021 in Changsha City
- Wasion Group was listed in China Brand Value Evaluation Information List 2021
- Willfar Information was listed in China Brand Value Evaluation Information List 2021
- Willfar Information won two awards, namely "Best Board" and "Top New Media Operator" of Tianma Award 2021
- Wasion Electric won the title of "Hunan Excellent Small and Medium-sized Enterprise Brand Capability Improvement Pilot" 2021

III. RESPONSIBILITY FULFILLMENT

3.1 Systematically Promoting the Green Development

The development model of low-carbon economy with low energy consumption, low emission and low pollution has become a global consensus. Wasion comprehensively promotes the green and low-carbon transformation of the industry and practices the green and low-carbon action to help to achieve the goal of carbon peak and carbon neutrality from the aspects of accelerating the low-carbon transformation of energy consumption, promoting the trended transformation of industrial structure, accelerating the digital transformation of production mode, promoting the clean transformation of production process, and guiding the green transformation of product supply. The Group has established an integral automatic energy data acquisition and analysis system to monitor the energy consumption of office and production comprehensively in real time on the automatic energy management and control platform, and formulates a reasonable management scheme based on the analysis of energy consumption data to realize the integration of management and control.

- Create high-end green manufacturing to promote the green low-carbon transformation
- Actively research and introduce cleaner production technology and process to increase the energy utilization efficiency
- Offer the characteristic publicity and education for comprehensive mobilization to build the concept of green, low-carbon and environmental protection concept
- Organize the extensive low-carbon environmental protection theme activities to cultivate employees' awareness of green life

3.1.1 Low-carbon Energy Consumption

Wasion strictly observes Law of the People's Republic of China on Conserving Energy, Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Solid Waste Pollution and other relevant laws and regulations. Besides, considering the characteristics of this industry and its products, Wasion establishes and improves its systems for energy saving and consumption reduction in accordance with GB/T 24001-2015/ISO 14001:2015 Environmental Management Systems-Requirements with Guidance for Use.

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

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

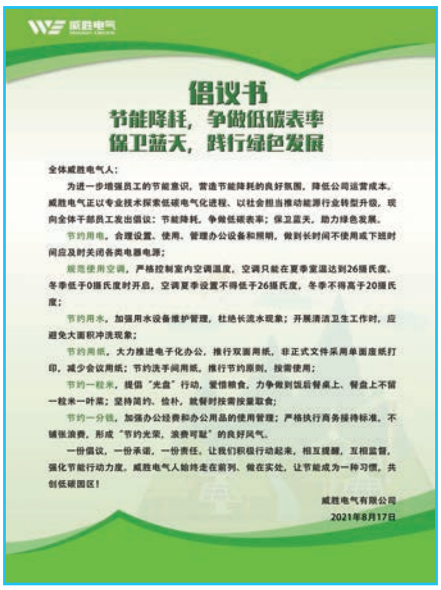
- Determine the environment management approach "improve resources utilization and reduce energy consumption continuously for sustainable improvement and effective fulfillment of social and environmental responsibility"
- Continuously promote the implementation of low carbon policy from three dimensions, i.e. risk management, procedure optimization and system support, and plan and implement the internal management requirements, such as Control Procedure for Compliance Evaluation, Control Procedure for Monitoring and Measurement, Management Measures for Energy Saving and Consumption Reduction, and Waste Management Measures.
- Cooperate with professional waste recycling institutions and establish a recycling system for old and waste materials

Energy saving and emission reduction scheme and main measures

- Actively advocate low-carbon life and work for all employees, properly use electricity and water, and advocate green travel to reduce carbon dioxide emissions
- Promote the cleaner production, and actively introduce new technologies and processes for pollution reduction and emission reduction to improve the utilization efficiency of resources and energy
- Develop the cleaner production technologies such as temperature control and pollution reduction, implement equipment transformation schemes and select thermal insulation materials to isolate the temperature of high-temperature equipment, and reduce energy consumption
- Strengthen the cleaner production training to improve the awareness of all employees on cleaner production, water saving, power saving, material saving and energy saving
- Set up cleaner production posts, assign responsibilities to specific person, strengthen cleaner production management and organize the implementation of cleaner production plans
- Continuously standardize the transfer operation to reduce the loss of materials
- Establish the Waste List and Treatment Requirements, increase the application proportion of recyclable materials and other low-carbon environment-friendly materials within the group
- Constantly detect three kinds of wastes to know their emission/discharge, providing the data support for environmental management
- Effectively use the roof of the plant for photovoltaic power generation to increase the application proportion of clean energy within the enterprise
- Upgrade the employee's shuttle buses, replace fuel vehicles with electric vehicles, improve bus fuel efficiency and reduce exhaust emissions
- Transform the water supply system for saving energy to realize the comparison of daily water consumption and find abnormal water consumption in time
- Vigorously promote green and low-carbon technology innovation, actively research and develop energy saving technologies and products, and accelerate the demonstration and promotion of energy saving and emission reduction solutions
- Optimize its supply chain, workflow and products to improve production efficiency and product quality
- Relying on the cooperation with colleges and universities, build an energy saving technological innovation platform to strengthen technological innovation
- Assist customers and society in energy saving and emission reduction. On the premise of ensuring energy saving and environmental protection and fulfilling corresponding responsibilities, vigorously develop and promote green products and services, and increase the application of carbon neutrality service solutions in clients
- Strengthen and expand industrial and international exchanges and cooperation in the field of energy saving and environmental protection to introduce up-to-date energy saving and environmental protection technologies and management experience

To popularize the significance and concept of Wasion contribution to national "double carbon" to more employees, in "Wasion Park Low Carbon Day" series activities, Wasion Service Carbon Peak & Carbon Neutrality and Solution was publicized. Besides, "Park Low Carbon Day" popular science knowledge award activity was also held.

Release the low-carbon environmental protection proposal to advocate all employees to practice low-carbon environmental protection life



威胜电气

倡议书

节能降耗，争做低碳表率
保卫蓝天，践行绿色发展

全体威胜电气人：

为进一步增强员工的节能意识，营造节能降耗的良好氛围，降低公司运营成本，威胜电气正以专业技术探索低碳电气化进程，以社会担当推动能源行业转型升级，现向全体干部员工发出倡议：节能降耗，争做低碳表率；保卫蓝天，助力绿色发展。

节约用电，合理设置、使用、管理办公设备和照明，做到长时间不使用或下班时间应及时关闭各类电器电源；

规范使用空调，严格控制室内空调温度，空调只能在夏季室温达到26摄氏度、冬季低于0摄氏度时开启，空调夏季设置不得低于26摄氏度，冬季不得高于20摄氏度；

节约用水，加强用水设备维护管理，杜绝长流水现象；开展清洁卫生工作时，应避免大面积冲洗现象；

节约用纸，大力推进电子化办公，推行双面用纸，非正式文件采用单面废纸打印，减少会议用纸；节约洗手间用纸，推行节约原则，按需使用；

节约一粒米，提倡"光盘"行动，爱惜粮食，力争做到饭后餐桌上、餐盘上不留一粒米一叶菜；坚持简约、俭朴，就餐时按需按量取食；

节约一分钱，加强办公经费和办公用品的使用管理；严格执行商务接待标准，不铺张浪费，形成"节约光荣，浪费可耻"的良好风气。

一份倡议，一份承诺，一份责任，让我们积极行动起来，相互提醒，互相监督，强化节能行动力度，威胜电气人始终走在前列，做在实处，让节能成为一种习惯，共创低碳园区！

威胜电气有限公司

2021年8月17日

Set up "Park Low Carbon Day" and hold many low-carbon environmental protection activities with the theme of "park low carbon and E-road passing"

Risk management and response to climate change

In recent years, global disasters that come with climate change show high occurrence. Thus, climate issues have attracted great attention from all walks of life. Wasion highlights early warning and prevention of disastrous weather. On one hand, Wasion strengthens the building of its comprehensive capacity to respond to climate change. It integrates climate risk into the Group's risk management system, establishes an early warning mechanism for disasters and crisis events, continuously provides the emergency support and promotes the Business Continuity Management (BCM) so as to improve its risk prevention capability and guarantee its business resilience and robustness.

"Care for environment and contribution to green" activity

On the other hand, Wasion takes strong initiatives to respond to climate change. It strengthens the publicity on climate change issues and the education on ecological protection for employees to advocate "more trees and less wastes"; Wasion expands the use proportion of renewable energy in its business operation and continues to invest in the construction and technical improvement of photovoltaic power generation projects; it takes the initiative to promote the cleaner production on site to reduce the consumption of resources and energy and prevent from pollution; from the perspective of product innovation, it focuses on smart grid, clean energy and energy storage technology and provides customers with overall solutions to boost the transformation and upgrading of energy Internet with technical innovation.

Organize the Arbor Day volunteer activity themed with "help low carbon, plant trees" to increase carbon absorption

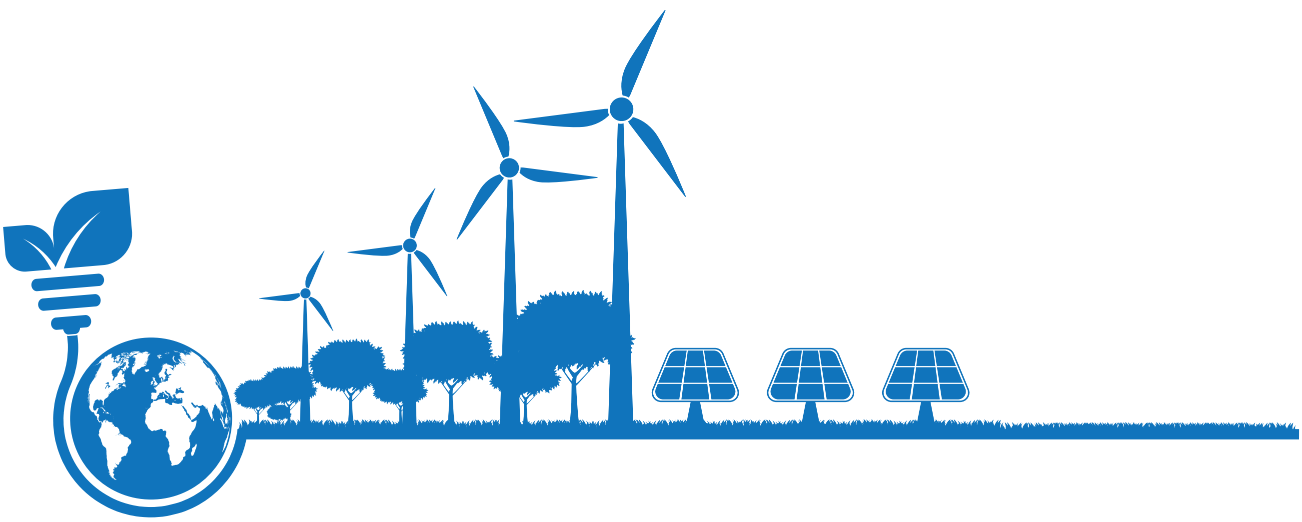
3.1.2 Trended Industrial Structure

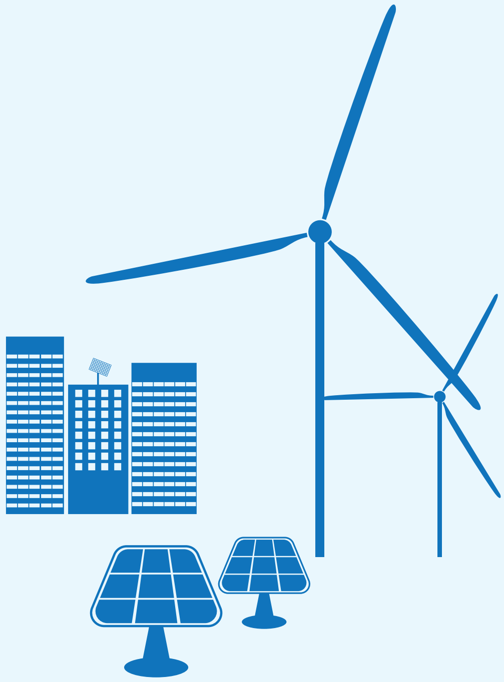
The year 2021 is an opening year of the "14th Five-Year Plan". As the "30•60" objective is proposed, China's economic and social development is transforming towards the high-quality and green sustainable development. With the extensive popularization of energy revolution and digital revolution, the development of various industries in the future is also transforming in a faster way. Wasion continuously makes efforts in the exploration in new energy field to actively explore the development path of smart energy with Wasion characteristics. Wasion further enlarges the scope of its new energy business and optimizes its industrial structure, focuses on the development of new energy power generation, energy storage, micro-grid and distributed regional energy system, and continuously makes technical contributions to the fields of carbon emission reduction, energy saving and environmental protection.

Wasion Group will grow from big to robust. By adhering to its development orientation of "one primary and three innovations to keep its leading position in the industry", thoroughly develop its intelligent metering business, and broaden new tracks such as intelligent power consumption and industrial Internet metering.

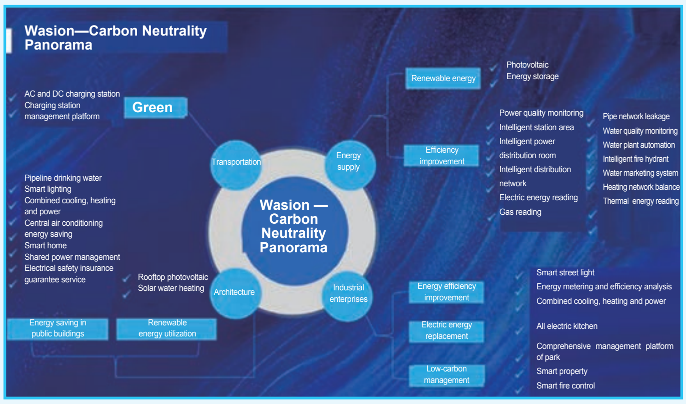
Wasion Electric will realize the new leapfrog development. Seize the opportunity of upgrading and reconstructing the "source network load storage" of the new intelligent grid to toughen up intelligent power distribution and make micro-grid strong. It takes the lead in the breakthrough and expansion of energy storage and new battery swap business.

Willfar Information will accelerate its digital transformation. By persisting in its development orientation of "three cores and multi-mode, becoming an energy IoT unicorn in public utilities field", it will complete the transformation and sublimation towards mainstream supplier of energy application module, leading enterprise of communication chip and energy IoT solution expert.



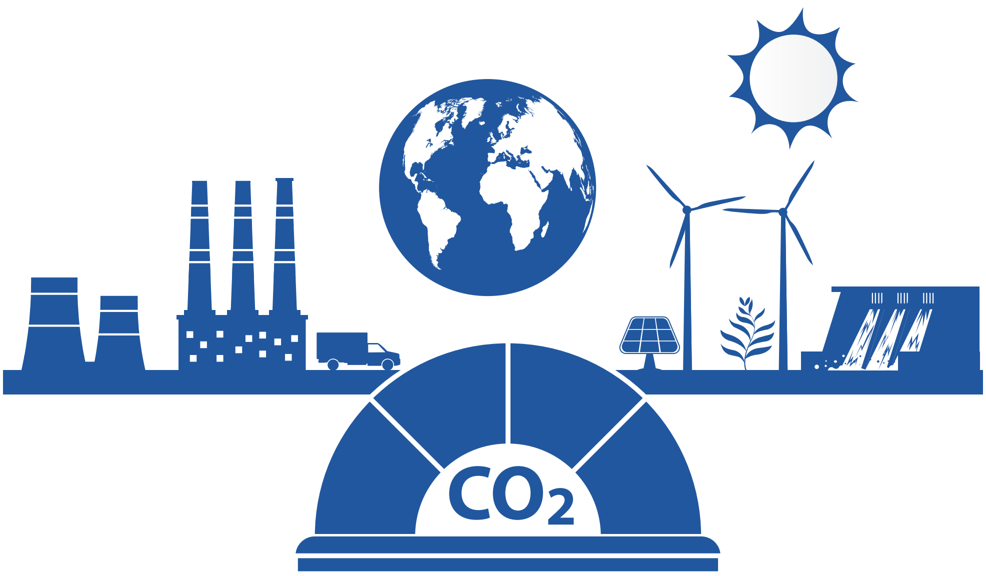


Wasion builds the energy IoT based on energy flow and information flow, provides the energy integrated IoT solutions ranging to field perception, data transmission to system management, and draws a complete carbon neutrality panorama.



It attended the Boao New Power System International Forum themed with "build a new power system, serve the carbon peak & carbon neutrality". At the meeting, cross field and cross specialty technical discussions were held for key technical issues in building a new power system with new energy as primary to promote the joint research and joint establishment of new power system.

Wasion has officially joined the China Hydrogen Development and Innovation Alliance for Urban Gas and was invited to attend the 2nd Hydrogen Energy Academic Conference of China Hydrogen Development and Innovation Alliance for Urban Gas to jointly explore an innovation and development road of gas and hydrogen energy industry, realizing the energy interconnection. As a striver for “carbon neutrality” national strategy, Wasion assists in building a smart city and joins in “carbon neutrality” action together with other enterprises in the industry.



3.1.3Digital Production Mode

Wasion, actively responding to the development strategy of “cloud and platform for digital transformation, networked collaboration and intelligent upgrading”, strives to explore a new path of production and manufacturing upgrading with high efficiency and low consumption. It uses the intelligent manufacturing technology to increase its automated production coverage to create intelligent manufacturing engineering with automatic production, digital industry and intelligent product. It starts a new course of intelligent manufacturing digital plant.

Overall upgrading of intelligent manufacturing to match with new era of digital intelligence development

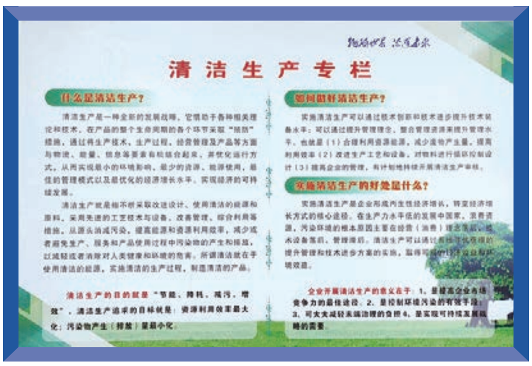
The intelligence transformation of its workshop mainly includes intelligence transformation of production equipment and information transformation. After the transformation, the production efficiency is increased by 30%. In terms of information transformation, the workshop data center has been built. By deepening application of MES system, the automatic data collection of key posts has been improved, and the objective of data-based and transparent management of production process has been achieved on electronic large screen and in other modes.

3.1.4 Cleaner Production Process

Wasion, adhering to the efficient, clean, low-carbon and cyclic green development path, actively discusses the realization of resource saving and pollution control in the product life cycle, actively introduces the transformation scheme of cleaner production, fully implements the principle of pollution prevention, focuses on clean energy, cleaner production process, clean raw materials and clean products, and promotes the realization of the sustainable development objectives of energy saving, consumption reduction, pollution reduction and efficiency increase in production and operation.

Main promotion solution for Wasion cleaner production:

- Equipment upgrading and transformation — reduce energy consumption
- Quality improvement in production process — increase the through rate and increase the production efficiency
- Construction of automatic detection line — improve production efficiency
- Training — knowledge of cleaner production: improve the awareness all staff on water, electricity and energy conservation
  — process knowledge: improve staff skills, and promote the improvement of production efficiency and quality
  — post SOP: standardize operation and reduce material loss
- Management improvement — establish management system, set up full-time posts and improve management level
- Emission supervision — detect the emission/discharge of three kinds of wastes, manage the waste recycling and strengthen environmental impact monitoring, production equipment transformation and training on cleaner production knowledge



Production equipment transformation

Training on cleaner production knowledge

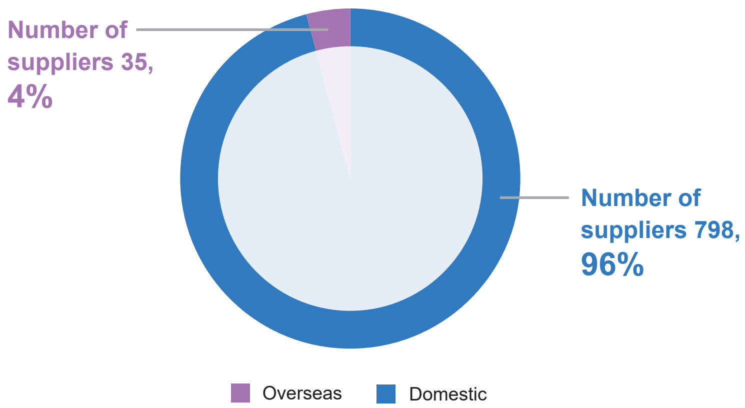
3.1.5 Green Supply of Product

Green supply chain management

Wasion, persisting in its green development concept of "green technology, intelligent environmental protection, high efficiency and reliability", designs the green supply chain management at top level, and merges it into the Group's development strategy, and actively introduces and develops green suppliers.

- Under the principle of "green low carbon and green procurement", Wasion continuously improves and improves the Procurement Control Procedure, Supplier Management Measures etc. According to the procurement requirements of "green, direct, efficient and controllable", Wasion runs green procurement through the whole process of raw materials, products and services procurement. It takes "the products meet the requirements for restriction of hazardous substances" as the prerequisite in selecting suppliers, and gives priority to parts, accessories and product packages from those suppliers with outstanding achievements in green environmental protection
- Increase the requirements for hazardous substance control and material data collection of suppliers to ensure that the products provided by suppliers meet the requirements of national green environmental protection and other laws and standards
- Add social responsibility evaluation terms into the introduction of new suppliers and annual review of suppliers, and evaluate the environmental protection requirements and social responsibility performance of suppliers by means of field investigation and questionnaire survey
- Establish a collaborative and value-sharing green supply chain information management platform to facilitate suppliers to timely know the requirements of relevant environmental protection laws and regulations, realize the two-way flow of green supply chain management information data, promote information sharing in green procurement, and build a sustainable green supply chain

Regional distribution of suppliers



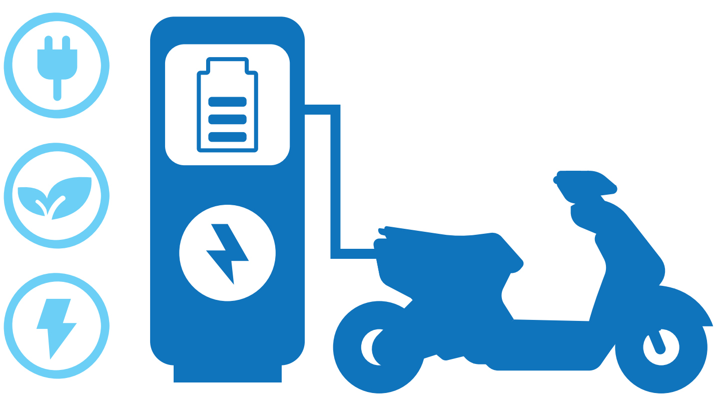
High-quality development by technological innovation

Wasion, rooted in energy Internet, always marches on a development road with innovation as core, continuously consolidates its business capabilities and concentrates on independent research and development. It invests more than 8% of its operating revenue into R&D and technological innovation every year. Based on the potential demand of users, it innovates in variety, technology and design, continuously speeds up the intelligent, digital and green development of the enterprise, and improves its value creation ability. It strives to create value for shareholders, investors, users, the industry and the country.

In 2021, Wasion received 152 innovation fund application awards, granted 125 awards with the award rate up to 82%, and paid more than RMB1 million as the fund.

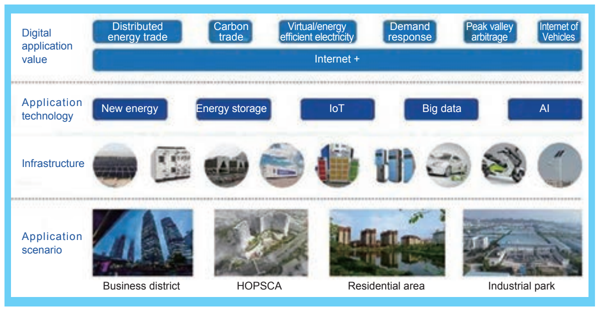
Wephon electric vehicle, zero-carbon future

Themed with "build an electric vehicle travel ecosystem in China", Wephon, a subsidiary of Wasion, showed its products in 2021 State Grid EV Expo which focused on new energy vehicle, charging and battery swap facility and battery energy storage for technical exchange and trade negotiation. Actively contact C-end users. Relying on Wasion's capability in key fields, such as main station system, panel and cabinet assembly and component supply, provide battery swap cabinet with original core technology to swapping operator. Besides, it continuously explores and actively builds a harmonious and efficient electric vehicle travel charging and swapping ecosystem to push forward the green traffic construction and sustainable development in China.



Wasion Group's project, Key Technologies and Large-scale Application of Intelligent Power Meter Industrialization, won the **first prize of scientific and technological progress of China Instrumentation Society in 2021**

Wasion Electric "Intelligent Park New Energy + IoT Application Pilot" project was successfully listed in List of 100 Landmark Projects of "Digital New Infrastructure" in Hunan Province



Wasion Group "**Key Technology and Application of Electric Energy Metering System adapting to Competitive Power Market and Two-way Interaction**" project won the third prize of scientific and technological progress of Chinese Society for Measurement

In various important selections in the capital market held at the end of 2021, Willfar Information successively won "Hard Core Award of Science and Innovation Board", "Chinese Economic Innovation Enterprise in the New Era" and "Science and Technology Star Company"

Willfar Information "Intelligent Park Integrated Management Project" won "Excellent Solutions for New Smart City in Changsha". Its intelligent park integrated management solution takes "industry friendly, safe and convenient" as objective, takes "green and happy life" as concept. It fully utilizes IoT, big data, mobile Internet and other new generation of information technologies for unified and centralized control of intelligent application systems such as energy consumption monitoring system, intelligent security system, intelligent fire protection system, intelligent parking system, comprehensive property management and scientific innovation incubation in the park.

Strengthen quality awareness and improve management level

"Quality is Wasion's life and also the dignity of every Wasion person" is the persistent working principle of every Wasion person. According to the product quality requirements, the Group has established scientific inspection standards and regular quality training system. Led by solid technical system building and based on the high product quality, it further consolidates the process control, builds the product life cycle quality control ability, and ensures the continuous and stable supply of qualified products.

Actively respond to the national quality month activity themed with "embracing digital change, promoting quality innovation and improving industrial foundation"; thoroughly implement the strategy of strengthening the enterprise through quality and actively promote the high-quality development of the Group; carry out a series of "quality month" activities in various forms in the fields of management innovation, production practice and talent quality improvement

Hold award-based essay solicitation activities to mobilize and guide all employees of the Group to learn quality knowledge and deepen employees' quality awareness, so as to continuously improve their quality skills and form a good atmosphere of emphasizing quality and promoting benefits with quality

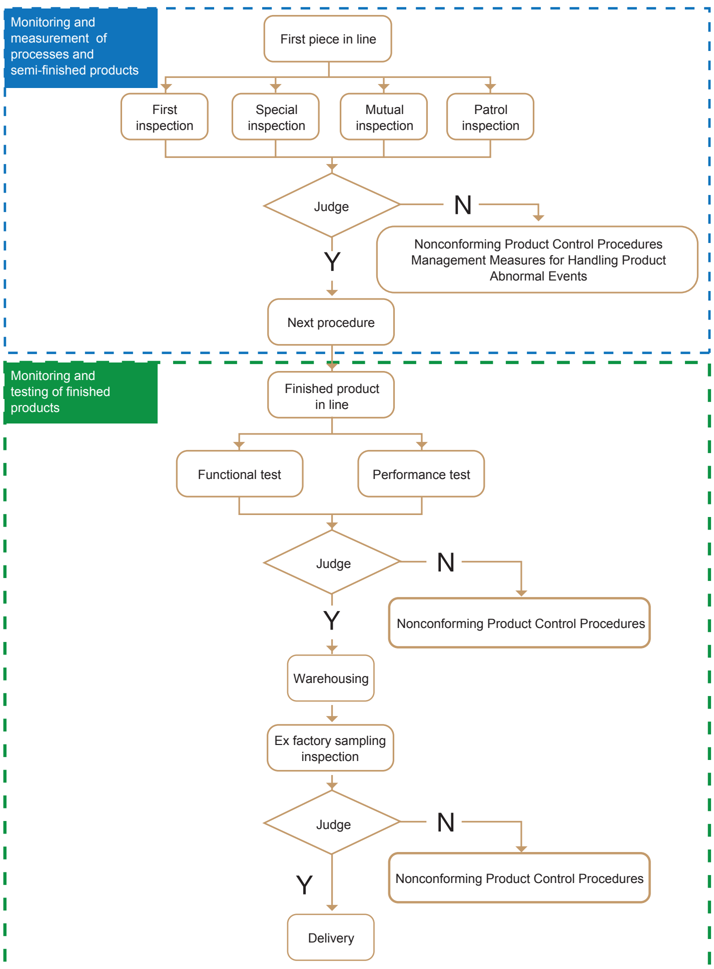
Product quality traceability

The Group strictly abides by the Production Safety Law of the People's Republic of China, the Product Quality Law of the People's Republic of China and other relevant laws and regulations, and fully performs its due obligations. We are committed to ensuring the use safety by tracing, recalling and other emergency measures in case of any safety or quality problem.

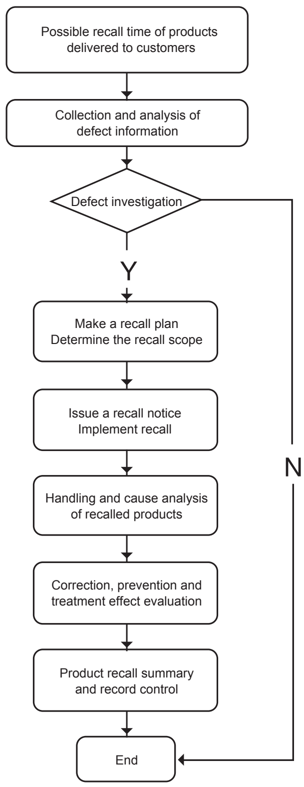
During the reporting period, the Group had no product recall due to safety and health, and no case has been identified constituting a breach of the laws and regulations in relation to product and service quality.

Inspection process and recall procedure of product

Quality inspection flow chart



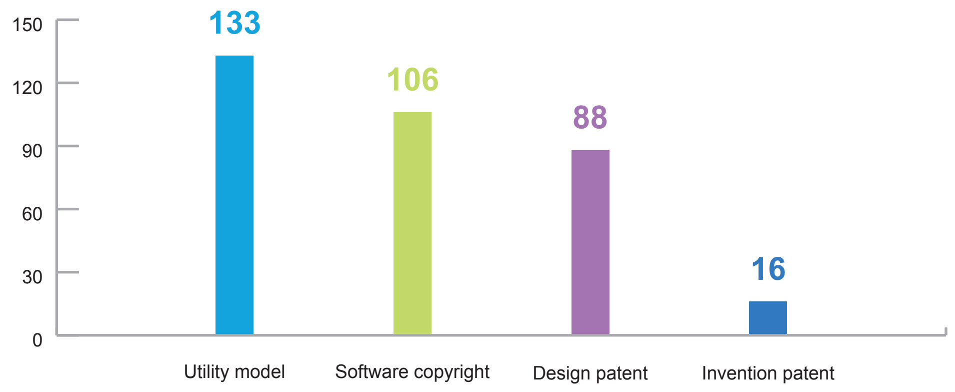
Product recall flow chart



Construction of intellectual property management system

To further improve its intellectual property quality and intellectual property management ability, encourage innovation of intellectual property, promote technological improvement, and comprehensively protect and systematically manage intellectual property, Wasion, in accordance with GB/T 29490-2013 Code for Enterprise Intellectual Property Management, promotes the planning, implementation, inspection and improvement of intellectual property management system, establishes a special work group to orderly promote the system management of intellectual property in aspects of improvement of intellectual property system documents, publicity and training of intellectual property knowledge, overall layout and achievement tracking of intellectual property to promote the implement of core competitiveness of the enterprise.

New inventions or patents 2021

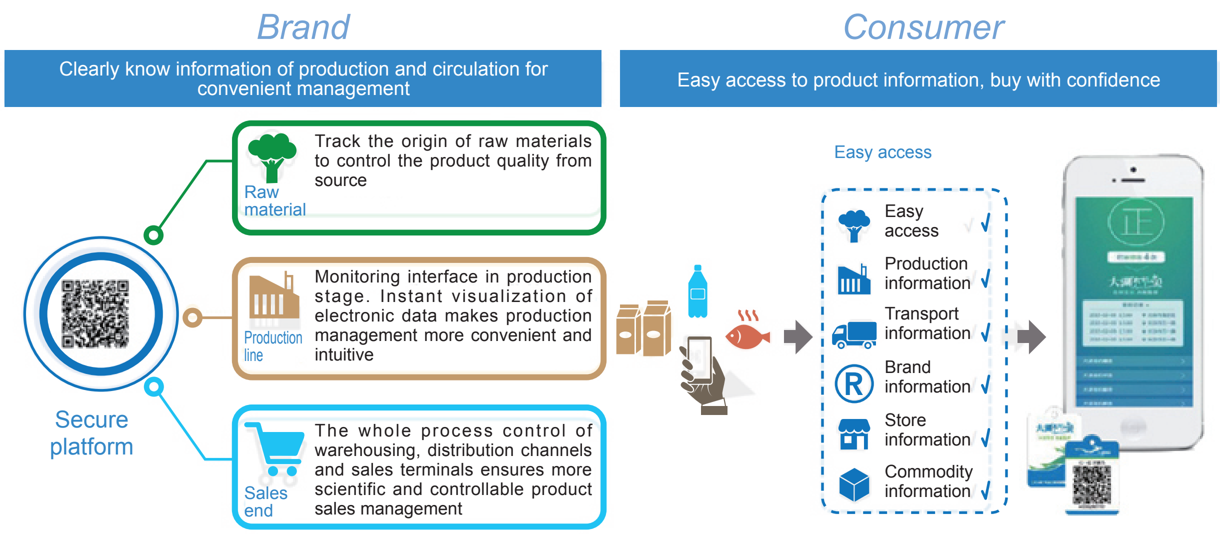


Client focus

By persisting in the operation concept of "customer focus", Wasion strives to do its best in the whole process of product ranging from source to delivery, provides customers with more and better technologies, products and services, feeds back to every client with its sincerity and high quality and marches forward by holding its enterprise mottos "Perfect Work with Passion, and Success Achieved with Integrity".

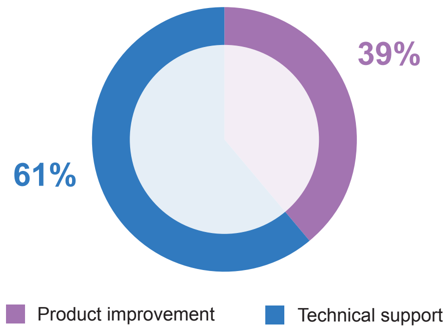
Willfar Information cooperates with Tencent Cloud -tencent.iot and Tencent Security in smart agriculture to provide the clients with overall IoT things products and solutions in industrial energy IoT field. Yunnan Menghai Pu'er Tea Smart Management Platform is a secure traceability platform covering "production-distribution-wholesale -retail -sales". This platform promotes the transformation of its industrial management mode and accelerates the digital transformation of the tea industry. Besides, IoT equipment in the whole part relies on tencent.iot development platform which quickly realizes the equipment on the cloud and completes the digital construction. Based on the basic facilities of IoT on tencent.iot which covers "cloud, communication, edge and end", it connects with the new energy deployment and energy consumption management, and responds to the national double carbon and double reduction policy. The smart fire protection solution and carbon reduction energy management quickly realize the first step of carbon reduction in the park.

Product traceability eliminates brand and consumer pain points



"Provide considerate services and constantly improve our service value by professional skills" is Wasion's permanent service policy. Wasion sets up a special support group to closely cooperate with the resident service branches in the modification of energy meter periods of provincial power companies.

Wasion refers to ITSS.1-2015 Maturity Model of Operation, Maintenance and Service Capacity for Information Technology Services, GB/T27922-2011 Evaluation System for After-sales Service of Commodity, CTEAS1001-2017 Evaluation Code for CTEAS After-sales Service System Soundness Certificate and other national and industrial service management and evaluation model to promote the improvement of the Group's comprehensive service capabilities, such as service concept, service resources, service process and personnel quality. It sets up many service branches at home and abroad to provide clients with timely, professional and efficient technical supports and services. It utilizes the WeChat official number, website and other effective and compact online service channels to enhance its 7×24h online service response and ensure the convenience of consultation and complaint.



82 feedbacks involving product and service improvement from hotline

To continuously improve the quality of products and services, the quality center planned the customer satisfaction evaluation in 2021. It designed the questionnaire based on the product category and defined the time, approach and content of investigation in the evaluation proposal. The quality center conducted the evaluation together with Domestic Marketing Department, International Marketing Department and Technical Service Department by means of network, telephone or field investigation. The sorting, statistics and analysis of collected data were carried out based on the evaluation proposal. The result is as follows:

Item	2021
Product quality satisfaction	98.5%
Service quality satisfaction	98.7%
Product performance satisfaction	98.5%
Market job satisfaction	99.2%

Note: above data is from Wasion Group.

Client information security

Wasion strictly abides by the Law of the People's Republic of China on the Protection of Consumer Rights and Interests, fully respects the privacy of clients and highlights the client information protection in operation process, and provides its employees with law popularization education to guide all employees to learn, understand, abide by and use the law. It is aimed at building a more honest service system.

It establishes Information Security Risk Management Procedure, Information Security Control Procedure and other relevant systems in accordance with GB/T 22080-2016/ISO/IEC 27001:2013 Information Technology — Security Technology — Information Security Management Systems — Requirements. It continuously improves the information security management mechanism and working mechanism, strengthens the confidentiality of computer information system and increases the investment and configuration of professional technicians and technical equipment to improve the information security of internal system so as to prevent client information leakage, effectively protect client privacy, improve client information security and protect their legitimate rights and interests. It establishes a client information security supervision and accountability system. Its information center puts forward requirements for the compliance of client information security management, and the Audit Department supervises and pursues the responsibilities for the problems found in client information security management.

3.2 Building Harmonious Labor Relations

3.2.1 Employment and Labor Standards

"Wasion Well-being" gathers our development momentum. We share our innovative development achievement with employees. We care for employees, providing them with decent jobs. We respect employees, improving their income. We cultivate employees to improve their skills. We ensure employees to succeed for enjoying a wonderful life.

Wasion strictly complies with the requirements of the laws and regulations including the Labor Law of the People's Republic of China, the Law on the Protection of Women's Rights and Interests of the People's Republic of China, the Provisions on the Prohibition of Using Child Labor and Law on Prevention and Control of Occupational Diseases of the People's Republic of China. It establishes and promotes management measures to prohibit recruitment and avoid misuse of child labor in the Group and applies pressure to suppliers and sellers to transmit our policy of prohibition of using child labor. During the reporting period, Wasion had not found any case constituting a significant violation of laws and regulations in relation to use of child labor or forced labor.

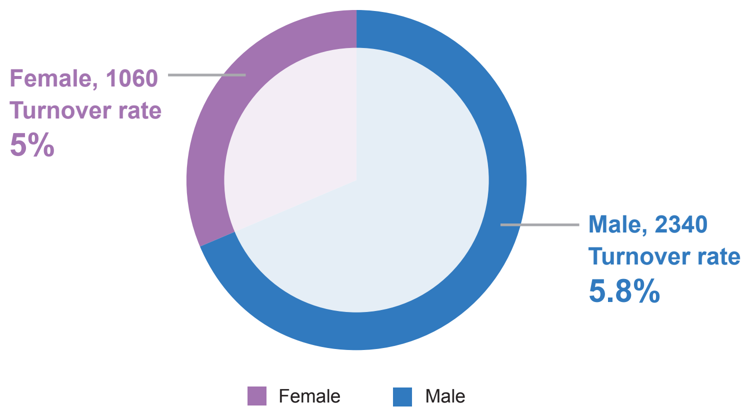
- Establish sound procedure to specify that the Group prohibits child labour, and implement relevant requirements for all employees by means of training and publicity, policy publicity, etc.
- Strictly implement the recruitment process, carefully check the ID information of the recruited personnel during employment, and strictly control the admission
- Establish a sound employee information registration and file management system to ensure that employee file information is accurate, complete, safe and traceable
- Give play to the supervisory role of grass-roots employee representatives to enhance the daily supervision
- Regularly contact the third-party testing institution to detect the occupational hazard factors in the workplace, and take targeted prevention and control actions in time to protect employees' occupational health when necessary

Wasion, relying on its outstanding performance in human resource management and employer brand building, was awarded as the "Top Ten of Best Employers in Hunan 2021". Wasion was entitled the "Best Employers of China" for the 12th successive year since 2009!

We integrate a diversified and inclusive culture into the Group's human resources strategy. We have established Control Procedures for Prevention of Discrimination and Harassment, Control Procedures for Wages and Benefits, Control Procedures for Freedom of Association and Collective Bargaining, Communication Control Procedures, etc. We strengthen the internal training to thoroughly merge those procedures into entry, assessment, promotion and termination. We create a fair, just and harmonious working environment within the Group.

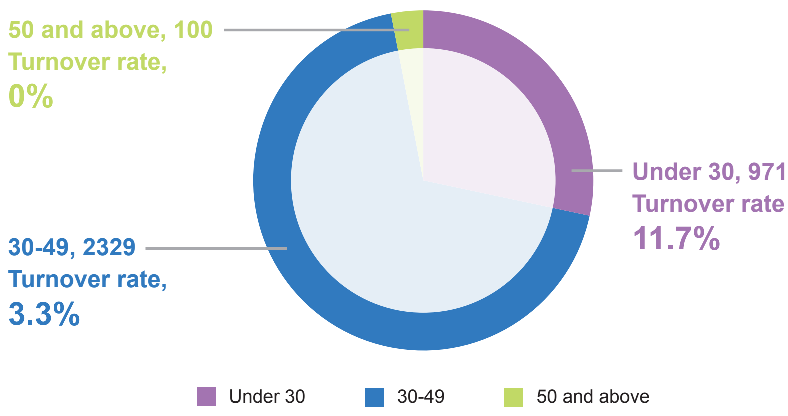
As at 31 December 2021, Wasion Holdings Limited had a total of approximately 3,400 employees[3] as follows:

Gender distribution and turnover rate

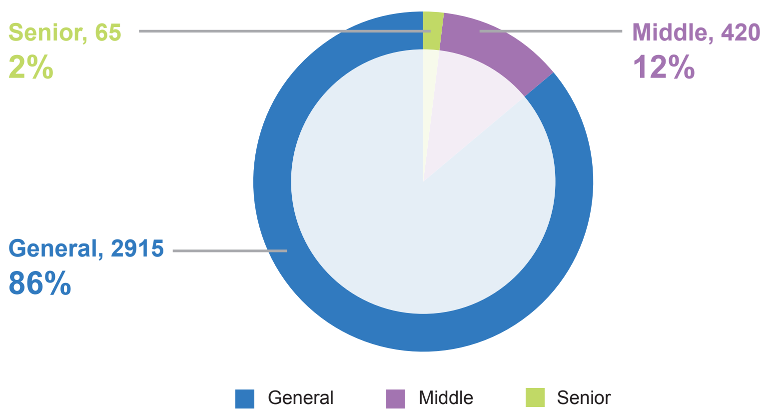


3 Total number of employees represents the aggregation of all contractual employees of the Company covered in this report

Gender distribution and turnover rate

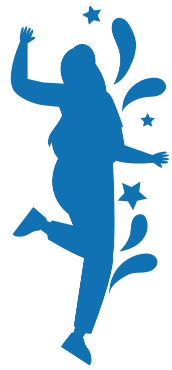


Position distribution



Wasion keeps innovating its measures in deepening humanistic culture and building a harmonious enterprise. Under the role of trade unions as a bridge, with promoting the openness of factory affairs and standardizing the convening of workers' congress as an important breakthrough to improve the management level, promote the management democracy and protect the democratic rights of employees, it strengthens the democratic management and democratic supervision, and promotes the co-construction and sharing of harmonious labor relations to realize balance between harmony and development so as to build a harmonious development state between enterprise and employees.

Employee birthday party, care for employees, create “Wasion Well-being”



Varied recreational activities, sports activities, and sports leagues for enriching their life and advocating positive, healthy and upward lifestyle

Upgrading of dormitory and canteen to create a better living environment, strengthen their sense of belonging and march towards “Wasion Well-being”

Hold “Cool in Summer” activity to reward workers who still work in hot weather

3.2.2 Health and Safety

The responsibilities of production safety are weightier than Mount Tai. Especially in normalization of epidemic prevention and control, we should build the concept of safety development, enhance the awareness of responsibility and risk in production safety, and build a “safety net” for high-quality and steady development to fulfill its responsibilities to employees, enterprises and society.

Wasion strictly abides by and implements the Production Safety Law of the People’s Republic of China, the Fire Protection Law of the People’s Republic of China and other laws and regulations. In accordance with GB/T45001-2020/ISO45001:2018 Occupational Health and Safety Management Systems — Requirements with Guidance for Use, it establishes the occupational health and safety management system for the Group. Wasion lays safety foundation by “three-level safety education”, consolidates the employee’s awareness of responsibilities by practically promoting the signing of Safety Responsibility Guarantee, improves their safe production skill by organizing the special training, and enhances the troubleshooting by holding “monthly production safety check” so as to vigorously create an atmosphere that all employees are engaged in production safety management, promote the improvement of management level of production safety and practically drive the stable development of production safety.

In the past three years (including 2021), there were no cases of work-related death and no lost working days due to work-related injuries each year. During the reporting period, no case has been identified by Wasion constituting a breach of the laws and regulations in relation to health and safety in workplace.

Group occupational health and safety management targets (partial extract)

Target indicator	2021	2020	2019
No case of serious injuries at work per year	0	0	0

Offering in-depth safety training, learning new Production Safety Law, interpreting the revised and added content related to production operation enterprise in new Production Safety Law

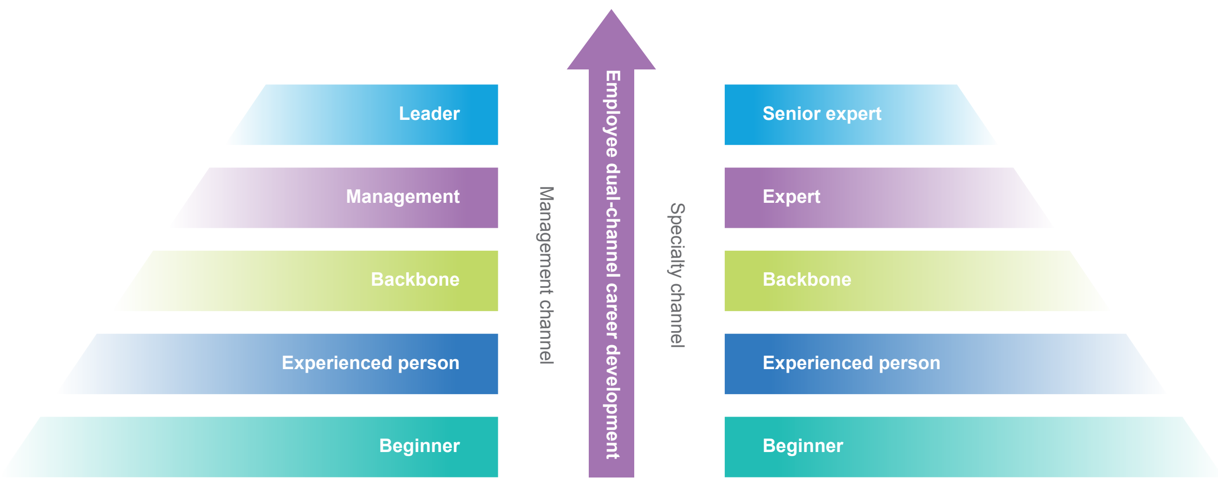
Strengthen employees' safety awareness, improve employees' emergency response ability, carry out various emergency drills, strengthen employees' first aid ability and safety awareness in emergencies, test the feasibility and operability of emergency plans, and improve emergency command, coordination and handling capacities.

To improve physical quality of enterprise employees and implement the National Fitness Program, Wasion Science Park Smart Fitness Center was built

3.2.3 Development and Training

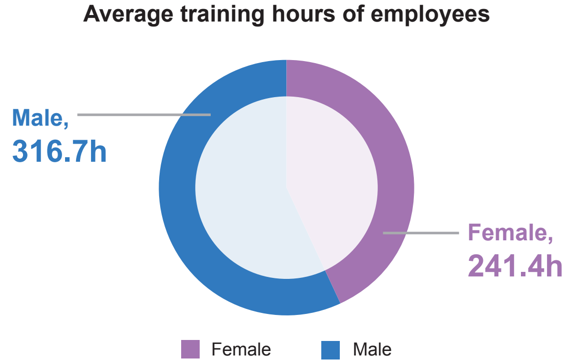
"The key to governing a country is to introduce talents". Talent is an important strategic resource for enterprise development. Since releasing its "5th Five-Year Plan", Wasion has systematically proposed and implemented the construction of talent production line. Based on its talent construction guidance of "don't employ idler, don't rear the mediocre, introduce able person, and cultivate new employee", it builds a solid foundation for talents by means of "internal training and external introduction". "Selection and retention" stimulates the vitality of talent production and management. The layered and graded building of talent structure can operate the talent production line with high quality. It regularly holds the "star shift", "star employee" and "multi-skilled worker training" evaluation activities. It takes many measures to strengthen the training and reserve of skilled talents in multiple dimensions.

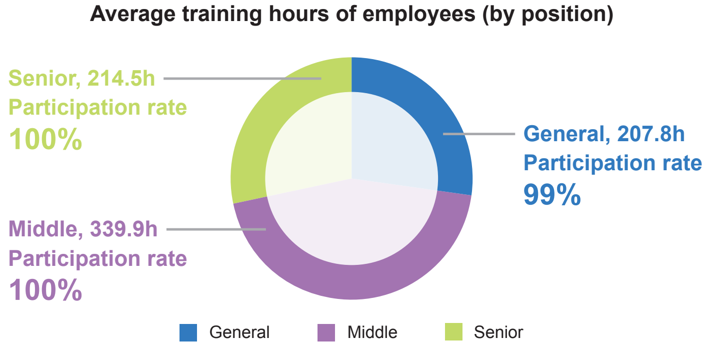
Emphasize employee career development planning, provide personalized career planning, and take dual-channel employee career development road (management promotion channel and specialty promotion channel) to closely tie everybody's development with the Company



To drive the overall implementation of the "5th Five-year Plan", improve the ability of training management talent team, improve the talent team construction level, and promote the construction of talent production line, offer the training on talent team construction for HR-related persons of the Group

Founded in 2020, Wasion training center, as a skilled talent cultivation base of Wasion, has set up more than 10 training classes for electrician, network administrator, E-commerce engineer, property manager and so on to assist more than 600 trainees to get national vocational qualification certificate and training certificate. In 2021, oriented by "professionalization, specialization, systematization and diversification", Wasion training center thoroughly explored a brand new approach to improve skills, improved employee's skill level, and enhanced the cultivation of innovative, applied and skilled talents to further consolidate the foundation for the construction of highly skilled talent team.





3.3 Integrity Culture Construction

"Criterion and rule are essential". Wasion always regards integrity and self-discipline culture construction as a critical part of the corporate culture construction, and takes "Ten Prohibits of Wasion" as the important code of conduct for maintaining internal and external relations of enterprises and the "spiritual guide" for its steady development for ensuring Wasion development.

- Promote the improvement of management system and mechanism, and deepen the integrity and the fight against corruption. Establish and strictly implement Wasion Holdings Supervisory System, Management Measures for Complaints and Accusations, Management Measures for Code of Conduct of Procurement Personnel and other special management systems in the Group.

- Actively improve the supervision and audit system, and combine law enforcement supervision and anti-corruption risk prevention and control. Control the supervision of decision on major issues, appointment for key posts, funds, asset management, procurement of bulk goods, etc. Promote the normalization of the lifelong strict accountability system.

- Establish a regular training mechanism to practically build an integrity and self-discipline protection line, and create a clean and upright business environment. Wasion risk control center, together with Wasion college, continues to carry out integrity and self-discipline training for management teams and persons in key positions

- Strengthen the awareness of integrity and self-discipline, promote the publicity and signing of the Letter of Commitment on Integrity and Self-discipline, and establish a crisscross responsibility network throughout the Group.

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

Training on integrity and self-discipline

The training content is "Ten Prohibits of Wasion". Combined with criminal legal liability, legal risk prevention of contract and professional knowledge of law, Wasion deeply analyzed the real cases of violations of laws and regulations to intuitively reveal the serious consequences of corruption and violation of law and discipline and to let every Wasion person be incorruptible.

Signing of Letter of Commitment on Integrity and Self-discipline

Considering the practical situation of specific post, sign the Letter of Commitment on Integrity and Self-discipline by levels and strengthen consciousness of self-discipline of "stick to the bottom line of integrity, abide by the red line of discipline, build a clean heart and be an honest person" to eliminate the violations from ideological source

3.4 Practicing the Public Welfare Spirit

Wasion, persisting in its tenet of "Perfect Work with Passion, and Success Achieved with Integrity", actively fulfills the responsibilities of a national enterprise, and creates "Wasion public welfare". It has organized a volunteer team. It is enthusiastic about social welfare, and actively participates in activities such as epidemic prevention, flood fighting and rescue, donation, public welfare education and visit. With a high sense of responsibility and contribution of a social enterprise, Wasion creates more value for the society.

Wasion openly and inclusively provides students with internship jobs in finance, R&D and technical support. In 2021, it totally offered short term internship posts for more than 300 persons, and provided formal posts for 180 persons.

Category	Investment	Time
Education and society	RMB2.31 million	500h

Deepen university-enterprise cooperation, and closely combine professional education, scientific research and innovation and entrepreneurship education to realize "advantage complementation, resource sharing, mutual benefit and common development" between the university and Wasion

In 2021, Wasion totally granted the support fund amounted to RMB200,000 to 88 employees

In the summer of 2021, Henan and other places encountered severe floods caused by heavy rainfall. Wasion donated money and responded to the power rescue in the disaster area immediately. It organized a power supply guarantee leadership group in Zhengzhou of Henan Province to stand by for 24 hours. The group vigorously cooperated with local power bureau to provide power emergency repair services for the flooded area.

To better support the power supply guarantee and post-disaster reconstruction of the worst-hit regions in Henan, Wasion urgently dispatched its materials, equipment and power technicians to supplement the sufficient resources to the power repair team in frontline in Henan and to support the logistics.

Participation in "Hope Room" Youth Care Project

荣誉证书

HONORARY CREDENTIAL

威胜集团有限公司：

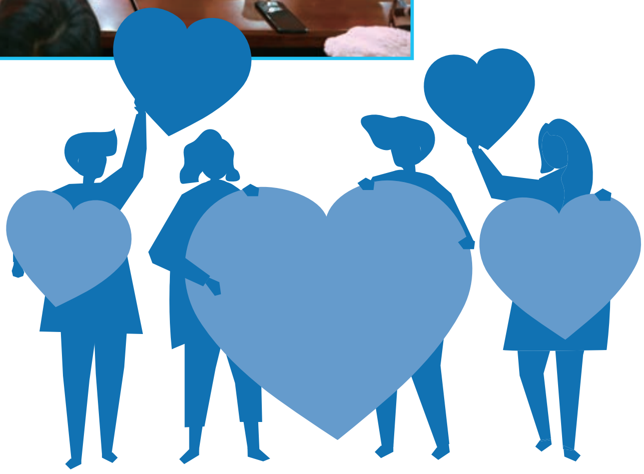
为支持长沙高新区"希望小屋"青少年关爱项目慷慨捐赠，奉献爱心。谨以共青团长沙高新技术产业开发区工作委员会名义，表示崇高敬意和衷心感谢。

特此发证，以资留念！

共青团长沙高新技术产业开发区工作委员会

2021年7月

Willfar Information Caring Team Activity for Left-behind Children with Difficulties



IV. EVALUATION AND DEVELOPMENT DIRECTION OF RESPONSIBILITY PERFORMANCE

Under the 10 principles of "Global Compact", Wasion made the following conclusion on the evaluation of the responsibility performance in 2021 and the undertaking and development for 2022:

10 principles of "Global Compact"	Undertaking	Evaluation of responsibility performance in 2021	Development direction in 2022
Human Rights			
1. Businesses should support and respect the protection of internationally proclaimed human rights.	Comply with the international conventions and international practices signed and recognized by the Chinese Government, comply with the laws and regulations of the country where it operates, and undertake to respect and support human rights across Wasion's footprint.	Full compliance.	To further maintain and review whether there is a deviation and continuously improve.
2. Make sure that they are not complicit in human rights abuses	Make sure that we are not complicit in human rights abuses.	Full compliance.	To further maintain and review whether there is a deviation and continuously improve.
	Continue to create diversified, fair and inclusive working environment.	Based on pluralism and integration, fairness and justice, various personnel affairs management systems for induction, employment and transfer were established and implemented.	To continuously build a healthy and good workplace culture.

10 principles of "Global Compact"	Undertaking	Evaluation of responsibility performance in 2021	Development direction in 2022
Labor			
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining 4. The elimination of all forms of forced and compulsory labor 5. The effective abolition of child labor	Ensure the free operation of trade unions and actively support trade union activities to protect the right to collective bargaining.	Sports activities were organized, such as aerobics competition, chorus competition, staff sports meeting, basketball game and badminton game. Entertainment and celebration activities were carried out on Lantern Festival, youth day, Mid Autumn Festival and other festivals. A healthy and green lifestyle was proposed. The above activities enriched the spare time life of employees.	To continuously inspect and improve according to established policies.
6. The elimination of discrimination in respect of employment and occupation	Promote the regularization, standardization and transparency of democratic management in forms of staff congress, staff forum and operation express.	Giving full play to the role of the trade union, a long-term mechanism for open and democratic management of factory affairs was established. Active participation of staff representatives was encouraged to know the needs of our staff and staff forums were hold regularly to understand their situation to promote the co-constructing and sharing of labor relations.	Taking the promotion of the openness of factory affairs and the standardized convening of workers' congress as an important breakthrough in improving the management level and promoting management democracy, to continuously improve the organizational system and operation mechanism so as to promote the healthy development of enterprise and protect the legitimate rights and interests of employees.
	Eliminate forced labor and child.	It is specified in the recruitment system. Relevant trainings were organized to ask for strict implementation. No child labor was found.	To continuously inspect and improve according to established policies.

10 principles of "Global Compact"	Undertaking	Evaluation of responsibility performance in 2021	Development direction in 2022
	Eliminate discrimination in respect of ethnic, gender, age, disease, race and religion, adopt position and performance-based remuneration package, and implement equal pay for equal work.	Relevant management provisions have been reflected in Wasion's compensation policy and staff manual has been strictly carried out.	To continuously inspect and improve according to established policies.
	Ensure decent employment, provide compensation and welfare in line with the national condition and actual corporate situation, balance the employees' work and life, establish a reasonable paid leave system, and realize 100% labor contracting ratio, five insurance - one fund coverage and employment compliance.	A survey on the minimum living needs of our staff was carried out to review their compensation level. 100% labor contracting ratio, "five insurance-one fund" coverage ratio and employment compliance were realized.	To continuously expand talent pool.
Environment			
7. Businesses should support a precautionary approach to environmental challenges 8. Undertake initiatives to promote greater environmental responsibility 9. Encourage the development and diffusion of environmentally friendly technologies	Based on the demand for energy, intensify the technological research in the smart energy industry. Continue to tap the potential of consumption reduction to meet the emission target. Continue to promote paper-free office business.	The annual emission targets were realized; the total consumption of electricity, water and gas decreased by 10% compared to 2020 (annual income energy consumption ratio). "Clean production" quality improvement, efficiency increase and emission reduction were promoted.	To continuously promote and improve the management of energy saving and consumption reduction work. To continuously promote its process control of hazardous substances in accordance with IECQ QCO80000 standard; to seek for evaluation from the third party certification institution if necessary.

10 principles of "Global Compact"	Undertaking	Evaluation of responsibility performance in 2021	Development direction in 2022
Anti-corruption			
10. Businesses should work against corruption in all its forms, including extortion and bribery	Continuously promote and implement the Wasion Values and Code of Conduct Manual and ten prohibitions of commercial activities of Wasion.	Training and evaluation were organized to facilitate Wasion Values in each working process.	To continuously implement corporate culture advocacy project.
	Enhance prevention and supervision function of the Risk Control Center, accept corruption reports, and carry out anti-corruption investigation.	No case was found by Wasion constituting a breach of the laws and regulations in relation to bribery and corruption.	To continuously promote and offer training on relevant laws and regulations, and maintain and strengthen the supervising efforts.
	Promote transparent operation, strengthen legal governance, improve internal control system, accept supervision of the community and prevent corruption risk.	No lawsuit was pending or concluded against Wasion or its employees in respect of corruption.	

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

EXECUTIVE DIRECTORS

Mr. Ji Wei (吉為), aged 65, is the chairman of the Company and the founder of the Group. Mr. Ji is responsible for the Group's overall strategic planning and the formulation of corporate policies. Prior to founding the Group in 2000, Mr. Ji was a business manager of Hunan Province Minerals Import and Export Company (湖南省五金礦產進出口公司) between 1980 and 1985 and the import and export manager of Hunan International Economic Development (Group) Company (湖南省國際經濟開發(集團)公司) between 1985 and 1989. Mr. Ji was appointed as an executive Director of the Company with effect from 20 July 2004. Mr. Ji was consecutively appointed as a member of the 10th, 11th, and 12th Chinese People's Political Consultative Conference of Hunan Province from 2007 to date. He is now a deputy chairman of the Hunan Federation of Industry and Commerce. He was awarded with several honorary titles such as the "Most Socially Responsible Entrepreneur in China", "The Sixth Top Ten Educational Entrepreneur Award in China", "Most Caring Entrepreneur on Staff Development", "National Machinery Industry Excellent Entrepreneur", "Key Personnel for the Construction of Innovative Culture in Hunan Province", "Special Recognition Award for Occupational Technology Creation in Hunan Province", "Excellent Entrepreneur" at the 30th anniversary of Changsha Hi-Tech Zone and "Chinese Red Cross Dedication Medal".

Ms. Cao Zhao Hui (曹朝輝), aged 54, is the Chief Executive Officer and the chairman of Wasion Electric Limited. Ms. Cao graduated from Hunan College of Finance and Economics (湖南財經學院) with a bachelor's degree in Economics. She also obtained a degree in executive master of business administration (EMBA) from the University of Hunan (湖南大學). Ms. Cao joined the Group in 2000 and was appointed as an executive Director of the Company on 3 March 2005. Ms. Cao was successively awarded with several honorary titles such as the "Outstanding Builder of the Socialism with Chinese Characteristic in Changsha City", the "Excellent Entrepreneur in Hunan Province" and the "Most Socially Responsible Entrepreneur in China 2017". She was also awarded with the "Certificate of High-level Talent in Xiangtan City" in 2019 and the "Certificate of Senior Management Engineer" in 2020.

Ms. Li Hong (李鴻), aged 46, graduated from the Hunan University majoring in law, and obtained an EMBA degree from the Renmin University of China. Ms. Li joined the Group in 2000 and held various positions within the Group and its various subsidiaries, including the director of personnel and the executive directors, respectively. Ms. Li is also the executive director and general manager of Willfar Information Technology, a non-wholly owned subsidiary of the Company listed on the Science and Technology Innovation Board of the Shanghai Stock Exchange. In 2018, Ms. Li was awarded several honorary titles such as the "National Innovative Entrepreneur in Electronic Industry", and was recognized as the "High-level Talent in Changsha City", the "Excellent Entrepreneur in Hunan Province 2020", the "Excellent Entrepreneur in Software Industry in China 2020" and the "Top 100 New Economic Leaders Nationwide in China". She also won the Second Prize of the China Machinery Industry Science and Technology Award (中國機械工業科學技術獎二等獎). Ms. Li was appointed as an executive Director of the Company on 18 June 2020.

Ms. Zheng Xiao Ping (鄭小平), aged 58, is a senior engineer, a master of engineering in automation, an executive Director and chairman of Wasion Group Limited. Between 1987 and 1988, Ms. Zheng was a teaching assistant at the North China Institute of Technology. She lectured at the Taiyuan University of Technology between 1988 and 1993 and was the research director of Hunan Weisheng Electronics Co., Ltd. (湖南威勝電子有限公司) from 1993 to 2000 being responsible for the research and development work. She joined the Group in 2000 and was responsible for the research and development work of the Group. Ms. Zheng was appointed as an executive Director of the Company on 1 September 2005. Ms. Zheng was also awarded with various honorary titles such as "The Seventh Group of Outstanding Experts in Changsha", "Top Ten Women Entrepreneurs with Outstanding Achievement in Changsha City", "High-level Leading Talents in Changsha", "Advanced Individual of Technological Innovation in Hunan Province", "National Labour Day Medal" and "National Top Ten Technological Worker in Electronic Devices and Meters Industry".

Mr. Tian Zhongping (田仲平), aged 41, is a senior engineer, an executive Director and the president of Wasion Group Limited. Mr. Tian graduated from Xiangtan University (湘潭大學) with a bachelor's degree in Engineering in 2002, and obtained a master degree in Control Engineering from Zhongnan University (中南大學) in 2008. Mr. Tian joined the Group in 2002 after graduation and had held positions as Development Engineer for firmware, Project Manager, Product Development Manager, Deputy Chief Engineer and General Manager of the Overseas Sales Department of the Group. During the period when he was a Development Engineer of the Group, Mr. Tian has obtained more than sixty patents for products and technology. Mr. Tian was appointed as an executive Director of the Company on 26 January 2017. He serves as the president of Wasion International Trading Co., Ltd. (威勝國際貿易有限公司) since the beginning of 2021. Mr. Tian was awarded with the honorary titles of Excellent Entrepreneur of Changsha Hi-Tech Zone and Excellent Manager in China in 2017, Outstanding Entrepreneur by China Electronics Enterprises Association in 2018 and Leading Figures in Business Startups and Innovation in Xiangjiang New District, Changsha City in 2020. In 2021, he was awarded the Top Ten Celebrities in the Software and Information Technology Service Industry in Hunan Province.

NON-EXECUTIVE DIRECTOR

Mr. Kat Chit (吉喆), aged 38, graduated from the University of British Columbia of Canada with a bachelor's degree in economics in 2007. From 2007 to 2011, he was an executive of the equity capital markets division of Macquarie Group Limited. Mr. Kat was appointed as a non-executive Director of the Company on 12 August 2014. He serves as the president of Willfar Information Technology Company Limited with effect from January 2017. Mr. Kat is the son of Mr. Ji Wei, the chairman, executive Director and controlling shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Cheong Tat (陳昌達), aged 72, obtained his master's degree in Financial Management from Central Queensland University. Mr. Chan is a fellow member of Hong Kong Institute of Certified Public Accountants, Association of Chartered Certified Accountants and CPA Australia. He is also an associate member of The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) of London, the United Kingdom and The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries). He served in the Inland Revenue Department of the Hong Kong Government for more than 30 years and retired in early 2005. Mr. Chan is currently a director of a tax consultancy company. He also acts as an independent non-executive director of Hyfusin Group Holdings Limited (Stock Code: 8512), Medicskin Holdings Limited (Stock Code: 8307), Chong Fai Jewellery Group Holdings Company Limited (Stock Code: 8537), Accel Group Holdings Limited (Stock Code: 1283) and Ye Xing Group Holdings Limited (Stock Code: 1941), and a non-executive director of Alpha Financial Group Limited. Mr. Chan also acted as an independent non-executive director of Man Sang International Limited (Stock Code: 938) from January 2015 to November 2016. Mr. Chan was appointed as an independent non-executive Director of the Company on 18 June 2020.

Mr. Luan Wenpeng (欒文鵬), aged 57, is a doctor in electrical engineering. Mr. Luan is a PEng in British Columbia, Canada, a senior member of IEEE and an individual member of CIGRE. He has been engaged in the works as well as the research of systematic planning of the electrical power system, smart power grids, smart metering infrastructure, distribution automation, data analysis, distributed energy resources integration, asset management etc. for more than 20 years. As a distinguished expert of state level in China, Mr. Luan is currently a professor of Tianjin University, general secretary of the Technical Board of IEC distributed electric energy system (SC8B), the chairman of the IEEE expert working group for microgrids planning and design (IEEE P2030.9 WG) and the vice chairman of IEEE expert working group for smart distribution terminal (IEEE P2815 WG). Mr. Luan was appointed as an independent non-executive Director of the Company on 16 May 2016.

Mr. Cheng Shi Jie (程時杰), aged 76, graduated from the Xi'an Jiaotong University with a bachelor's degree in electronic engineering in 1967, the Huazhong University of Science and Technology with a master degree in electrical engineering in 1981 and the University of Calgary, Canada with a doctoral degree in philosophy in 1986, respectively. He has been a professor in the Huazhong University of Science and Technology since 1991 and a visiting professor in the Nanyang Technological University in 1995 and 1996. Mr. Cheng was granted the qualification of doctoral tutor by the Academic Degrees Committee of the State Council in 1993 and was elected as an academician of the Chinese Academy of Sciences and a fellow of the Institute of Electrical and Electronics Engineers (美國電子電氣工程師協會) in 2007 and 2010 respectively. Mr. Cheng was appointed as an independent non-executive Director of the Company on 12 August 2014.

Mr. Wang Yaonan (王耀南), aged 64, graduated from East China University of Technology with a bachelor's degree in computer science in 1981, and obtained his master's degree and doctorate degree in industrial automation from Hunan University in 1992 and 1995 respectively. Mr. Wang is currently a professor and doctoral tutor at the College of Electrical and Information Engineering of Hunan University, a director of the National Engineering Research Center for Visual Perception and Control Technology for Robots (機器人視覺感知與控制技術國家工程研究中心), a fellow of the China Automation Association (中國自動化學會), a fellow of the China Computer Federation (中國計算機學會), a supervisor of the China Artificial Intelligence Association (中國人工智能學會) and an academician of the Chinese Academy of Engineering. Mr. Wang was appointed as an independent non-executive Director of the Company on 17 July 2020.

SENIOR MANAGEMENT OF THE GROUP

Mr. Choi Wai Lung Edward (蔡偉龍), aged 53, is the chief financial officer and company secretary of the Company. Mr. Choi is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants with over 31 years of experience in accounting, auditing and finance.

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the "Management Discussion and Analysis" section set out on pages 14 to 30 of this annual report. This discussion forms part of this Directors' Report.

DIVIDENDS

The results of the Group for the year ended 31 December 2021 and the Group's financial position at that day are set out in the consolidated financial statements on pages 116 to 118 of the annual report.

The directors have proposed a final dividend of HK$0.20 (2020: HK$0.20) per share to shareholders of the Company whose names appear in the register of members on 10 June 2022 and a resolution to this effect will be proposed and subject to the shareholders' approval in the forthcoming annual general meeting. The final dividend is expected to be paid on 22 June 2022.

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2021 comprised the share premium, merger reserve and retained profits of RMB845,140,000 (2020: RMB1,058,368,000) in aggregate.

DIRECTORS

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

Executive directors:

Ji Wei *(Chairman)*
Cao Zhao Hui *(Chief Executive Officer)*
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

Pursuant to Article 87 of the Articles, at each annual general meeting one third of the directors for the time being or, if their number is not three or a multiple of three, then the number nearest to one-third, shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years. The directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. The retiring directors shall be eligible for re-election. Pursuant to Article 87 of the Articles, Mr. Ji Wei, Ms. Zheng Xiao Ping, Mr. Chan Cheong Tat and Mr. Cheng Shi Jie will retire at the Annual General Meeting and being eligible, have offered themselves for election at the Annual General Meeting. Mr. Cheng Shi Jie has informed the board of directors of the Company that he will not offer himself for re-relection at the Annual General Meeting and will retire upon the conclusion of the Annual General Meeting.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2021, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions

Ordinary shares of HK$0.01 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Ji Wei	Interest of controlled corporation (Note 1)	531,286,888	53.35%
Cao Zhao Hui	Beneficial owner	2,000,000	0.20%
Li Hong	Beneficial owner	350,000	0.04%
Zheng Xiao Ping	Beneficial owner (Note 2)	3,682,000	0.37%
Chan Cheong Tat	Beneficial owner	120,000	0.01%

Notes:

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

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

Other than as disclosed above, none of the directors, chief executives nor their associates had any interest or short positions in any shares or underlying shares of the Company or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as at 31 December 2021.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2021, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' interests in shares and underlying shares" above, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

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

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued capital of the Company
Ji Wei	Interest in controlled corporation	531,286,888	53.35%
Star Treasure	Beneficial owner	531,286,888	53.35%

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2021.

RELATED PARTY TRANSACTIONS

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

CONNECTED TRANSACTIONS

On 25 June 2021, the Company and Zhuhai Duochuang Technology Co., Ltd. ("Zhuhai Duochuang") entered into the Master Agreement in respect of the continuing connected transactions between members of the Group and Zhuhai Duochuang. Zhuhai Duochuang is a company which is indirectly owned as to 52.37% by Mr. Liang Kenan and his son. Mr. Liang Kenan is the brother of Mr. Ji Wei, the Chairman of the Board, an executive Director and controlling shareholder of the Company, and the uncle of Mr. Kat Chit, a non-executive Director. Zhuhai Duochuang is hence an associate of a connected person of the Company and the transactions contemplated under the Master Agreement constitute continuing connected transactions for the Company.

Pursuant to the terms of the Master Agreement, members of the Group will purchase electronic parts and components, primarily magnetic sensor chips, platform topology modules, transformers, sensors, relays and other electronic components and technical services from Zhuhai Duochuang for the production of the Group's products. The purpose of the Master Agreement is to secure a stable source of electronic parts and components supplies to the Group.

The Master Agreement has a term of three years ending on 31 December 2023 and the payment terms of the products supplied from Zhuhai Duochuang is based on monthly account, which is in line with the payment terms of the Group for purchases from independent third parties. The annual caps under the Master Agreement amounted to RMB10,800,000 for the year ended 31 December 2021, RMB14,500,000 and RMB15,000,000 for the year ending 31 December 2022 and 2023 respectively.

Pursuant to Rule 14A.56 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the Directors engaged the auditor of the Company to report on the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange. The independent non-executive directors have reviewed the continuing connected transactions and have confirmed that the transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole in accordance with Rule 14A.55 of the Listing Rules.

Details of the continuing connected transactions for the year are set out as below:

Name of party	**Nature of transactions**	**2021** RMB'000
Zhuhai Duochuang	Purchase of electronic parts and components	10,628

Save as disclosed therein, there were no other connected transactions and continuing connected transactions, other than those which are exempt from the reporting, announcement and independent shareholders' approval requirements, which need to be disclosed as connected transactions and continuing connected transactions in accordance with the requirements of Appendix 16 to the Listing Rules.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

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

SHARE OPTIONS

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

Name and category of of participation	Number of share options As at 1 January 2021	Exercised during the year	As at 31 December 2021	Date of grant of share options	Vesting period of share options	Exercise period of share options	Exercise price of share options* HK$	Share price of the Company as at the date of grant of share options** HK$
Other employees	9,000,000	—	9,000,000	10 February 2014	10 February 2014 to 9 February 2016	10 February 2016 to 9 February 2024	4.680	4.680
Other employees	9,000,000	—	9,000,000	10 February 2014	10 February 2014 to 9 February 2017	10 February 2017 to 9 February 2024	4.680	4.680
Total	18,000,000	—	18,000,000					

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

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

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

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CORPORATE GOVERNANCE

The Company is committed to maintain the high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 89 to 110 of the annual report.

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

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the listed securities of the Company during the year ended 31 December 2021.

PRE-EMPTIVE RIGHTS

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

PERMITTED INDEMNITY PROVISION

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules throughout the year ended 31 December 2021.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 220 of the annual report.

AUDIT COMMITTEE

The audit committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2021.

AUDITOR

Ernst & Young ("EY") was appointed as the new auditor of the Company on 9 July 2020 to fill the casual vacancy arising from the resignation of Deloitte Touche Tohmatsu, who resigned from the office with effect from 9 July 2020. A resolution for re-appointment of EY as auditor of the Company is to be proposed at the 2022 annual general meeting.

The consolidated financial statements of the Company for the year ended 31 December 2021 have been audited by EY.

On behalf of the Board

Ji Wei
CHAIRMAN

Hong Kong
28 March 2022

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

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

During the year ended 31 December 2021, the Company has applied the principles of and has complied with all code provisions of the Corporate Governance Code.

Code Provision A.6.7 (which has been renumbered as Code Provision C.1.6 with effect from 1 January 2022) of the Corporate Governance Code provide that independent non-executive directors and non-executive directors of the Company should attend general meetings of the Company. Mr. Luan Wenpeng, Mr. Cheng Shi Jie and Mr. Wang Yaonan, being independent non-executive directors of the Company, failed to attend the annual general meeting of the Company ("2021 AGM") held on 3 June 2021 due to conflicts with their schedules.

Save as disclosed, there has been no deviation from the code provisions of the Corporate Governance Code for the year ended 31 December 2021.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the directors of the Company (the "Directors") and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2021.

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

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

BOARD OF DIRECTORS

Responsibilities

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

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

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

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

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

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

Board Composition

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

The Board currently comprises ten members, consisting of five executive Directors, one non-executive Director and four independent non-executive Directors. Their biographical details are set out on pages 78 to 80 of this annual report.

The Board comprises the following Directors:

Executive Directors:

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

Ms. Cao Zhao Hui, Chief Executive Officer

Ms. Li Hong, member of the Internal Control and Risk Management Committee

Ms. Zheng Xiao Ping

Mr. Tian Zhongping

Non-executive Director:

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

Independent Non-executive Directors:

Mr. Chan Cheong Tat, chairman of the audit committee of the Company (the "Audit Committee"), the Remuneration Committee and the Internal Control and Risk Management Committee, and member of the Nomination Committee

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

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

Mr. Wang Yaonan, member of the Audit Committee and the Internal Control and Risk Management Committee

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

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

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

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

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

Board Diversity Policy

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

Appointment and Succession Planning of Directors

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

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

Mr. Kat Chit	:	up to the 2022 annual general meeting
Mr. Chan Cheong Tat	:	up to the 2022 annual general meeting
Mr. Luan Wenpeng	:	up to the 2022 annual general meeting
Mr. Cheng Shi Jie	:	up to the 2022 annual general meeting
Mr. Wang Yaonan	:	up to the 2022 annual general meeting

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

Training for Directors

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

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

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

During the year ended 31 December 2021, the training participated by each Director is set out below:

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

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

Board Meetings

Number of Meetings and Directors' Attendance

In 2021, the Company has held five board meetings. The Company will endeavour to hold at least four regular board meetings a year.

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

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

Practices and Conduct of Board Meetings

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

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

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

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

BOARD COMMITTEES

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

The majority of the members of each Committee are independent non-executive Directors and the list of the chairman and members of each Committee is set out under "Board Composition" of this report on pages 90 to 91.

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

NOMINATION COMMITTEE

The duties of the Nomination Committee include the following:

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

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

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

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

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

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

NOMINATION POLICY

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

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

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

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

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

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

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

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

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

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

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

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

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

	Attendance/ Number of Meetings
Mr. Ji Wei *(Chairman)*	2/2
Mr. Chan Cheong Tat	2/2
Mr. Luan Wenpeng	2/2

In accordance with the Articles, Mr. Ji Wei, Ms. Zheng Xiao Ping, Mr. Chan Cheong Tat and Mr. Cheng Shi Jie shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

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

REMUNERATION COMMITTEE

The duties of the Remuneration Committee include the following:

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

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

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

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

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

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

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

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

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

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

	Attendance/ Number of Meetings
Mr. Chan Cheong Tat *(Chairman)*	2/2
Mr. Ji Wei	2/2
Mr. Luan Wenpeng	2/2

AUDIT COMMITTEE

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

The duties of the Audit Committee include the following:

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

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

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

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

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

    (i) any changes in accounting policies and practices;

    (ii) major judgmental areas;

(iii) significant adjustments resulting from the audit;

(iv) the going concern assumption;

(v) compliance with accounting standards; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Attendance/ Number of Meetings
Mr. Chan Cheong Tat *(Chairman)*	2/2
Mr. Luan Wenpeng	2/2
Mr. Cheng Shi Jie	2/2
Mr. Wang Yaonan	2/2

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

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

The Company's annual results for the year ended 31 December 2021 have been reviewed by the Audit Committee.

INTERNAL CONTROL AND RISK MANAGEMENT COMMITTEE

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

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

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

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

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

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

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

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

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

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

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

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

	Attendance/ Number of Meeting
Mr. Chan Cheong Tat *(Chairman)*	2/2
Mr. Luan Wenpeng	2/2
Mr. Cheng Shi Jie	2/2
Mr. Wang Yaonan	2/2
Ms. Li Hong	2/2
Mr. Kat Chit	2/2

CORPORATE GOVERNANCE FUNCTION

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

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

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

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

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

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

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

During the year ended 31 December 2021, the Board has reviewed the Company's corporate governance practices.

AUDITORS' REMUNERATION

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 111 to 115 of this annual report.

The Company's external auditor is Ernst & Young. Total auditor's remuneration paid and payable by the Group for the year ended 31 December 2021 amounted to RMB3.6 million, which comprises RMB3.1 million for the audit of the Group's consolidated financial statements for the year ended 31 December 2021 and RMB0.5 million for the review of the Group's interim report for the six months ended 30 June 2021.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2021 on a going concern basis.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

During the year ended 31 December 2021, the Audit Committee with the assistance of ICRM Committee, has conducted a review of the effectiveness of the Group's risk management and internal control systems. The review covers major areas, including financial, operational and compliance controls, risk management functions, and the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions. No significant areas of concern that may affect the Group to achieve its strategic goals have been identified and the Audit Committee accepts that the existing risk management and internal control systems have been functioning effectively to meet the respective financial reporting, operational and compliance needs.

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

Based on the results of the review as reported by the Audit Committee, the Board is of the opinion that the risk management and internal control systems which address the Group's financial, operational and compliance risks, are effective and adequate and the Group has duly complied with the provisions of the Corporate Governance Code regarding risk management and internal control during the year ended 31 December 2021.

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

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

COMPANY SECRETARY

During the year ended 31 December 2021, Mr. Choi Wai Lung Edward was the Company Secretary. Mr. Choi is a full-time employee of the Company, and has the day-to-day knowledge of the Company's affairs. His biographical details are set out in the "Biographical Details of Directors and Senior Management" section of this annual report. For the year ended 31 December 2021, Mr. Choi had complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

DIVIDEND POLICY

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

(a) the Group's results of operations;

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

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

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

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

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

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

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

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

Procedures by which enquiries may be put to the Board

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

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

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

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

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

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

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

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

INVESTOR RELATIONS

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

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

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

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

During the year ended 31 December 2021, the 2021 AGM was held on 3 June 2021. All the resolutions proposed at the 2021 AGM were duly passed by the Shareholders by way of poll and the results of the poll have been published on the websites of the Stock Exchange and the Company. Mr. Ji Wei, the chairman of the Board and Nomination Committee, chaired the 2021 AGM and answered Shareholders' questions. Mr. Luan Wenpeng, an independent non-executive Director and member of Nomination Committee, Remuneration Committee, Audit Committee and Internal Control and Risk Management Committee, Mr. Cheng Shi Jie, an independent non-executive Director and member of Audit Committee and Internal Control and Risk Management Committee and Mr. Wang Yaonan, an independent non-executive Director and member of Audit Committee and Internal Control and Risk Management Committee, failed to attend the 2021 AGM due to conflicts with their schedules. The external auditor of the Company, Ernst & Young, attended the 2021 AGM to answer Shareholders' questions about the conduct of the audit, the preparation and content of the independent auditor's report and independence of auditor.

The attendance of the Directors at the 2021 AGM is set out below:

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

The forthcoming annual general meeting of the Company ("2022 AGM") will be held on 1 June 2022. The notice convening the 2022 AGM together with the circular will be published on the websites of the Stock Exchange and the Company and dispatched to Shareholders before 30 April 2022.

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

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There was no significant change in the Company's constitutional documents during the year ended 31 December 2021.

EY 安永

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

OPINION

We have audited the consolidated financial statements of Wasion Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 116 to 219, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables	
As at 31 December 2021, the gross carrying amount of the Group's trade receivables was RMB3,934,264,000, which represented approximately 31.0% of total assets of the Group. As at 31 December 2021, the loss allowances of trade receivables amounted to RMB191,234,000. Management's assessment of the expected credit losses ("ECLs") involves significant judgement and estimates for the amount of lifetime ECLs of trade receivables based on the probability of default approach by estimating the probability of default, loss given default and exposure at default. The ECL assessment involves inputs and assumptions, including past debtors' repayment history and forward-looking information. The Group has engaged external valuer to determine the ECLs of trade receivables at the end of the reporting period. Relevant disclosures of accounting judgements and estimates and impairment of trade receivables are included in notes 3, 22 and 43 to the consolidated financial statements.	Our procedures in relation to the impairment assessment of trade receivables included: • understanding management's process in estimation of ECLs and the methodology of the ECL model adopted by the Group; • assessing management's assumptions and inputs in the ECL model by considering the historical customer payment behaviours, and the basis of the estimated loss rates applied in each category in the provision with reference to the historical default rate, ageing of trade receivables, probability of default, loss given default and forward-looking information; • assessing management's basis and judgement in identifying the credit impaired trade receivables by checking to the historical customer payment records; • involving our internal specialists to assist us in evaluating the ECL model and estimated loss rates; • evaluating the external valuer's objectivity, competence and independence; and • assessing the adequacy of the disclosures of impairment assessment of trade receivables in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Capitalisation of development costs	
As at 31 December 2021, the carrying amount of the Group's capitalised development costs was RMB518,889,000, which represented approximately 4.1% of total assets of the Group. The Group capitalises certain costs incurred during the development phase of internal projects for development of new technology and new products. Management's assessment on whether the costs meet the capitalisation criteria, as set out in note 3 "Significant accounting judgement and estimates" to the consolidated financial statements, and how the intangible assets so capitalised will generate probable future economic benefits, involves significant judgement and assumptions. Relevant disclosures of accounting judgements and capitalised development costs are included in notes 3 and 17 to the consolidated financial statements.	Our procedures in relation to the capitalisation of development costs included: • assessing and testing the effectiveness of key controls over the capitalisation of development costs, on a sample basis; • checking the additions of development costs for the year to supporting documentation; • making inquiries to the relevant development project managers of the research and development department of the Group about the details of the selected development projects including, inter alia, technical feasibility of completing the projects, the Group's ability to use or sell the assets, the existence of a market, and the prospect of generating probable and sufficient economic benefits; and • evaluating management's assessment by checking to market research reports, and the financial performance of the completed development projects, on a sample basis.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants

Hong Kong

28 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	5	**4,590,762**	3,948,750
Cost of sales		**(3,091,992)**	(2,702,185)
Gross profit		**1,498,770**	1,246,565
Other income, gains and losses, net	5	**182,413**	166,351
Selling expenses		**(437,708)**	(360,639)
Administrative expenses		**(177,407)**	(169,280)
Research and development expenses	6	**(424,476)**	(334,937)
Impairment losses on financial assets, net	6	**(69,592)**	(55,887)
Finance costs	7	**(99,267)**	(96,262)
Profit before tax	6	**472,733**	395,911
Income tax expense	10	**(44,759)**	(51,742)
PROFIT FOR THE YEAR		**427,974**	344,169
Profit for the year attributable to:			
— Owners of the parent		**268,084**	231,190
— Non-controlling interests		**159,890**	112,979
		427,974	344,169
OTHER COMPREHENSIVE 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		**(7,716)**	716
Tax effect		**(1,157)**	154
		(8,873)	870
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(2,238)**	23,369
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(11,111)**	24,239
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**416,863**	368,408
Attributable to:			
— Owners of the parent		**256,973**	255,429
— Non-controlling interests		**159,890**	112,979
		416,863	368,408
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	12	**RMB27.2 cents**	RMB23.5 cents

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,472,208**	1,322,117
Investment properties	14	**15,235**	23,346
Right-of-use assets	15	**198,143**	188,114
Goodwill	16	**338,317**	313,272
Other intangible assets	17	**568,210**	511,201
Investment in a joint venture	18	**—**	—
Equity investments designated at fair value through other comprehensive income	19	**66,996**	78,775
Financial assets at fair value through profit or loss	20	**200,000**	—
Loan receivables	24	**108,176**	109,384
Prepayments, other receivables and other assets	25	**54,370**	132,308
Deferred tax assets	31	**62,143**	33,726
		3,083,798	2,712,243
CURRENT ASSETS			
Inventories	21	**990,758**	497,838
Trade and bills receivables	22	**4,095,153**	3,850,096
Contract assets	23	**567,313**	651,206
Prepayments, other receivables and other assets	25	**937,650**	720,998
Financial assets at fair value through profit or loss	20	**2,269**	200,000
Structured deposits	26	**—**	80,000
Pledged deposits	27	**416,252**	302,229
Cash and bank balances	27	**2,578,946**	2,255,473
		9,588,341	8,557,840
CURRENT LIABILITIES			
Trade and bills payables	28	**3,312,712**	2,963,135
Other payables and accruals	29	**316,879**	258,600
Interest-bearing bank borrowings	30	**2,046,566**	1,787,997
Lease liabilities	15	**7,891**	5,306
Tax payable		**74,530**	52,680
		5,758,578	5,067,718
NET CURRENT ASSETS		**3,829,763**	3,490,122
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,913,561**	6,202,365

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	30	**790,335**	502,126
Lease liabilities	15	**8,898**	4,337
Deferred tax liabilities	31	**34,466**	19,444
Total non-current liabilities		**833,699**	525,907
Net assets		**6,079,862**	5,676,458
EQUITY			
Equity attributable to owners of the parent			
Issued capital	32	**9,906**	9,906
Reserves		**4,622,020**	4,513,395
		4,631,926	4,523,301
Non-controlling interests		**1,447,936**	1,153,157
Total equity		**6,079,862**	5,676,458

Ji Wei
Director

Cao Zhao Hui
Director

	Attributable to owners of the Company												
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 (Note 34(i))	Exchange reserve RMB'000	PRC statutory reserves RMB'000 (Note 34(ii))	Share option reserve RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Shares held for share award scheme RMB'000 (Note 34(iii))	Other reserve RMB'000 (Note 34(iv))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2021	9,906	1,011,659	49,990	(39,628)	463,816	27,730	(34,277)	(36,998)	219,253	2,851,850	4,523,301	1,153,157	5,676,458
Profit for the year	–	–	–	–	–	–	–	–	–	268,084	268,084	159,890	427,974
Other comprehensive income for the year:													
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	–	–	–	–	(8,873)	–	–	–	(8,873)	–	(8,873)
Exchange difference on translation of foreign operations	–	–	–	(2,238)	–	–	–	–	–	–	(2,238)	–	(2,238)
Total comprehensive income for the year	–	–	–	(2,238)	–	–	(8,873)	–	–	268,084	256,973	159,890	416,863
Transfer to PRC statutory reserves	–	–	–	–	58,331	–	–	–	–	(58,331)	–	–	–
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	–	–	–	–	–	–	(60)	–	–	60	–	–	–
Deemed partial disposal of interests in subsidiaries (note 34(v))	–	–	–	–	–	–	–	–	16,519	–	16,519	181,561	198,080
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(46,672)	(46,672)
Dividend paid (note 11)	–	(164,867)	–	–	–	–	–	–	–	–	(164,867)	–	(164,867)
At 31 December 2021	9,906	846,792*	49,990*	(41,866)*	522,147*	27,730*	(43,210)*	(36,998)*	235,772*	3,061,663*	4,631,926	1,447,936	6,079,862

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 (Note 34(i))	Exchange reserve RMB'000	PRC statutory reserves RMB'000 (Note 34(ii))	Share option reserve RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Shares held for share award scheme RMB'000 (Note 34(iii))	Share repurchase reserve RMB'000	Other reserve RMB'000 (Note 34(iv))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020	9,947	1,205,648	49,990	(62,498)	426,949	27,730	(35,233)	(39,421)	(13,855)	(15,001)	2,662,061	4,216,317	630,083	4,846,400
Profit for the year	—	—	—	—	—	—	—	—	—	—	231,190	231,190	112,979	344,169
Other comprehensive income for the year:														
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	870	—	—	—	—	870	—	870
Exchange difference on translation of foreign operations	—	—	—	23,369	—	—	—	—	—	—	—	23,369	—	23,369
Total comprehensive income for the year	—	—	—	23,369	—	—	870	—	—	—	231,190	255,429	112,979	368,408
Transfer to PRC statutory reserves	—	—	—	—	41,315	—	—	—	—	—	(41,315)	—	—	—
Acquisition of non-controlling interests (note 34(v))	—	—	—	—	—	—	—	—	—	(10,924)	—	(10,924)	(3,547)	(14,471)
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	—	—	—	—	—	—	86	—	—	—	(86)	—	—	—
Shares cancelled	(41)	(13,814)	—	—	—	—	—	—	13,855	—	—	—	—	—
Purchase of shares under share award scheme (note 33)	—	—	—	—	—	—	—	(1,384)	—	—	—	(1,384)	—	(1,384)
Shares granted under share award scheme (note 33)	—	—	—	—	—	—	—	3,807	—	—	—	3,807	—	3,807
Deemed partial disposal of interest in Willfar (note 36)	—	—	—	(499)	(4,448)	—	—	—	—	250,621	—	245,674	365,160	610,834
Deemed partial disposal of interest in a subsidiary (note 34(v))	—	—	—	—	—	—	—	—	—	(5,443)	—	(5,443)	84,782	79,339
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	(36,300)	(36,300)
Dividend paid (note 11)	—	(180,175)	—	—	—	—	—	—	—	—	—	(180,175)	—	(180,175)
At 31 December 2020	9,906	1,011,659*	49,990*	(39,628)*	463,816*	27,730*	(34,277)*	(36,998)*	—*	219,253*	2,851,850*	4,523,301	1,153,157	5,676,458

* These reserve accounts comprise the consolidated reserves of RMB4,622,020,000 (2020: RMB4,513,395,000) in the consolidated statement of financial position.

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**472,733**	395,911
Adjustments for:			
Bank interest income	5	**(36,395)**	(35,999)
Interest income from structured deposits	5	**(12,513)**	(5,249)
Interest income from loan receivables	5	**(12,632)**	(12,934)
Interest income from consideration receivable for disposal of a subsidiary	5	**(4,421)**	(4,516)
Interest income from financial assets at fair value through profit or loss ("FVTPL")	5	**(16,382)**	(14,713)
Dividend income from equity investments designated at fair value through other comprehensive income ("FVTOCI")	5	**(511)**	(1,526)
Fair value gain on financial assets at FVTPL	5	**(2,269)**	—
(Gain)/loss on disposal of property, plant and equipment, net	5	**(443)**	211
Depreciation of property, plant and equipment	6	**72,826**	60,340
Depreciation of investment properties	6	**625**	598
Depreciation of right-of-use assets	6	**15,432**	14,169
Amortisation of other intangible assets		**130,339**	137,507
Write-down of inventories to net realisable value	6	**16,641**	5,861
Impairment losses on financial assets	6	**69,592**	55,887
Impairment of goodwill	6	**7,672**	—
Share-based payment expenses for share awards granted	6	**—**	3,807
Finance costs	7	**99,267**	96,262
Operating cash flows before movements in working capital		**799,561**	695,616
(Increase)/decrease in inventories		**(488,616)**	52,922
Increase in trade and bills receivables		**(235,266)**	(654,688)
(Increase)/decrease in prepayments, other receivables and other assets		**(121,379)**	103,632
Decrease/(increase) in contract assets		**83,893**	(67,709)
Increase in trade and bills payables		**266,913**	82,489
Increase in other payables and accruals		**(6,507)**	36,787
Cash generated from operations		**298,599**	249,049
Interest paid		**(852)**	(597)
Income tax paid		**(46,124)**	(61,158)
Net cash flows from operating activities		**251,623**	187,294

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(216,651)**	(98,215)
Additions to other intangible assets		**(155,108)**	(163,185)
Additions to right-of-use assets		**(7,674)**	—
Advance to a joint venture		**(17,850)**	(20,400)
Repayment of advance made to a joint venture		**17,850**	20,550
Proceeds from disposal of equity investments designated at FVTOCI		**3,060**	32,634
Interest received		**83,551**	63,875
Repayment of consideration receivable for disposal of unlisted equity instruments		**—**	4,048
Acquisition of a subsidiary	35	**(44,483)**	—
Dividends received from equity instruments at FVTOCI		**511**	1,526
Proceeds from disposal of property, plant and equipment		**6,246**	3,457
Purchase of equity investments designated at FVTOCI		**—**	(16,129)
Placement in structured deposits		**(2,320,000)**	(80,000)
Withdrawal of structured deposits		**2,400,000**	—
Placement in bank deposits with maturity over 3 months		**(250,000)**	(272,000)
Withdrawal of bank deposits with maturity over 3 months		**152,000**	—
Placement of pledged deposits		**(1,188,306)**	(618,921)
Withdrawal of pledged deposits		**1,074,283**	588,365
Net cash used in investing activities		**(462,571)**	(554,395)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**2,569,618**	2,016,082
Repayment of bank loans		**(2,003,256)**	(1,776,961)
Dividends paid		**(164,867)**	(180,175)
Dividend paid to non-controlling shareholders		**(46,672)**	(36,300)
Interest paid on borrowings		**(98,415)**	(95,665)
Shares repurchased for share award scheme		**—**	(1,384)
Principal portion of lease payments		**(10,631)**	(9,471)
Proceeds from Willfar Spin-Off	36	**—**	610,834
Proceeds from partial disposal of subsidiaries		**198,080**	79,339
Acquisition of non-controlling interests		**—**	(14,471)
Net cash from financing activities		**443,857**	591,828

	Notes	2021 RMB'000	2020 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		**232,909**	224,727
Cash and cash equivalents at beginning of the year		**1,983,473**	1,778,088
Effect of foreign exchange rate changes, net		**(7,436)**	(19,342)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**2,208,946**	1,983,473
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**2,208,946**	1,983,473
Time deposits		**370,000**	272,000
Cash and bank balances as stated in the consolidated statement of financial position		**2,578,946**	2,255,473
Less: Time deposits with original maturity over three months		**(370,000)**	(272,000)
Cash and cash equivalents as stated in the statement of cash flows		**2,208,946**	1,983,473

1. CORPORATE AND GROUP INFORMATION

Wasion Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands, and the Company's head office and principal place of business is located at Unit 2605, 26/F, West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Sheung Wan, Hong Kong.

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

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

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

Information about subsidiaries

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

Name of subsidiary	Place of incorporation or registration/ operation	Paid-up capital	Proportion of nominal value of issued registered capital held by the Company Directly		Indirectly		Principal activities
			2021	2020	**2021**	2020	
Oceanbase Group Limited	BVI/ Hong Kong	US$1,000,000	**100%**	100%	**—**	—	Investment holding
Power Well Creation Limited	Hong Kong	HK$2	**100%**	100%	**—**	—	Investment holding
Weisheng Energy Industrial Technology Co., Ltd.*	The People's Republic of China ("PRC")	RMB200,000,000	**—**	—	**82.2%**	92.5%	Development, manufacturing and sale of energy saving products
Wasion International Co., Ltd.	The PRC	RMB10,000,000	**—**	—	**100%**	100%	Trading of power meters
Willfar Information Technology Company Limited ("Willfar")*@	The PRC	RMB450,000,000	**—**	—	**58.5%**	58.5%	Development, manufacturing and sale of data collection terminals and related services
Changsha Vitae Technology Co., Ltd.#	The PRC	RMB20,000,000	**—**	—	**100%**	100%	Development, manufacturing and sale of parts of power meters, data collection terminals and related services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Name of subsidiary	Place of incorporation or registration/ operation	Paid-up capital	Proportion of nominal value of issued registered capital held by the Company Directly		Indirectly		Principal activities
			2021	2020	2021	2020	
Gam Sheng Macao Commercial Offshore Limited	Macao	MOP1,000,000	—	—	100%	100%	Trading of electronic components
Hunan Weike Power Meters Company Limited*	The PRC	HK$100,000,000	—	—	100%	100%	Development, manufacturing and sale of power meters
Hunan Weiming Technology Co., Ltd.*	The PRC	RMB150,000,000	—	—	54.9%	58.5%	Development, manufacturing and sale of water, gas and heat meters
Wasion Electric Limited#	The PRC	RMB240,000,000	—	—	76.2%	90%	Development, manufacturing and sale of smart distribution devices
Wasion Group Limited#	The PRC	RMB1,209,900,000	—	—	100%	100%	Development, manufacturing and sale of power meters
Wasion Technology Shenzhen Company Limited	The PRC	RMB10,000,000	—	—	100%	100%	Trading of power meters
Hunan Switchgear Co. Ltd.	The PRC	RMB100,000,000	—	—	49.5%	58.5%	Development, manufacturing and sale of switchgears
Zhuhai Zhonghui Microelectronics Co., Ltd#	The PRC	RMB34,700,000	—	—	58.5%	58.5%	Development, manufacturing and sale of electronic components
Changsha Zomkun Electronic Science & Technology Co., Ltd.	The PRC	RMB38,000,000	—	—	100%	—	Development, manufacturing and sale of electronic components

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

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

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform — Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021* (early adopted)

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

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

The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars ("HK$") and the United States dollars ("US$") based on the Hong Kong Interbank Offered Rate ("HIBOR") and London Interbank Offered Rate ("LIBOR"), respectively as at 31 December 2021. The Group expects that HIBOR will continue to exist and the interest rate benchmark reform has not had an impact on the Group's HIBOR-based borrowings. For the LIBOR-based borrowings, since the interest rates of these instruments were not replaced by RFRs during the year, the amendments did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply the above-mentioned practical expedient upon the modification of these instruments provided that the "economically equivalent" criterion is met. Additional information about the transition and the associated risks is disclosed in note 43 to the financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the 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 by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021. However, the Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKFRS 17	*Insurance Contracts*[2, 5]
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information*[2]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[2, 4]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to HKAS 8	*Definition of Accounting Estimates*[2]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to HKAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*[1]
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[1]

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

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

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in a joint venture

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (Continued)

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

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

Fair value measurement

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

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

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

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

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (Continued)

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (Continued)

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

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

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

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

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

Intangible assets (other than goodwill)

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

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

Acquired patents, copyrights and trademarks	3 to 10 years
Technology know-how	3 to 5 years
Customer relationship and contracts	10 years

Research and development costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (Continued)

Research and development costs (Continued)

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

Leases

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

Group as a lessee

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

(a) *Right-of-use assets*

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

Leasehold land	50 years
Leased properties	1 to 6 years

(b) *Lease liabilities*

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

Group as a lessee (Continued)

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

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

Group as a lessor

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets designated at FVTOCI (equity investments)

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

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

Financial assets at FVTPL

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

General approach

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

General approach (Continued)

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

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

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

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

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

Write-off

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

Credit-impaired

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

Simplified approach

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

Financial liabilities

Initial recognition and measurement

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

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

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

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

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

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

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

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

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

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

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

Government grants

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue from contracts with customers

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

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

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

(a) *Sale of goods*

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

(b) *Provision of system solution services*

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

Other income

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract assets

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

Contract liabilities

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

Share-based payments

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (Continued)

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

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

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

Other employee benefits

Pension schemes

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

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

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

Borrowing costs

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

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

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

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

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Capitalisation of development costs

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2021 was RMB338,317,000 (2020: RMB313,272,000). Further details are set out in note 16 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Provision for expected credit losses on trade receivables and contract assets

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

4. OPERATING SEGMENT INFORMATION

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

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

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, 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 interest income, non-lease-related finance costs, dividend income, as well as unallocated corporate income, expenses, gains and losses are excluded from such measurement.

During the year ended 31 December 2021, the financial results of certain unallocated assets and liabilities were aggregated with the segment assets and liabilities in the financial statements. Comparative figures of the segment information have been reclassified to conform with the current year's presentation.

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

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

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2021

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Total RMB'000
Segment revenue (note 5):				
Sales to external customers	1,714,446	1,719,375	1,156,941	4,590,762
Intersegment sales	22,701	98,434	449	121,584
	1,737,147	1,817,809	1,157,390	4,712,346
Reconciliation:				
Elimination of intersegment sales				(121,584)
				4,590,762
Segment results	56,118	323,041	112,457	491,616
Reconciliation:				
Elimination of intersegment results				15,651
Interest income				82,343
Dividend income and unallocated gains				511
Corporate and other unallocated expenses				(18,973)
Finance costs (other than interest on lease liabilities)				(98,415)
Profit before tax				472,733

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2021 (Continued)

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Total RMB'000
Segment assets	6,035,587	3,837,488	3,212,572	13,085,647
Reconciliation:				
Elimination of intersegment receivables				(526,839)
Corporate and other unallocated assets				113,331
Total assets				12,672,139
Segment liabilities	3,286,735	1,095,745	2,066,384	6,448,864
Reconciliation:				
Elimination of intersegment payables				(850,571)
Corporate and other unallocated liabilities				993,984
Total liabilities				6,592,277

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Unallocated RMB'000	Total RMB'000
Other segment information:					
Impairment losses on financial assets, net	56,806	9,037	4,004	—	69,847
Provision for inventories included in cost of inventories sold	12,879	3,283	479	—	16,641
Depreciation and amortisation	104,455	54,258	57,195	3,314	219,222
Capital expenditure*	179,346	75,917	164,349	—	419,612

* Capital expenditure consists of additions to property, plant and equipment, leasehold lands and other intangible assets including assets from the acquisition of a subsidiary.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2020

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Total RMB'000
Segment revenue (note 5):				
Sales to external customers	1,633,608	1,366,088	949,054	3,948,750
Intersegment sales	5,909	76,635	158	82,702
	1,639,517	1,442,723	949,212	4,031,452
Reconciliation:				
Elimination of intersegment sales				(82,702)
				3,948,750
Segment results	91,046	231,981	92,110	415,137
Reconciliation:				
Elimination of intersegment results				22,518
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
Segment assets	5,843,660	3,455,459	2,693,827	11,992,946
Reconciliation:				
Elimination of intersegment receivables				(841,646)
Corporate and other unallocated assets				118,783
Total assets				11,270,083

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2020 (Continued)

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Total RMB'000
Segment liabilities	2,568,816	917,251	1,764,486	5,250,553
Reconciliation:				
Elimination of intersegment payables				(311,943)
Corporate and other unallocated liabilities				655,015
Total liabilities				5,593,625

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

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	2021 RMB'000	2020 RMB'000
PRC	**3,878,309**	3,566,778
Africa	**315,410**	66,525
South America	**178,427**	107,245
Europe	**77,047**	21,584
Asia, except for the PRC	**63,110**	31,207
Middle East	**46,328**	154,662
Others	**32,131**	749
	4,590,762	3,948,750

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

(b) Non-current assets

	2021 RMB'000	2020 RMB'000
PRC	**2,521,245**	2,313,039
South America	**77,435**	41,437
Asia, except for the PRC	**2,239**	4,259
Africa	**547**	1,234
	2,601,466	2,359,969

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

Information about major customers

None of the sales to a single customer contributed over 10% of the consolidated revenue in any of the years ended 31 December 2021 and 31 December 2020.

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

An analysis of revenue is as follows:

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers	**4,590,762**	3,948,750

Revenue from contracts with customers

Disaggregated revenue information

Year ended 31 December 2021

Segments	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Total RMB'000
Types of goods or services				
Sales of smart power meters	1,714,446	—	—	1,714,446
Sales of communication terminals and water, gas and heat metering products	—	1,719,375	—	1,719,375
Sales of smart power distribution devices	—	—	1,141,646	1,141,646
System solution services	—	—	15,295	15,295
	1,714,446	1,719,375	1,156,941	4,590,762
Geographic markets				
PRC	1,224,856	1,496,512	1,156,941	3,878,309
Africa	182,689	132,721	—	315,410
South America	178,427	—	—	178,427
Europe	77,024	23	—	77,047
Asia, except for the PRC	23,721	39,389	—	63,110
Middle East	4,420	41,908	—	46,328
Others	23,309	8,822	—	32,131
Total revenue from contracts with customers	1,714,446	1,719,375	1,156,941	4,590,762
Timing of revenue recognition				
Goods transferred at a point in time	1,714,446	1,719,375	1,141,646	4,575,467
Services rendered over time	—	—	15,295	15,295
Total revenue from contracts with customers	1,714,446	1,719,375	1,156,941	4,590,762

5. REVENUE, OTHER INCOME, GAINS AND LOSSES, NET (CONTINUED)

Revenue from contracts with customers (Continued)

Disaggregated revenue information (Continued)

Year ended 31 December 2020

Segments	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Total RMB'000
Types of goods or services				
Sales of smart power meters	1,633,608	—	—	1,633,608
Sales of communication terminals and water, gas and heat metering products	—	1,366,088	—	1,366,088
Sales of smart power distribution devices	—	—	930,882	930,882
System solution services	—	—	18,172	18,172
	1,633,608	1,366,088	949,054	3,948,750
Geographic markets				
PRC	1,313,978	1,303,746	949,054	3,566,778
Africa	29,155	37,370	—	66,525
South America	107,245	—	—	107,245
Europe	21,584	—	—	21,584
Asia, except for the PRC	18,073	13,134	—	31,207
Middle East	142,952	11,710	—	154,662
Others	621	128	—	749
Total revenue from contracts with customers	1,633,608	1,366,088	949,054	3,948,750
Timing of revenue recognition				
Goods transferred at a point in time	1,633,608	1,366,088	930,882	3,930,578
Services rendered over time	—	—	18,172	18,172
Total revenue from contracts with customers	1,633,608	1,366,088	949,054	3,948,750

5. REVENUE, OTHER INCOME, GAINS AND LOSSES, NET (CONTINUED)

Revenue from contracts with customers (Continued)

Disaggregated revenue information (Continued)

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

	2021 RMB'000	2020 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sales of smart power meters	**48,112**	62,261
Sales of communication terminals and water, gas and heat metering products	**41,459**	27,453
Sales of smart power distribution devices	**13,404**	10,848
	102,975	100,562

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

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

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

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

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

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

5. REVENUE, OTHER INCOME, GAINS AND LOSSES, NET (CONTINUED)

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

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

	2021 RMB'000	2020 RMB'000
Other income		
Bank interest income	**36,395**	35,999
Interest income from structured deposits	**12,513**	5,249
Interest income from loan receivables	**12,632**	12,934
Interest income from consideration receivable for disposal of a subsidiary	**4,421**	4,516
Interest income on financial assets at FVTPL	**16,382**	14,713
Dividend income from equity investments designated at FVTOCI	**511**	1,526
Refund of value-added tax*	**55,162**	38,130
Government grants#	**44,954**	49,535
Gross rental income	**2,281**	2,930
Others	**5,289**	1,276
	190,540	166,808
Gains and losses, net		
Impairment of goodwill	**(7,672)**	—
Foreign exchange losses, net	**(3,167)**	(246)
Gain/(loss) on disposal of items of property, plant and equipment	**443**	(211)
Fair value gains on financial assets at FVTPL	**2,269**	—
	(8,127)	(457)
	182,413	166,351

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

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

6. PROFIT BEFORE TAX

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

	Notes	2021 RMB'000	2020 RMB'000
Cost of inventories sold		**3,062,754**	2,682,701
Cost of service rendered		**12,597**	13,623
Depreciation of property, plant and equipment	13	**72,826**	60,340
Depreciation of investment properties	14	**625**	598
Depreciation of right-of-use assets	15(a)	**15,432**	14,169
Amortisation of other intangible assets (excluding the deferred expenditure amortised)*	17	**6,636**	6,949
Impairment of goodwill	16	**7,672**	—
Lease payments not included in the measurement of lease liabilities	15(c)	**6,585**	3,883
Research and development costs:			
Research and development expenses		**448,371**	363,786
Less: capitalised development costs		**(147,598)**	(159,407)
		300,773	204,379
Amortisation of capitalised development costs	17	**123,703**	130,558
		424,476	334,937
Auditor's remuneration		**3,584**	3,475
Employee benefit expense (including directors' and chief executive's remuneration (note 8))			
Wages and salaries		**433,120**	348,280
Equity-settled share award expenses		**—**	3,807
Pension scheme contributions***		**53,033**	32,688
		486,153	384,775
Provision of impairment losses, net:			
Trade receivables		**69,592**	55,887
Fair value gains, net:			
Derivative instruments — transactions not qualifying as hedges		**(2,269)**	—
(Gain)/loss on disposal of items of property, plant and equipment		**(443)**	211
Write-down of inventories to net realisable value**		**16,641**	5,861
Foreign exchange losses, net	5	**3,167**	246

6. PROFIT BEFORE TAX (CONTINUED)

* 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".

*** There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2021 RMB'000	2020 RMB'000
Interest on bank loans	**98,415**	95,665
Interest on lease liabilities	**852**	597
	99,267	96,262

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2021 RMB'000	2020 RMB'000
Fees	**725**	787
Other emoluments:		
Salaries, allowances and benefits in kind	**1,742**	2,845
Pension scheme contributions	**15**	62
	2,482	3,694

No share option was granted to directors during the years ended 31 December 2021 and 2020.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(a) Independent non-executive directors

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

	Notes	2021 RMB'000	2020 RMB'000
Mr. Luan Wenpeng		**100**	104
Mr. Cheng Shi Jie		**151**	158
Mr. Chan Cheong Tat	(i)	**375**	43
Mr. Wang Yaonan	(ii)	**100**	22
Mr. Hui Wing Kuen	(iii)	**—**	311
Mr. Huang Jing	(iii)	**—**	149
		726	787

Notes:

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

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

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

There were no other emoluments payable to the independent non-executive directors during the year (2020: Nil).

(b) Executive directors and chief executive

	Notes	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2021					
Executive director and chief executive:					
Ms. Cao Zhao Hui		**—**	**249**	**—**	**249**
Executive directors:					
Mr. Ji Wei		**—**	**498**	**15**	**513**
Ms. Zheng Xiao Ping		**—**	**249**	**—**	**249**
Mr. Tian Zhongping		**—**	**249**	**—**	**249**
Ms. Li Hong	(i)	**—**	**249**	**—**	**249**
Non-executive director:					
Mr. Kat Chit		**—**	**249**	**—**	**249**
		—	**1,743**	**15**	**1,758**

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors and chief executive (Continued)

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

Notes:

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

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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group included four (2020: four) directors of the Company. Details of the remuneration for the year of the remaining one (2020: one) highest paid employee who is a non-director of the Company are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	**1,437**	1,491
Equity-settled share award expense	**—**	658
Pension scheme contributions	**15**	16
	1,452	2,165

9. FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

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

	Number of employees	
	2021	2020
HK$1,500,001 to HK$2,000,000	**1**	—
HK$2,500,001 to HK$3,000,000	**—**	1
	1	1

No share options were granted to the non-director and non-chief executive highest paid employee in respect of his services to the Group during the years ended 31 December 2021 and 2020.

Under the share award scheme, no shares were distributed (2020: 400,000 ordinary shares of the Company were distributed) to the non-director and non-chief executive highest paid employee in respect of his services to the Group during the year ended 31 December 2021.

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

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not earn any income that was subject to Hong Kong profits tax during each of the years ended 31 December 2021 and 2020.

Tax on profits assessable in the PRC has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% (2020: 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 years 2018 to 2021, year 2020 to 2023 or year 2021 to 2024.

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.

Macau Complementary Tax has been provided at the rate of 12% (2020: 12%) on the assessable profits arising in Macau during the year. Pursuant to the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, a Macau subsidiary of the Group incorporated under that law was entitled to the exemption of Macau Complementary Tax, which was valid up to 31 December 2020.

Brazil income tax is charged at 34% (2020: 34%) on the estimated assessable profits arising in Brazil. Brazil income tax has not been provided for the years ended 31 December 2021 and 2020 as there was no assessable profit.

10. INCOME TAX (CONTINUED)

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

	2021 RMB'000	2020 RMB'000
Current		
Charge for the year	**68,841**	58,793
(Overprovision)/underprovision in prior years	**(3,314)**	2,657
PRC withholding tax	**2,447**	1,805
	67,974	63,255
Deferred tax (note 31)	**(23,215)**	(11,513)
Total tax charge for the year	**44,759**	51,742

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the majority of its subsidiaries are domiciled is as follows:

	2021 RMB'000	2020 RMB'000
Profit before tax	**472,733**	395,911
Tax at the statutory tax rate at 25%	**118,183**	98,978
Expenses not deductible for tax	**4,676**	21,227
Income not subject to tax	**(4,563)**	(2,165)
Lower tax rate enacted by local authority	**(2,389)**	—
Tax concessions/exemption granted to PRC and Macao subsidiaries	**(51,539)**	(43,474)
Additional tax deduction on research and development expenses of PRC subsidiaries	**(41,860)**	(36,124)
Tax losses not recognised	**20,979**	8,967
Tax losses utilised from previous periods	**(1,672)**	(129)
Adjustments in respect of current tax of previous periods	**(3,314)**	2,657
Withholding tax at 10% on the PRC subsidiary's dividend income	**6,258**	1,805
Tax charge	**44,759**	51,742

11. DIVIDENDS

	2021 RMB'000	2020 RMB'000
Final — HK20 cents per ordinary share for 2020 (2020: HK20 cents per ordinary share for 2019)	**164,867**	180,175

A final dividend of HK20 cents per share amounting to approximately HK$199,176,000 (equivalent to RMB161,950,000) in respect of the year ended 31 December 2021 (2020: HK20 cents per share amounting to approximately HK$196,997,000 (equivalent to RMB164,867,000)) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 984,985,675 (2020: 983,845,302) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2021 and 2020 because the exercise price of the share options granted to employees and consultants as disclosed in note 33 to the financial statements was higher than the average market price of the Company's shares during the years.

	2021 RMB'000	2020 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**268,084**	231,190

	2021 Number of shares	2020 Number of shares
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**984,985,675**	983,845,302

13. PROPERTY, PLANT AND EQUIPMENT

	Owned buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2021							
At 1 January 2021							
Cost	1,273,245	48,213	366,142	88,224	29,446	38,497	1,843,767
Accumulated depreciation	(180,827)	(17,911)	(237,498)	(68,336)	(17,078)	—	(521,650)
Net carrying amount	1,092,418	30,302	128,644	19,888	12,368	38,497	1,322,117
At 31 December 2020 and 1 January 2021, net of accumulated depreciation	1,092,418	30,302	128,644	19,888	12,368	38,497	1,322,117
Additions	19,434	9,894	54,745	13,990	4,947	113,641	216,651
Transfer	907	2,399	3,842	—	—	(7,148)	—
Disposals/written off	—	(597)	(5,124)	(7)	(75)	—	(5,803)
Depreciation provided during the year	(23,300)	(12,243)	(25,951)	(9,337)	(1,995)	—	(72,826)
Acquisition of a subsidiary (note 35)	—	226	4,847	2,776	90	—	7,939
Transfer from investment properties (note 14)	15,839	—	—	—	—	—	15,839
Transfer to investment properties (note 14)	(8,353)	—	—	—	—	—	(8,353)
Exchange realignment	(497)	(272)	(1,720)	(302)	—	(565)	(3,356)
At 31 December 2021, net of accumulated depreciation	1,096,448	29,709	159,283	27,008	15,335	144,425	1,472,208
At 31 December 2021:							
Cost	1,302,510	60,881	412,315	106,783	32,989	144,425	2,059,903
Accumulated depreciation	(206,062)	(31,172)	(253,032)	(79,775)	(17,654)	—	(587,695)
Net carrying amount	1,096,448	29,709	159,283	27,008	15,335	144,425	1,472,208

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Owned buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2020							
At 1 January 2020							
Cost	1,268,099	31,002	341,425	79,128	25,622	10,194	1,755,470
Accumulated depreciation	(156,863)	(11,268)	(222,106)	(59,567)	(16,707)	—	(466,511)
Net carrying amount	1,111,236	19,734	119,319	19,561	8,915	10,194	1,288,959
At 1 January 2020, net of accumulated depreciation	1,111,236	19,734	119,319	19,561	8,915	10,194	1,288,959
Additions	40	17,810	34,497	8,631	5,174	32,063	98,215
Transfer	—	—	1,988	977	—	(2,965)	—
Disposals/written off	—	—	(3,408)	(198)	(62)	—	(3,668)
Depreciation provided during the year	(23,321)	(6,776)	(19,666)	(8,930)	(1,647)	—	(60,340)
Transfer from investment properties (note 14)	4,463	—	—	—	—	—	4,463
Exchange realignment	—	(466)	(4,086)	(153)	(12)	(795)	(5,512)
At 31 December 2020, net of accumulated depreciation	1,092,418	30,302	128,644	19,888	12,368	38,497	1,322,117
At 31 December 2020:							
Cost	1,273,245	48,213	366,142	88,224	29,446	38,497	1,843,767
Accumulated depreciation	(180,827)	(17,911)	(237,498)	(68,336)	(17,078)	—	(521,650)
Net carrying amount	1,092,418	30,302	128,644	19,888	12,368	38,497	1,322,117

At 31 December 2021, the Group's owned buildings with a carrying amount of RMB112,692,000 (2020: RMB115,370,000) were pledged as security for the Group's bank loans, as further detailed in note 30 to the financial statements.

14. INVESTMENT PROPERTIES

	2021 RMB'000	2020 RMB'000
At 1 January		
Cost	**27,425**	32,680
Accumulated depreciation	**(4,079)**	(4,273)
Net carrying amount	**23,346**	28,407
At 1 January	**23,346**	28,407
Transfer from property, plant and equipment (note 13)	**8,353**	—
Transfer to property, plant and equipment (note 13)	**(15,839)**	(4,463)
Depreciation provided during the year	**(625)**	(598)
At 31 December, net of accumulated depreciation	**15,235**	23,346
At 31 December		
Cost	**17,985**	27,425
Accumulated depreciation	**(2,750)**	(4,079)
Net carrying amount	**15,235**	23,346

The Group's investment properties consist of 3 (2020: 3) commercial properties in the PRC. The directors of the Company determined that the Group's investment properties consist of different classes of assets based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2021 based on valuations performed by Hunan Pengcheng Asset Real Estate Appraisal Co., Ltd., independent professionally qualified valuers.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 15 to the financial statements.

The fair values of the Group's investment properties at 31 December 2021 were RMB22,124,000 (2020: RMB33,818,000).

14. INVESTMENT PROPERTIES (CONTINUED)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2021 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Investment properties	**—**	**—**	**22,124**	**22,124**

	Fair value measurement as at 31 December 2020 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Investment properties	—	—	33,818	33,818

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2020: Nil).

Set out below is a summary of the valuation technique used and the key input to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range or weighted average	
			2021	2020
Investment properties	Direct comparison approach	Prevailing market price (per sq.m.)	**RMB3,938 to RMB4,843**	RMB3,932 to RMB4,784

Direct comparison approach

The fair value of investment properties is generally derived using the direct comparison method.

The valuation was arrived at by adopting the direct comparison approach with reference to the recent transactions of similar properties under the prevailing property market conditions. A significant increase (decrease) in the prevailing market price in isolation would result in a significant increase (decrease) in the fair value of the investment properties.

15. LEASES

The Group as a lessee

The Group has lease contracts for various items of properties used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of properties generally have lease terms between 8 months and 12 years (2020: 2 months and 6 years). Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside of the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold lands RMB'000	Leased properties RMB'000	Total RMB'000
As at 1 January 2020	183,251	4,773	188,024
Additions	—	15,298	15,298
Depreciation provided for the year	(4,598)	(9,571)	(14,169)
Exchange realignment	—	(1,039)	(1,039)
As at 31 December 2020 and 1 January 2021	**178,653**	**9,461**	**188,114**
Additions	**7,674**	**17,742**	**25,416**
Depreciation provided for the year	**(4,597)**	**(10,835)**	**(15,432)**
Exchange realignment	**—**	**45**	**45**
As at 31 December 2021	**181,730**	**16,413**	**198,143**

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2021 RMB'000	2020 RMB'000
Carrying amount at 1 January	**9,643**	4,848
New leases	**17,742**	15,298
Accretion of interest recognised during the year	**852**	597
Payments	**(11,483)**	(10,068)
Exchange realignment	**35**	(1,032)
Carrying amount at 31 December	**16,789**	9,643

15. LEASES (CONTINUED)

The Group as a lessee (Continued)

(b) Lease liabilities (Continued)

	2021 RMB'000	2020 RMB'000
Analysed into:		
Current portion	**7,891**	5,306
Non-current portion	**8,898**	4,337
Carrying amount at 31 December	**16,789**	9,643

The maturity analysis of lease liabilities is disclosed in note 43 to the financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2021 RMB'000	2020 RMB'000
Interest on lease liabilities	**852**	597
Depreciation charge of right-of-use assets	**15,432**	14,169
Expense relating to short-term leases (included in administrative expense)	**6,585**	3,883
Total amount recognised in profit or loss	**22,869**	18,649

(d) The total cash outflow for leases is disclosed in note 37(b) to the financial statements.

15. LEASES (CONTINUED)

The Group as a lessor

The Group leases its investment properties (note 14) consisting of 3 (2020: 3) industrial properties in the PRC under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits. Rental income recognised by the Group during the year was RMB2,281,000 (2020: RMB2,930,000), details of which are included in note 5 to the financial statements.

At the end of the reporting period, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2021 RMB'000	2020 RMB'000
Within one year	**1,155**	1,798
After one year but within two years	**378**	—
	1,533	1,798

16. GOODWILL

	RMB'000
At 1 January 2020 and 31 December 2020:	
Cost	313,272
Accumulated impairment	—
Net carrying amount	313,272
Cost at 1 January 2020 and 31 December 2020, net of accumulated impairment	313,272
Acquisition of a subsidiary (note 35)	32,717
Impairment during the year	(7,672)
Cost and net carrying amount at 31 December 2021	338,317
At 31 December 2021:	
Cost	**345,989**
Accumulated impairment	**(7,672)**
Net carrying amount	**338,317**

16. GOODWILL (CONTINUED)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units ("CGU") for impairment testing:

- Power advanced metering infrastructure CGU;
- Communication and fluid advanced metering infrastructure CGU;
- Advanced distribution operations CGU; and
- Brazil power advanced metering infrastructure CGU.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2021 RMB'000	2020 RMB'000
Power advanced metering infrastructure CGU (note 35)	**217,601**	184,884
Communication and fluid advanced metering infrastructure CGU	**53,495**	53,495
Advanced distribution operations CGU	**59,540**	59,540
Brazil power advanced metering infrastructure CGU	**7,681**	15,353
	338,317	313,272

The basis of the value-in-use calculations of the above CGUs or group of CGUs containing goodwill and their major underlying assumptions are summarised below:

	Power advanced metering infrastructure CGU	**Communication and fluid advanced metering infrastructure CGU**	**Advanced distribution operations CGU**	**Brazil power advanced metering infrastructure CGU**
Terminal growth rate				
2021	**2.5%**	**2.5%**	**2.4%**	**3.0%**
2020	3.0%	3.0%	3.0%	3.0%
Pre-tax discount rates				
2021	**14.9%**	**14.7%**	**14.6%**	**21.5%**
2020	16.2%	16.3%	15.4%	21.5%

16. GOODWILL (CONTINUED)

Impairment testing of goodwill (Continued)

Assumptions were used in the cash flow projections of the CGUs for 31 December 2021 and 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

Growth rates — The growth rates are determined with reference to the growth rate for the relevant units, adjusted for relevant businesses and market development, and economic conditions.

The values assigned to the key assumptions on market development of the respective industries, budgeted gross margins, discount rates and growth rates are consistent with external information sources.

As at 31 December 2021, the estimated recoverable amount of the Brazil power advanced metering infrastructure CGU was below its carrying amount by RMB7,672,000 because the market conditions were out of the management's expectation and an impairment loss of RMB7,672,000 was recognised in the profit or loss during the year.

17. OTHER INTANGIBLE ASSETS

	Development costs* RMB'000	Patents, copyrights and trademarks RMB'000	Technology know-how RMB'000	Customer relationship and contracts RMB'000	Total RMB'000
31 December 2021					
At 1 January 2021					
Cost	**1,238,336**	**90,472**	**95,257**	**63,669**	**1,487,734**
Accumulated amortisation	**(743,342)**	**(82,008)**	**(95,257)**	**(55,926)**	**(976,533)**
Net carrying amount	**494,994**	**8,464**	**—**	**7,743**	**511,201**
Cost at 1 January 2021, net of accumulated amortisation	**494,994**	**8,464**	**—**	**7,743**	**511,201**
Additions	**147,598**	**7,510**	**—**	**—**	**155,108**
Amortisation provided during the year	**(123,703)**	**(4,310)**	**—**	**(2,326)**	**(130,339)**
Acquisition of a subsidiary (note 35)	**—**	**323**	**30,768**	**1,149**	**32,240**
Net carrying amount	**518,889**	**11,987**	**30,768**	**6,566**	**568,210**
At 31 December 2021					
Cost	**1,385,934**	**98,374**	**126,025**	**64,818**	**1,675,151**
Accumulated amortisation	**(867,045)**	**(86,387)**	**(95,257)**	**(58,252)**	**(1,106,941)**
Net carrying amount	**518,889**	**11,987**	**30,768**	**6,566**	**568,210**
31 December 2020					
At 1 January 2020					
Cost	1,078,929	86,694	95,257	63,669	1,324,549
Accumulated amortisation	(612,784)	(77,385)	(95,257)	(53,600)	(839,026)
Net carrying amount	466,145	9,309	—	10,069	485,523
Cost at 1 January 2020, net of accumulated amortisation	466,145	9,309	—	10,069	485,523
Additions	159,407	3,778	—	—	163,185
Amortisation provided during the year	(130,558)	(4,623)	—	(2,326)	(137,507)
Net carrying amount	494,994	8,464	—	7,743	511,201
At 31 December 2020					
Cost	1,238,336	90,472	95,257	63,669	1,487,734
Accumulated amortisation	(743,342)	(82,008)	(95,257)	(55,926)	(976,533)
Net carrying amount	494,994	8,464	—	7,743	511,201

* Development costs represent expenses capitalised during the development phase of internal projects for the development of new technology and new products expected to generate future economic benefits through transfer of goods to customers.

18. INVESTMENT IN A JOINT VENTURE

	2021 RMB'000	2020 RMB'000
Cost of investment	**24,000**	24,000
Cumulative share of post-acquisition losses and other comprehensive expenses	**(24,000)**	(24,000)
	—	—

Particulars of the Group's joint venture are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Smart Metering Solution (Changsha) Co., Ltd. ("Smart Metering")	Ordinary shares	The PRC/ Mainland China	51	Research, development, manufacturing, and selling meter products, meter data management systems, smart meter solution systems and the provision of related consulting services

The Group's shareholding in the joint venture is held through a wholly-owned subsidiary of the Company.

The investment in a joint venture is accounted for using the equity method in these consolidated financial statements.

According to the Memorandum of Association of Smart Metering that major business operating and financing decisions required the unanimous consent from all directors. The directors of the Company consider no control is obtained and the investment in Smart Metering was classified as an investment in a joint venture.

The Group has discontinued the recognition of its share of losses of the joint venture because the share of losses of the joint venture exceeded the Group's interest in the joint venture and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of profit of this joint venture for the current year and unrecognised share of losses cumulatively were RMB1,640,000 (2020: losses of RMB355,000) and RMB12,952,000 (2020: RMB14,592,000), respectively.

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

	2021 RMB'000	2020 RMB'000
Equity investments designated at FVTOCI		
Equity investments listed in Hong Kong, at fair value	**25,397**	38,803
Equity investments listed in the PRC, at fair value	**9,996**	10,353
Unlisted equity investments, at fair value — A	**—**	3,000
Unlisted equity investments, at fair value — B	**31,603**	26,619
	66,996	78,775

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

During the year ended 31 December 2021, the Group sold certain of its equity investments as this investment no longer coincided with the Group's investment strategy. The fair value on the date of disposal was RMB3,060,000 (2020: RMB32,634,000) and the accumulated gain recognised in other comprehensive income of RMB60,000 (2020: loss of RMB86,000) was transferred to retained profits.

During the year ended 31 December 2021, the Group received dividends in the amount of RMB511,000 (2020: RMB1,526,000) from certain of its equity investments listed in Hong Kong and the PRC.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2021 RMB'000	2020 RMB'000
Unlisted investments in a trust fund, at fair value	(i)	**200,000**	200,000
Forward currency contracts	(ii)	**2,269**	—
		202,269	200,000
Less: Current portion		**(2,269)**	(200,000)
		200,000	—

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

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Notes:

(i) The Group invests in a trust fund through a financial institution in the PRC. The trust fund invests in a range of debt instrument products which are generally government bonds and corporate loans. The trust fund expired between April and May 2021 during the year. The Group has further extended the trust fund investments with the financial institution to 2024. The balances are reclassified to non-current assets as at 31 December 2021.

(ii) As at 31 December 2021, the Group has entered into forward currency contracts, which are not designated for hedge purposes and are measured at fair value through profit or loss. There were changes in the fair values of non-hedging currency derivatives of RMB2,269,000 (2020: Nil) credited to profit or loss during the year.

21. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	**432,076**	186,528
Work in progress	**364,111**	192,786
Finished goods	**194,571**	118,524
	990,758	497,838

22. TRADE AND BILLS RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	**3,934,264**	3,693,395
Bills receivable	**352,123**	280,325
	4,286,387	3,973,720
Less: Impairment loss on trade receivables	**(191,234)**	(123,624)
	4,095,153	3,850,096

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 RMB52,344,000 (2020: RMB52,728,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

At 31 December 2020, the Group's bills receivable with a carrying amount of RMB5,000,000 were pledged as security for the Group's bank loans, as further detailed in note 30 to the financial statements.

22. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

	2021 RMB'000	2020 RMB'000
0–90 days	**1,787,060**	1,258,938
91–180 days	**581,645**	595,989
181–365 days	**711,107**	869,661
1–2 years	**880,554**	811,161
Over 2 years	**134,787**	314,347
	4,095,153	3,850,096

Details related to ECLs are set out in note 43 to the financial statements.

23. CONTRACT ASSETS

	2021 RMB'000	2020 RMB'000
Contract assets	**573,157**	657,050
Less: Impairment loss on contract assets	**(5,844)**	(5,844)
	567,313	651,206

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 actual 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 RMB12,637,000 (2020: RMB5,275,000), which will be repayable on credit terms similar to those offered to the major customers of the Group.

Details related to ECLs are set out in note 43 to the financial statements.

24. LOAN RECEIVABLES

	2021 RMB'000	2020 RMB'000
Loan receivables	**108,176**	109,384

The amounts represent loans advanced by the Group to an independent third party under entrusted loan contracts. These entrusted loans carry fixed interest at 12% (2020: 12%) per annum and are repayable in August 2025.

As at 31 December 2021, the Group's loan receivables amounting to RMB88,176,000 was guaranteed by an independent third party (2020: RMB61,000,000 was guaranteed by an independent third party and RMB48,384,000 was secured by certain properties). Subsequent to 31 December 2021, loan receivables amounting to RMB20,000,000 have been settled.

Management has performed credit risk assessment by performing a background search on the borrowers and a property search on pledged properties. Details related to ECLs are set out in note 43 to the financial statements.

25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Notes	2021 RMB'000	2020 RMB'000
Consideration receivable for disposal of subsidiaries	(i)	**—**	77,000
Life insurance products	(ii)	**54,370**	55,308
Non-current portion		**54,370**	132,308
Purchase prepayments	(iii)	**416,983**	402,140
Bidding deposits		**25,038**	27,218
Other prepayments		**39,158**	64,853
Other receivables		**136,618**	96,515
Consideration receivable for disposal of subsidiaries	(i)	**77,000**	—
Consideration receivable for disposal of unlisted equity instruments	(iv)	**23,652**	23,652
Loan receivable from a joint venture	(v)	**17,850**	17,850
VAT recoverable		**201,351**	88,770
Current portion		**937,650**	720,998
		992,020	853,306

25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (CONTINUED)

Notes:

(i) The balance of RMB77,000,000 carries fixed interest at 4.75% (2020: 4.75%) per annum and is repayable in 2022.

(ii) In prior years, the Company entered into three life insurance policies with an insurance company to insure three executive directors. Under these policies, the beneficiary and policy holder are the Company. The Company is required to pay an upfront payment for each policy. The Company may request a partial surrender or full surrender of the policy at any time and receive cash back based on the value of the policy at the date of withdrawal, which is determined by the gross premium paid at inception plus accumulated guaranteed interest earned and minus insurance premium charged. If such withdrawal is made at any time during the first to the fifteenth or eighteenth policy years, as appropriate, a pre-determined specified surrender charge would be imposed on the Company. As at 31 December 2021, the balance included a prepayment of life insurance premium and cash value amounting to RMB1,681,000 (2020: RMB1,919,000) and RMB52,689,000 (2020: RMB53,389,000), respectively.

Particulars of the policies are as follows:

Policy	Insured sum	Upfront payment	Guaranteed interest rates	
			First year	Second year and onwards
Policy A	US$7,557,000	US$3,421,000	4.25% per annum	3% per annum
Policy B	US$10,000,000	US$1,771,000	4% per annum	2% per annum
Policy C	US$13,741,418	US$3,229,513	4.25% per annum	2% per annum

(iii) During the year ended 31 December 2021, the Group entered into purchase contracts with certain suppliers in order to secure material supply. The purchase prepayments will be utilised within one year from the end of the reporting period.

(iv) The balance is unsecured, non-guaranteed, carries fixed interest at 4.35% (2020: 4.35%) per annum and is repayable in 2022. The Group has an option to request the repayment on demand.

(v) The amount represents an unsecured, non-guaranteed short-term loan to a joint venture which carries fixed interest at 4.35% (2020: 4.35%) per annum and is repayable in 2022. Subsequent to the reporting period end, the amount was fully settled.

26. STRUCTURED DEPOSITS

Structured deposits were stated at fair value and represented several deposits placed with banks. The structured deposits were mandatorily classified as financial assets at fair value through profit or loss. As at 31 December 2021, the Group had no investment in structured deposits (2020: aggregate fair value of the structured deposits was approximately RMB80,000,000) and total interest income of approximately RMB12,513,000 (2020: RMB5,249,000) was recognised by the Group during the year.

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

27. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	Note	2021 RMB'000	2020 RMB'000
Cash and bank balances		**2,625,198**	2,285,702
Time deposits		**370,000**	272,000
		2,995,198	2,557,702
Less: Pledged for bank loans	30(b)	**(416,252)**	(302,229)
		2,578,946	2,255,473

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB2,792,975,000 (2020: RMB2,368,780,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits were made for varying periods of between one day and a year depending on the immediate cash requirements of the Group, and earned interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

28. TRADE AND BILLS PAYABLES

	2021 RMB'000	2020 RMB'000
Trade payables	**2,107,538**	1,794,817
Bills payable	**1,205,174**	1,168,318
	3,312,712	2,963,135

28. TRADE AND BILLS PAYABLES (CONTINUED)

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:

	2021 RMB'000	2020 RMB'000
0–90 days	**1,893,820**	1,706,865
91–180 days	**982,361**	704,585
181–365 days	**346,749**	455,537
Over 1 year	**89,782**	96,148
	3,312,712	2,963,135

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.

Included in the Group's trade payables are amounts due to the Group's joint venture of RMB6,780,000 (2020: RMB4,956,000), which are repayable on credit terms similar to those offered by the major suppliers of the Group.

29. OTHER PAYABLES AND ACCRUALS

	Notes	2021 RMB'000	2020 RMB'000
Accruals		**81,593**	42,058
Other payables	(a)	**124,040**	113,567
Contract liabilities	(b)	**111,246**	102,975
		316,879	258,600

Notes:

(a) Other payables are non-interest-bearing and have an average term of three months.

(b) Details of contract liabilities are as follows:

	31 December 2021 RMB'000	31 December 2020 RMB'000	1 January 2020 RMB'000
Short-term advances received from customers			
Sale of goods	**111,246**	102,975	100,562

Contract liabilities include short-term advances received from customers to deliver metering products. The increase in contract liabilities in 2021 was mainly due to the increase in short-term advances received from customers in relation to the sale of products at the end of the year.

30. INTEREST-BEARING BANK BORROWINGS

	2021			2020		
	Effective interest rate	**Maturity**	**RMB'000**	Effective interest rate	Maturity	RMB'000
Floating interest rate						
Bank loans — unsecured	**2.10%–5.22%**	**2022–2024**	**1,932,065**	2.44%–4.79%	2021–2022	1,795,874
Bank loans — secured	**3.90%**	**2022**	**146,000**	3.90%–5.22%	2021–2022	152,500
			2,078,065			1,948,374
Fixed interest rate						
Bank loans — unsecured	**1.18%–4.80%**	**2022–2026**	**584,408**	3.33%–5.55%	2021	263,390
Trust receipt loans — unsecured	**1.45%–4.40%**	**2022**	**174,428**	2.20%–4.40%	2021	78,359
			758,836			341,749
			2,836,901			2,290,123

The maturity of the above bank borrowings is as follows:

	2021 RMB'000	2020 RMB'000
Analysed into:		
Within one year or on demand	**2,046,566**	1,787,997
In the second year	**581,335**	502,126
In the third to fifth years, inclusive	**209,000**	—
	2,836,901	2,290,123

Notes:

(a) Except for the bank borrowings of RMB898,951,000 and RMB58,656,000 (2020: RMB778,267,000 and RMB41,107,000) which are denominated in HK$ at HIBOR plus 2.0% to 3.0% (2020: HIBOR plus 2.0% to 2.8%) and USD at LIBOR plus 2.0% to 2.5% (2020: LIBOR plus 2.0%), respectively, the remaining bank borrowings are denominated in RMB and bear interest at fixed interest rates ranging from 1.45% to 4.80% or the Loan Prime Rate ("LPR") plus 0% to 1.37% (2020: LPR plus 0.15% to 1.09%.).

(b) The Group's bank borrowings are secured by charges over certain assets of the Group as follows:

	Notes	**2021 RMB'000**	2020 RMB'000
Property, plant and equipment	13	**112,692**	115,370
Bills receivable	22	**—**	5,000
Pledged deposits	27	**416,252**	302,229
		528,944	422,599

31. DEFERRED TAX

The movements in deferred tax liabilities and assets during the years are as follows:

	Fair value adjustments of right-of-use assets, property, plant and equipment and intangible assets arising on business combination RMB'000	Withholding taxes RMB'000	Fair value adjustments of equity instruments at FVTOCI RMB'000	ECL provision RMB'000	Unrealised profit on inventories RMB'000	Total RMB'000
At 1 January 2020	(13,527)	—	5,663	10,479	—	2,615
Deferred tax credited to profit or loss during the year (note 10)	986	—	—	10,527	—	11,513
Deferred tax charged to other comprehensive income	—	—	154	—	—	154
At 31 December 2020 and 1 January 2021	(12,541)	—	5,817	21,006	—	14,282
Deferred tax (debited)/credited to profit or loss during the year (note 10)	632	(3,811)	—	14,240	12,154	23,215
Deferred tax credited to other comprehensive income	—	—	(1,157)	—	—	(1,157)
Acquisition of a subsidiary (note 35)	(8,663)	—	—	—	—	(8,663)
At 31 December 2021	(20,572)	(3,811)	4,660	35,246	12,154	27,677

Deferred tax assets and liabilities have not been offset for the purpose of presentation in the consolidated statement of financial position as they are not levied to the same taxable entity by the same tax authority. The following is the analysis of the deferred taxation balances for financial reporting purposes:

	2021 RMB'000	2020 RMB'000
Deferred tax assets	**62,143**	33,726
Deferred tax liabilities	**(34,466)**	(19,444)
	27,677	14,282

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

31. DEFERRED TAX (CONTINUED)

At 31 December 2021, deferred tax of RMB3,811,000 (2020: Nil) has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC (note 10). Except for this, the aggregate amount of temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities of approximately RMB347,520,000 (2020: RMB333,696,000) at 31 December 2021 have not been recognised, because it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

The Group has tax losses arising in Mainland China of RMB168,359,000 (2020: RMB186,120,000) that will expire in one to five years for offsetting against future taxable profits and tax losses arising in Brazil of RMB34,470,000 (2020: RMB10,566,000) that may be carried forward indefinitely. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividend by the Company to its shareholders.

32. SHARE CAPITAL

	2021 HK$'000	2020 HK$'000
Authorised:		
100,000,000,000 ordinary shares of HK$0.01 each	**1,000,000**	1,000,000

	2021 RMB'000	2020 RMB'000
Issued and fully paid:		
995,879,675 ordinary shares of HK$0.01 (2020: HK$0.01) each	**9,906**	9,906

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

	Number of shares in issue	**Share capital** RMB'000
At 1 January 2020	999,961,675	9,947
Shares cancelled (note)	(4,082,000)	(41)
At 31 December 2020, 1 January 2021 and 31 December 2021	995,879,675	9,906

32. SHARE CAPITAL (CONTINUED)

Note:

During the year ended 31 December 2020, the Company cancelled 4,082,000 shares amounting to RMB13,855,000, of which RMB41,000 and RMB13,814,000 were transferred from the share capital and share premium to the share repurchase reserve. As at 31 December 2020 and 31 December 2021, there were no outstanding repurchased shares which were not yet cancelled.

33. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

The Company's share option scheme (the "Scheme") was adopted for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity"). Eligible participants of the Scheme include directors and employees of the Company, its subsidiaries or any Invested Entity, suppliers and customers of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity, and any shareholder of any members of the Group or any Invested Entity or any holder of any securities issued by any members of the Group or any Invested Entity. The Scheme became effective on 16 May 2016 and, unless otherwise terminated or amended, will remain in force for 10 years. As at 31 December 2021, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 18,000,000 (2020: 18,000,000), representing approximately 1.8% (2020: 1.8%) of the then issued share capital of the Company.

The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the Company's shares in issue as at the first date of listing. The limit may be increased to 20% of the then issued share capital of the Company from time to time upon shareholders' approval at a general meeting of the shareholders. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Group shall not exceed such number of Company's shares as equal to 30% of the issued share capital of the Company from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time unless prior approval has been obtained from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 30 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. There is no minimum period for which an option must be held before the exercise of the subscription right attaching hereto except otherwise imposed by the board of directors. The exercise price is specified in the rules governing the share option scheme and shall not be lower than the highest of the (i) official closing price of the ordinary shares of the Company on the Stock Exchange on the date of the offer of grant of options; (ii) the average of the official closing prices of the ordinary shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options; and (iii) the nominal value of an ordinary share of the Company.

33. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Share option scheme (Continued)

The following table discloses movements of the Company's share options held by employees and consultants during the current and prior year under the Scheme:

Category	Date of grant	Vesting period	Exercise period	Exercise price* HK$	Outstanding 1 January 2020	Exercised during the year	Outstanding 31 December 2020	Exercise during the year	Outstanding 31 December 2021
Employees	10.2.2014	10.2.2014 to 9.2.2017	10.2.2017 to 9.2.2024	4.680	9,000,000	—	9,000,000	—	9,000,000
Consultants	10.2.2014	10.2.2014 to 9.2.2018	10.2.2018 to 9.2.2024	4.680	9,000,000	—	9,000,000	—	9,000,000
Total					18,000,000	—	18,000,000	—	18,000,000
Exercisable at year end					18,000,000		18,000,000		18,000,000
Weighted average exercise price (HK$)					4.680		4.680		4.680

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

No share option was granted or exercised during the year ended 31 December 2021 (2020: Nil).

At the end of the reporting period, the Company had 18,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 18,000,000 additional ordinary shares of the Company and additional share capital of HK$180,000 (equivalent to RMB147,000) and share premium of HK$84,060,000 (equivalent to RMB68,727,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 18,000,000 share options outstanding under the Scheme, which represented approximately 1.8% of the Company's shares in issue as at that date.

No share-based payment expenses have been recognised in profit or loss for the both years as the share options were fully vested in 2017 and 2018.

Share award scheme

The Company's share award scheme (the "Share Award Scheme") was adopted pursuant to a resolution passed on 3 May 2016. Pursuant to the Share Award Scheme under which eligible employees are entitled to participate. The purpose of the Share Award Scheme is to recognise the contribution by certain employees and to provide them with incentives in order to retain them for the continual operation and development of the Group and also to attract suitable personnel for further development of the Group. The Share Award Scheme became effective on 3 May 2016 and, unless otherwise terminated or amended, will remain in force for 10 years.

33. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Share award scheme (Continued)

The Share Award Scheme is operated through a trustee which is independent of the Group and has the right to, among other conditions, in its sole discretion, determine whether the shares are to be purchased on or off the Stock Exchange from time to time, unless during the year in which the directors of the Company are prohibited by the Listing Rules or any corresponding codes or securities dealing restrictions adopted by the Company. In any given financial year of the Company, the maximum number of shares to be purchased by the trustee for the purpose of the Share Award Scheme shall not exceed 10% of the total number of issued shares as at the beginning of that financial year.

The directors would notify the trustee of the Share Award Scheme in writing upon the grant of any award to any participants. Upon the receipt of such notice, the trustee would set aside the appropriate number of awarded shares in the pool of shares. No new shares would be allotted and issued to satisfy the awards granted under the Share Award Scheme.

No share was acquired or awarded under the Share Award Scheme during the year ended 31 December 2021. During the year ended 31 December 2020, 808,000 ordinary shares of the Company have been acquired at an aggregate cost of HK$1,594,000 (equivalent to RMB1,384,000). On 18 September 2020, 5 employees have been awarded 2,200,000 ordinary shares of the Company under the Share Award Scheme which were distributed and immediately vested. The fair value of the share awards amounting to RMB3,807,000 is recognised as staff cost in profit or loss for the year ended 31 December 2020. As at 31 December 2021, 10,894,000 (2020: 10,894,000) ordinary shares of the Company were held by the trustee of the Share Award Scheme.

34. RESERVES

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

(ii) The PRC statutory reserve is non-distributable and the transfer to this reserve is determined by the board of directors of the subsidiaries established in the PRC in accordance with the relevant laws and regulations of the PRC. According to the relevant rules and regulations in PRC applicable to wholly foreign-owned enterprises, a wholly foreign-owned enterprise is required to transfer at least 10% of its profit after taxation, as determined under the PRC Accounting Regulations, to a reserve fund until the reserve fund balance reaches 50% of the relevant enterprise's registered capital. This reserve can be used to offset accumulated losses or to increase capital upon approval from the relevant authorities.

(iii) Shares held for the share award scheme represent the own shares of the Company repurchased by a trustee for an employees' share award scheme.

(iv) Other reserve mainly comprises equity transactions debited to the other reserve of RMB57,166,000 and the excess of the balance of share award plan assets over the carrying amount of shares held under the share award plan of the Company, which was recognised upon termination of the plan in prior years and credited to the other reserve of RMB33,164,000.

34. RESERVES (CONTINUED)

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

During the year ended 31 December 2021, Wasion Electric Limited, a non-wholly-owned subsidiary of the Group, issued 42,988,235 ordinary shares at RMB1.7 per share and 28,000,000 ordinary shares at RMB2.7 per share, with total consideration of RMB148,080,000, which represented 14.4% equity interests, to its non-controlling shareholders. The difference of RMB6,624,000 between the non-controlling interests recognised and the consideration was credited to other reserve.

During the year ended 31 December 2021, Hunan Weiming Technology Co., Ltd., a non-wholly-owned subsidiary of the Group, issued 20,000,000 ordinary shares, equivalent to 6.25% equity interests, to its non-controlling shareholder at a consideration of RMB2.5 per share, for a total consideration of approximately RMB50,000,000. The difference of RMB9,895,000 between the non-controlling interests recognised and the consideration was credited to other reserve.

During the year ended 31 December 2020, the Group has completed the spin-off of its Communication and Fluid Advanced Metering Infrastructure business through a separate listing of a then non-wholly-owned subsidiary, Willfar Information Technology Company Limited and its subsidiaries (together as "Willfar Group") on the Science and Technology Innovation Board of the Shanghai Stock Exchange. The difference of RMB250,621,000 between the non-controlling interests recognised, reserves released and the net consideration was credited to other reserve.

During the year ended 31 December 2020, the Group acquired 2,020,100 ordinary shares, equivalent to 5.8% equity interests in Zhuhai Zhonghui Microelectronics Co., Ltd., a non-wholly-owned subsidiary incorporated in the PRC, from its non-controlling shareholder at a consideration of RMB7.15 per share, for a total consideration of RMB14,444,000 with a transaction cost of RMB27,000. The difference of RMB10,924,000 between the non-controlling interests derecognised and the net consideration was debited to other reserve.

During the year ended 31 December 2020, Wasion Electric Limited, a wholly-owned subsidiary of the Group, issued 46,670,000 ordinary shares, equivalent to 10% equity interests, to its non-controlling shareholder at a consideration of RMB1.7 per share, for a total consideration of approximately RMB79,339,000. The difference of RMB5,443,000 between the non-controlling interests recognised and the consideration was debited to other reserve.

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 119 and 120 of this annual report.

35. BUSINESS COMBINATION

On 29 December 2021, the Group acquired a 100% interest in Changsha Zomkun Electronic Science & Technology Co., Ltd. ("Zomkun") through a wholly-owned subsidiary, Wasion Group Limited, from independent third parties (the "Seller"). Zomkun is a company established in the PRC and is principally engaged in the manufacture and sale of electric power application components. The acquisition of Zomkun is to integrate with the upper stream supply chain for the Group's products. Pursuant to the sales and purchase agreement, the consideration for the acquisition was RMB100,000,000.

The fair values of the identifiable assets and liabilities of Zomkun as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition during the year ended 31 December 2021 RMB'000
Property, plant and equipment	13	**7,939**
Other intangible assets	17	**32,240**
Trade and bills receivables		**86,178**
Other receivables		**17,335**
Inventories		**29,187**
Cash and bank balances		**7,017**
Trade payables		**(82,664)**
Other payables		**(16,286)**
Interest-bearing bank borrowings		**(5,000)**
Deferred tax liabilities	31	**(8,663)**
Total identifiable net assets at fair value		**67,283**
Goodwill on acquisition		**32,717**
Satisfied by cash*		**100,000**

* As at 31 December 2021, consideration of RMB48,500,000 has not yet been settled and included in other payables.

The fair values of the trade and bills receivables and other receivables as at the date of acquisition amounted to RMB86,178,000 and RMB17,335,000, respectively. All trade receivables and other receivables are expected to be collectible. None of the goodwill recognised is expected to be deductible for income tax purposes.

35. BUSINESS COMBINATION (CONTINUED)

The Group incurred transaction costs of RMB149,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

The directors of the Company consider the acquisition of Zomkun as an effort to expand the manufacturing capacities of the Group's products in the PRC and the goodwill on acquisition mainly represents the expected incremental values and potential synergies for the expansion plans of the Group.

An analysis of the cash flows in respect of the acquisition of the subsidiary is as follows:

	During the year ended 31 December 2021 RMB'000
Cash consideration	**(100,000)**
Consideration payable	**48,500**
Cash paid	**(51,500)**
Cash and bank balances acquired	**7,017**
Net outflow of cash and cash equivalents included in cash flows from investing activities	**(44,483)**

Had the combination taken place at the beginning of the year ended 31 December 2021, the revenue of the Group and the net profit of the Group for the year would have been RMB4,748,587,000 and RMB440,700,000, respectively.

36. DEEMED PARTIAL DISPOSAL OF INTEREST IN A SUBSIDIARY

On 21 January 2020, the Group completed the spin-off of its communication and fluid advanced metering infrastructure business through a separate listing of a then non-wholly-owned subsidiary, Willfar Group, on the Science and Technology Innovation Board of the Shanghai Stock Exchange (the "Spin-Off"). The Spin-Off involved the offering of 50,000,000 new ordinary shares of RMB1 each by Willfar at an issue price of RMB13.78 per share, which raised a total of gross cash proceeds of approximately RMB689,000,000.

Immediately following the completion of the Spin-Off, the Group's equity interest in Willfar was diluted from 65% to 58.5% and thus the Spin-Off is considered as a deemed partial disposal. Since the deemed partial disposal of Willfar did not result in any loss of control, the transaction was accounted for as an equity transaction.

36. DEEMED PARTIAL DISPOSAL OF INTEREST IN A SUBSIDIARY (CONTINUED)

An analysis of the cash flows in respect of the deemed partial disposal of an interest in Willfar Group is as follows:

	RMB'000
Gross proceeds from the Spin-Off	689,000
Less: Listing expenses	(78,166)
Net inflow of cash and cash equivalents in respect of the deemed partial disposal of an interest in a subsidiary	610,834

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising in financing activities

	Bank borrowings RMB'000	**Lease liabilities** RMB'000
As at 1 January 2020	2,073,869	4,848
Changes from financing cash flows	143,456	(9,471)
Additions	—	15,298
Interest expenses	95,665	597
Interest paid classified as operating cash flows	—	(597)
Foreign exchange movement	(22,867)	(1,032)
As at 31 December 2020 and 1 January 2021	**2,290,123**	**9,643**
Changes from financing cash flows	**467,947**	**(10,631)**
Additions	**—**	**17,742**
Interest expenses	**98,415**	**852**
Interest paid classified as operating cash flows	**—**	**(852)**
Acquisition of a subsidiary	**5,000**	**—**
Foreign exchange movement	**(24,584)**	**35**
As at 31 December 2021	**2,836,901**	**16,789**

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2021 RMB'000	2020 RMB'000
Within operating activities	**7,437**	4,480
Within financing activities	**10,631**	9,471
	18,068	13,951

38. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans are included in note 30(b) to the financial statements.

39. COMMITMENTS

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

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**51,514**	38,804

40. RELATED PARTY DISCLOSURES

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

	Notes	2021 RMB'000	2020 RMB'000
Sales of goods to a joint venture	(i)	**111,883**	48,409
Purchase of goods from a company of which a close member of the director's family is a controlling shareholder	(ii)	**10,628**	823
Interest received from a joint venture	(iii)	**744**	884
Rental income received from a joint venture		**310**	310

Notes:

(i) The sales to the joint venture were made according to the prices and conditions offered to the major customers of the Group.

(ii) The purchase constitute continuing connected transaction, as defined in Chapter 14A of the Listing Rules.

(iii) The loan to the joint venture is unsecured and bears interest at 4.35% (2020: 4.35%) per annum and is repayable in 2022.

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

	2021 RMB'000	2020 RMB'000
Short-term benefits	**5,482**	5,124
Equity-settled share award expense	**—**	658
Retirement benefit scheme contributions	**135**	77
	5,617	5,859

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

41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2021

Financial assets

	Financial assets at FVTPL RMB'000	Equity investments at FVTOCI RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	—	—	4,095,153	4,095,153
Loan receivables	—	—	108,176	108,176
Financial assets included in prepayments, other receivables and other assets	—	—	307,809	307,809
Equity instruments designated at FVTOCI	—	66,996	—	66,996
Financial assets at FVTPL	202,269	—	—	202,269
Pledged deposits	—	—	416,252	416,252
Cash and bank balances	—	—	2,578,946	2,578,946
	202,269	66,996	7,506,336	7,775,601

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	3,312,712
Financial liabilities included in other payables and accruals	145,137
Interest-bearing bank borrowings	2,836,901
Lease liabilities	16,789
	6,311,539

41. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

2020

Financial assets

	Financial assets at FVTPL RMB'000	Equity investments at FVTOCI RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	—	—	3,850,096	3,850,096
Loan receivables	—	—	109,384	109,384
Financial assets included in prepayments, other receivables and other assets	—	—	268,406	268,406
Equity instruments designated at FVTOCI	—	78,775	—	78,775
Financial assets at FVTPL	200,000	—	—	200,000
Structured deposits	80,000	—	—	80,000
Pledged deposits	—	—	302,229	302,229
Cash and bank balances	—	—	2,255,473	2,255,473
	280,000	78,775	6,785,588	7,144,363

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	2,963,135
Financial liabilities included in other payables and accruals	102,474
Interest-bearing bank borrowings	2,290,123
Lease liabilities	9,643
	5,365,375

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2021 RMB'000	2020 RMB'000	**2021 RMB'000**	2020 RMB'000
Financial liabilities				
Equity investments designated at FVTOCI	**66,996**	78,775	**66,996**	78,775
Financial assets at FVTPL	**202,269**	200,000	**202,269**	200,000
	269,265	278,775	**269,265**	278,775
Financial liabilities				
Interest-bearing bank borrowings	**2,836,901**	2,290,123	**2,820,356**	2,251,469

Management has assessed that the fair values of cash and bank balances, trade and bills receivables, loan receivables, pledged deposits, trade and bills payables, financial assets included in prepayments, other receivables and other assets and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

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

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments, which were classified as equity investments designated at FVTOCI, have been estimated using a market-based valuation technique or a recent transaction price based on assumptions that are not supported by observable market prices or rates. For market-based valuation technique, the valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EBITDA") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. For the valuation based on the recent transaction price, the valuation is made by reference to the transaction price of the same investment being valued. The directors of the Company believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

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

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

The fair values of forward currency contracts are based on quotes from financial institutions.

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

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Set out below is a summary of the significant unobservable input to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December:

2021

	Valuation technique	Significant unobservable input	Multiple	Sensitivity of fair value to the input
Unlisted equity investments designated at FVTOCI — B	Valuation multiple	EV/EBITDA multiple of peers	7.24	1% increase/decrease in the multiple would result in increase/decrease in fair value by RMB277,000

2020

	Valuation technique	Significant unobservable input	Multiple	Sensitivity of fair value to the input
Unlisted equity investments designated at FVTOCI — B	Valuation multiple	EV/EBITDA multiple of peers	6.3	1% increase/decrease in the multiple would result in increase/decrease in fair value by RMB211,000

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at FVTOCI	35,393	—	31,603	66,996
Financial assets at FVTPL	—	202,269	—	202,269
	35,393	202,269	31,603	269,265

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at FVTOCI	49,156	—	29,619	78,775
Financial assets at FVTPL	—	200,000	—	200,000
Structured deposits	—	80,000	—	80,000
	49,156	280,000	29,619	358,775

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (Continued)

The movements in fair value measurements within Level 3 during the year are as follows:

	2021 RMB'000	2020 RMB'000
Equity investments designated at FVTOCI:		
At 1 January	**29,619**	25,884
Total gains recognised in the statement of comprehensive income	**5,044**	3,735
Disposals	**(3,060)**	—
At 31 December	**31,603**	29,619

As at 31 December 2021, the Group's financial liabilities not measured at fair value but for which fair values were disclosed included interest-bearing bank borrowings with fair value of RMB2,820,356,000 (2020: RMB2,251,469,000). The fair values of these financial liabilities disclosed were measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair values are observable, either directly or indirectly (Level 2).

The Group did not have any financial liabilities measured at fair value as at 31 December 2021 (2020: Nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 for both financial assets and financial liabilities (2020: Nil), and no transfers into or out of Level 3 (2020: Nil).

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, loan receivables, cash and bank balances and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as financial assets at FVTPL, equity investments designated at FVTOCI, trade and bills receivables, other receivables, trade payables and other payables.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk, equity price risk and market risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and bank balances and debt obligations with a floating interest rate.

The interest rates and terms of repayment of interest-bearing bank borrowings are disclosed in note 30 to the consolidated financial statements. Other financial assets and liabilities of the Group do not have material interest rate risk. Interest-bearing bank borrowings and cash and bank balances are stated at cost and are not revalued on a periodic basis. Floating-rate interest income and expenses are credited or charged to profit or loss as incurred.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on interest-bearing bank borrowings and cash and bank balances) and Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
31 December 2021		
RMB	**100**	**15,763**
RMB	**(100)**	**(15,763)**
HK$	**100**	**(8,809)**
HK$	**(100)**	**8,809**
US$	**100**	**803**
US$	**(100)**	**(803)**
31 December 2020		
RMB	100	12,399
RMB	(100)	(12,399)
HK$	100	(7,565)
HK$	(100)	7,565
US$	100	1,376
US$	(100)	(1,376)

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 15.5% (2020: 9.7%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, while approximately 97.3% (2020: 96.3%) of cost were denominated in the units' functional currencies. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in RMB exchange rates against US$ and HK$, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax RMB'000
31 December 2021		
If RMB weakens against US$	**5**	**4,490**
If RMB strengthens against US$	**(5)**	**(4,490)**
If RMB weakens against HK$	**5**	**(44,043)**
If RMB strengthens against HK$	**(5)**	**44,043**
31 December 2020		
If RMB weakens against US$	5	9,732
If RMB strengthens against US$	(5)	(9,732)
If RMB weakens against HK$	5	(37,959)
If RMB strengthens against HK$	(5)	37,959

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk and impairment assessment

As at 31 December 2021, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arose from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Trade receivables and contract assets arising from contracts with customers

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which covered over 94% (2020: over 96%) of its total receivables as at 31 December 2021. There is no significant concentration of credit risk on trade receivables.

The Group's customer base is diverse and the trade receivables consist of a large number of customers.

The Group does not hold any collateral over these balances. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group performs impairment assessment based on the probability of default approach by estimating the probability of default, loss given default and exposure at default. The ECL assessment considers all reasonable and supportable information, including past experience and forward-looking information.

The contract assets have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Group has therefore concluded that the loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

Bank balances

The credit risks on pledged deposits and bank balances are limited because the counterparties are state-owned banks or financial institutions with high credit ratings assigned by international credit-rating agencies. The management of the Group also considers that these assets are short-term in nature and the probability of default is negligible on the basis of high-credit-rating issuers.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk and impairment assessment (Continued)

Loan receivables, other receivables and deposits

The directors of the Company make periodic individual assessment on the adequacy of ECLs of loan receivables, other receivables and deposits based on the probability of default approach. Details of the approach are discussed in the section headed "Trade receivables and contract assets arising from contracts with customers". The directors of the Company believe that there is no significant increase in credit risk of these amounts since initial recognition and the Group provides impairment based on 12-month ECLs. For the years ended 31 December 2021 and 2020, the Group assessed that the ECLs on loan receivables, other receivables and deposits were insignificant and thus no loss allowance was recognised.

There are no past due amounts for loan receivables and other receivables and the Group assesses that there has been no significant increase in credit risk since initial recognition. The 12-month ECL represents the portion of lifetime ECLs that is expected to result from default events that are possible within 12 months after the reporting date.

The Group has a concentration of credit risk on liquid funds, which are deposited with several banks with good reputation. The loan receivables disclosed in note 24 are also concentrated in a certain independent third party, and the directors consider the credit risk is significantly reduced as there was history of continuous repayment. Other than the above, the Group does not have significant concentration of credit risk.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk and impairment assessment (Continued)

Loan receivables, other receivables and deposits (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ contract assets	Other financial assets/other items
Low risk (Grade 1)	The counterparty is a regular customer with the Group, with a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired	12-month ECL
Low risk (Grade 2)	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired	12-month ECL
Watch list (Grade 3)	Debtor with long aged balance, but usually settle the amount in full with a strong financial background	Lifetime ECL — not credit-impaired	12-month ECL
Doubtful (Grade 4)	There have been significant increases in credit risk since initial recognition due to failure to repay as scheduled	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating that the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk and impairment assessment (Continued)

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and bills receivables					
— Grade 1	352,123	—	—	2,033,475	2,385,598
— Grade 2	—	—	—	354,961	354,961
— Grade 3	—	—	—	1,394,427	1,394,427
— Grade 4	—	—	—	51,403	51,403
— Loss	—	—	—	99,998	99,998
	352,123	—	—	3,934,264	4,286,387
Contract assets					
— Grade 1	—	—	—	256,785	256,785
— Grade 2	—	—	—	51,610	51,610
— Grade 3	—	—	—	260,584	260,584
— Grade 4	—	—	—	4,178	4,178
	—	—	—	573,157	573,157
Financial assets included in prepayments, other receivables and other assets					
— Grade 3	307,809	—	—	—	307,809
Loan receivables					
— Grade 1	108,176	—	—	—	108,176
Loan receivable from a joint venture*					
— Grade 3	—	17,850	—	—	17,850
Pledged deposits					
— Grade 1	416,252	—	—	—	416,252
Cash and bank balances					
— Grade 1	2,578,946	—	—	—	2,578,946
	3,763,306	17,850	—	4,507,421	8,288,577

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk and impairment assessment (Continued)

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and bills receivables					
— Grade 1	280,325	—	—	2,029,251	2,309,576
— Grade 2	—	—	—	229,465	229,465
— Grade 3	—	—	—	1,328,754	1,328,754
— Grade 4	—	—	—	45,018	45,018
— Loss	—	—	—	60,907	60,907
	280,325	—	—	3,693,395	3,973,720
Contract assets					
— Grade 1	—	—	—	289,510	289,510
— Grade 2	—	—	—	48,688	48,688
— Grade 3	—	—	—	313,293	313,293
— Grade 4	—	—	—	5,559	5,559
	—	—	—	657,050	657,050
Financial assets included in prepayments, other receivables and other assets					
— Grade 3	268,406	—	—	—	268,406
Loan receivables					
— Grade 1	109,384	—	—	—	109,384
Loan receivable from a joint venture*					
— Grade 3	—	17,850	—	—	17,850
Pledged deposits					
— Grade 1	302,229	—	—	—	302,229
Cash and bank balances					
— Grade 1	2,255,473	—	—	—	2,255,473
	3,215,817	17,850	—	4,350,445	7,584,112

* For the loan receivable from a joint venture, and the balance due from the joint venture included in trade receivables and contract assets, which were RMB64,981,000 (2020: RMB75,853,000) in aggregate, management considered the ECL impact was minimal as the Group expects to recover the full amount of the balances.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk and impairment assessment (Continued)

As at 31 December 2021, debtors which are credit-impaired with a gross carrying amount of RMB99,998,000 (2020: RMB60,907,000) were assessed individually. The information about the exposure to credit risk for trade receivables and contract assets which are assessed based on a provision matrix as at 31 December within the lifetime ECL (not credit-impaired) was as follows:

Gross carrying amounts

Internal credit rating	2021 Average loss rate	2021 Trade receivables RMB'000	2021 Contract assets RMB'000	2020 Average loss rate	2020 Trade receivables RMB'000	2020 Contract assets RMB'000
Grade 1–2	**0.8%**	**2,388,436**	**308,395**	0.6%	2,258,716	338,198
Grade 3	**1.8%**	**1,394,427**	**260,584**	0.9%	1,328,754	313,293
Grade 4	**95.8%**	**51,403**	**4,178**	85.0%	45,018	5,559
Loss	**100%**	**99,998**	**—**	100%	60,907	—
		3,934,264	**573,157**		3,693,395	657,050

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors, adjusted probability of default, loss given default and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure that relevant information about specific debtors is updated.

The movements of impairment allowance of trade receivables are as follows:

	2021 RMB'000	2020 RMB'000
At beginning of year	**123,624**	67,737
Provision for impairment losses, net	**69,592**	55,887
Amount written off as uncollectible	**(1,982)**	—
At end of year	**191,234**	123,624

The movements of impairment allowance of contract assets are as follows:

	2021 RMB'000	2020 RMB'000
At beginning of year and end of year	**5,844**	5,844

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of long term bank loans and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

31 December 2021

	On demand RMB'000	No later than 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	—	3,312,712	—	—	3,312,712
Other payables and accruals	145,137	—	—	—	145,137
Interest-bearing bank borrowings	—	2,095,282	866,989	—	2,962,271
Lease liabilities	—	8,053	8,162	1,583	17,798
	145,137	5,416,047	875,151	1,583	6,437,918

31 December 2020

	On demand RMB'000	No later than 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and bills payables	—	2,963,135	—	2,963,135
Other payables and accruals	102,474	—	—	102,474
Interest-bearing bank borrowings	—	1,815,134	533,017	2,348,151
Lease liabilities	—	5,424	4,782	10,206
	102,474	4,783,693	537,799	5,423,966

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments included in equity investments designated at FVTOCI (note 19) as at 31 December 2021. The Group's listed investments are listed on the stock exchanges and are valued at quoted market prices at the end of the reporting period.

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period, of the Group's profit before tax and equity.

	Carrying amount of equity investments RMB'000	**Increase/ (decrease) in equity*** RMB'000
31 December 2021		
Investments listed in:		
Hong Kong — Equity investments designated at FVTOCI	**25,397**	**2,540/(2,540)**
PRC — Equity investments designated at FVTOCI	**9,996**	**1,000/(1,000)**
31 December 2020		
Investments listed in:		
Hong Kong — Equity investments designated at FVTOCI	38,803	3,880/(3,880)
PRC — Equity investments designated at FVTOCI	10,353	1,035/(1,035)

* Excluding accumulated losses

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate benchmark reform

As at 31 December 2021, the Group had certain interest-bearing bank borrowings denominated in USD. The interest rates of these instruments are based on the LIBOR with a tenor of two months or twelve months, which will cease to be published after 30 June 2023. Replacement of the benchmark rates of these instruments from LIBOR to an RFR has yet to commence but it is expected that there will be renegotiations of terms in the future. During the transition, the Group is exposed to the following risks:

- Parties to the contract may not reach agreement in a timely manner as any changes to the contractual terms require the agreement of all parties to the contract

- Additional time may be needed for the parties to the contract to reach agreement as they may renegotiate terms which are not part of the interest rate benchmark reform (e.g., changing the credit spread of the bank borrowings due to changes in credit risk of the Group)

- The existing fallback clause included in the instruments may not be adequate to facilitate a transition to a suitable RFR

The Group will continue to monitor the development of the reform and take proactive measures for a smooth transition.

The information about financial instruments based on an interbank offered rate that has yet to transition to an alternative benchmark rate is as follows:

	2021 RMB'000	2020 RMB'000
Non-derivative financial liabilities — carrying value		
Interest-bearing bank borrowings		
— United States dollar LIBOR	**58,656**	41,107

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made to the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 2020.

The Group monitors capital using a gearing ratio, which is total debt divided by total assets. Total debt represents interest-bearing bank borrowings. The gearing ratios as at the end of the reporting periods were as follows:

	2021 **RMB'000**	2020 RMB'000
Total debt	**2,836,901**	2,290,123
Total assets	**12,672,139**	11,270,083
Gearing ratio	**22.4%**	20.3%

44. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2021	2020
Percentage of equity interest held by non-controlling interests:		
Willfar	**41.5%**	41.5%

	2021 RMB'000	2020 RMB'000
Profit for the year attributable to non-controlling interests:		
Willfar	**143,523**	113,062
Dividends paid to non-controlling interests of Willfar	**46,672**	36,300
Accumulated balances of non-controlling interests at the reporting date:		
Willfar	**1,179,108**	1,042,152

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

	Willfar	
	2021 RMB'000	2020 RMB'000
Revenue	**1,817,810**	1,366,088
Total expenses	**(1,466,173)**	(1,085,773)
Profit for the year	**351,637**	280,315
Total comprehensive income for the year	**351,637**	280,315
Current assets	**3,257,620**	2,884,090
Non-current assets	**524,859**	505,882
Current liabilities	**(974,346)**	(873,010)
Non-current liabilities	**(6,953)**	(4,917)
Net cash flows from operating activities	**243,462**	186,329
Net cash flows used in investing activities	**(53,832)**	(384,290)
Net cash flows (used in)/from financing activities	**(64,342)**	507,820
Net increase in cash and cash equivalents	**125,288**	309,859

45. STATEMENT OF THE FINANCIAL POSITION OF THE COMPANY

	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**1,192,506**	1,198,157
Other non-current assets	**61,727**	68,266
Total non-current assets	**1,254,233**	1,266,423
CURRENT ASSETS		
Other receivables	**10,603**	10,914
Cash and bank balances	**8,473**	6,914
Total current assets	**19,076**	17,828
CURRENT LIABILITIES		
Other payables	**4,675**	4,813
Due to subsidiaries	**324,284**	119,940
Interest-bearing bank borrowings	**65,408**	67,328
Total current liabilities	**394,367**	192,081
NET CURRENT LIABILITIES	**(375,291)**	(174,253)
TOTAL ASSETS LESS CURRENT LIABILITIES	**878,942**	1,092,170
NET ASSETS	**878,942**	1,092,170
EQUITY		
Issued capital	**9,906**	9,906
Reserves (note)	**869,036**	1,082,264
Total equity	**878,942**	1,092,170

45. STATEMENT OF THE FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Merger reserve RMB'000	Share option reserve RMB'000	Shares held for share award reserve RMB'000	Other reserve RMB'000	Share repurchase reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2020	1,205,648	198,399	27,730	(39,421)	33,164	(13,855)	(119,931)	1,291,734
Total comprehensive loss for the year	—	—	—	—	—	—	(31,759)	(31,759)
Shares repurchased and cancelled	(13,814)	—	—	—	—	13,855	—	41
Purchase of shares under share award scheme	—	—	—	(1,384)	—	—	—	(1,384)
Shares granted under share award scheme	—	—	—	3,807	—	—	—	3,807
Dividend paid	(180,175)	—	—	—	—	—	—	(180,175)
At 31 December 2020 and 1 January 2021	**1,011,659**	**198,399**	**27,730**	**(36,998)**	**33,164**	**—**	**(151,690)**	**1,082,264**
Total comprehensive loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(48,361)**	**(48,361)**
Dividend paid	**(164,867)**	**—**	**—**	**—**	**—**	**—**	**—**	**(164,867)**
			—	**—**				
At 31 December 2021	**846,792**	**198,399**	**27,730**	**(36,998)**	**33,164**	**—**	**(200,051)**	**869,036**

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2022.

RESULTS

	Year ended 31 December				
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	**2021** **RMB'000**
Revenue	2,927,989	3,340,321	3,655,646	3,948,750	**4,590,762**
Profit (loss) for the year attributable to:					
Owners of the Company	301,575	270,817	280,567	231,190	**268,084**
Non-controlling interests	36,221	59,954	76,811	112,979	**159,890**
	337,796	330,771	357,378	344,169	**427,974**

ASSETS AND LIABILITIES

	As at 31 December				
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	**2021** **RMB'000**
Total assets	7,884,054	8,608,295	10,096,774	11,270,083	**12,672,139**
Total liabilities	(3,224,104)	(3,866,011)	(5,250,374)	(5,593,625)	**(6,592,277)**
	4,659,950	4,742,284	4,846,400	5,676,458	**6,079,862**
Equity attributable to:					
Owners of the Company	4,166,072	4,186,660	4,216,317	4,523,301	**4,631,926**
Non-controlling interests	493,878	555,624	630,083	1,153,157	**1,447,936**
	4,659,950	4,742,284	4,846,400	5,676,458	**6,079,862**

Wasion Holdings Limited

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