



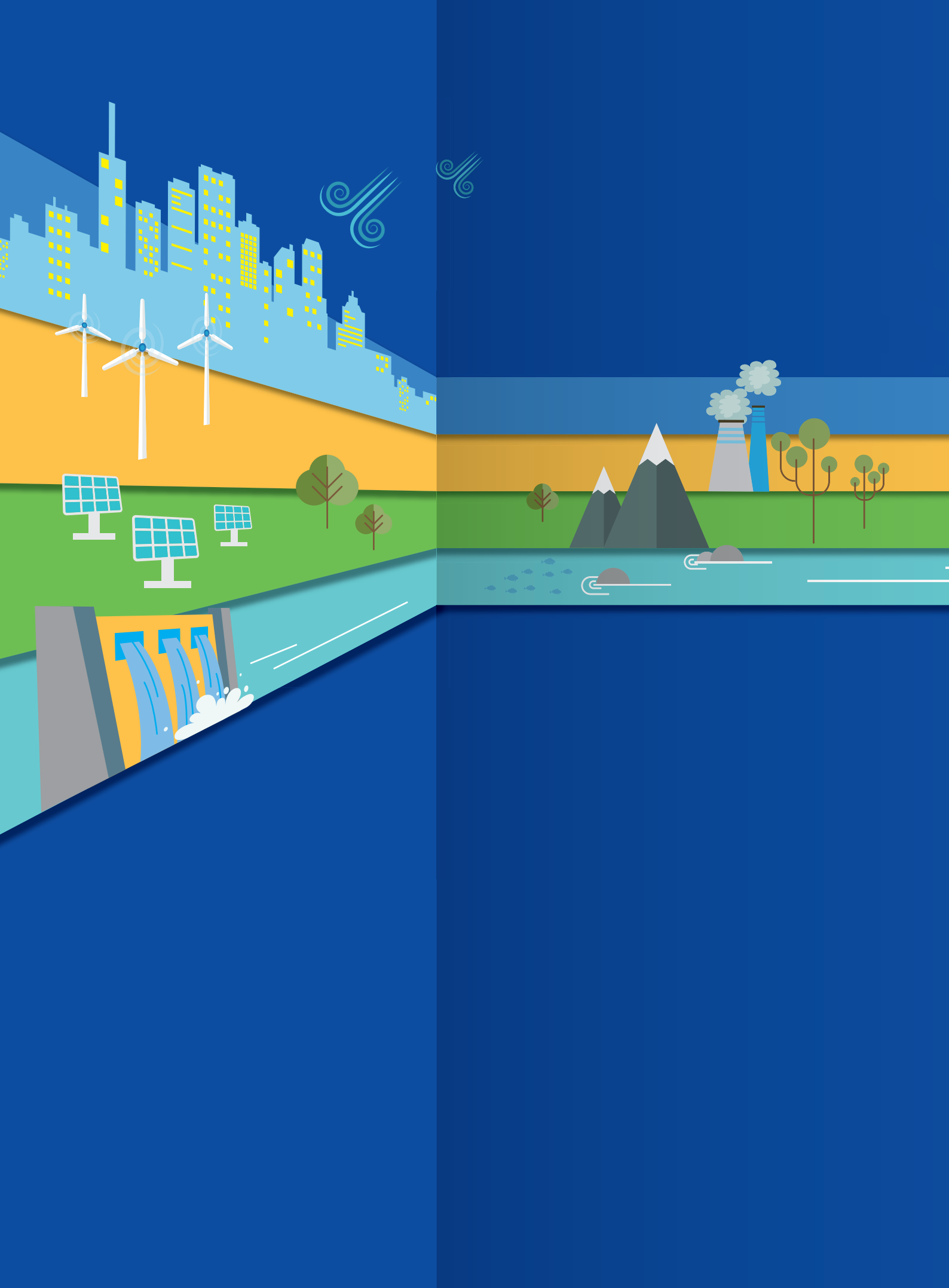
Wasion Holdings Limited
威勝控股有限公司

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



ENERGY
METERING &
ENERGY SAVING EXPERT

ANNUAL REPORT 2018





2	Corporate Information	89	Consolidated Statement of Profit or Loss and Other Comprehensive Income
3	Corporate Profile		
4	Qualifications and Awards	90	Consolidated Statement of Financial Position
8	Chairman's Statement	92	Consolidated Statement of Changes in Equity
14	Management Discussion and Analysis	94	Consolidated Statement of Cash Flows
26	Environmental, Social and Governance Report	96	Notes to the Consolidated Financial Statements
54	Biographical Details of Directors and Senior Management	196	Financial Summary
57	Directors' Report		
64	Corporate Governance Report		
84	Independent Auditor's Report		

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Mr. Kat Chit

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hui Wing Kuen
Mr. Huang Jing
Mr. Luan Wenpeng
Mr. Cheng Shi Jie

COMPANY SECRETARY

Mr. Choi Wai Lung Edward *FCCA, FCPA*

AUTHORISED REPRESENTATIVES

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

AUDIT COMMITTEE

Mr. Hui Wing Kuen (*Chairman*)
Mr. Huang Jing
Mr. Luan Wenpeng
Mr. Cheng Shi Jie

NOMINATION COMMITTEE

Mr. Ji Wei (*Chairman*)
Mr. Hui Wing Kuen
Mr. Huang Jing

REMUNERATION COMMITTEE

Mr. Hui Wing Kuen (*Chairman*)
Mr. Ji Wei
Mr. Huang Jing

INTERNAL CONTROL AND RISK MANAGEMENT COMMITTEE

Mr. Hui Wing Kuen (*Chairman*)
Mr. Huang Jing
Mr. Luan Wenpeng
Mr. Cheng Shi Jie
Mr. Zeng Xin
Mr. Kat Chit

PRINCIPAL BANKERS

In Hong Kong:

Standard Chartered Bank
Hang Seng Bank Limited
Hongkong and Shanghai Banking Corporation Limited
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

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

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

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

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

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

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

Amidst the substantial changes in energy production and energy consumption mode in China and the world, the material social responsibility and development opportunities arisen from energy saving and carbon reduction as well as the new demand of smart power grids, Wasion Group will adhere to its corporate motto “Energy Metering and Energy Saving Expert” while upholding its core value “Perfect Work with Passion, and Success Achieved with Integrity” by continuous innovation and improvement in order to become the pioneer in smart power grids and smart metering in China, one of the major international smart power grids and smart metering provider and a well-known international brand.

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

QUALIFICATIONS AND AWARDS



JANUARY

Wasion Group Limited ("Wasion Group") was entitled the "Best Employers of China" for the 9th successive year.

FEBRUARY

Wasion Group was awarded "National Green Factory" (國家級綠色工廠), demonstrating that the efforts devoted by Wasion to green system creation were highly recognized by governments at various level.

MARCH

Willfar Information Technology Company Limited ("Willfar Information") joined the Global Energy Interconnection Development and Cooperation Organization and the Guangdong Mobile IoT Union (廣東移動物聯網聯盟) and was also an outstanding member of China Intelligent Measurement Industrial Technology Innovation Strategic Alliances.

MARCH

The project concerning "research on and application of the efficient interconnection technology of data collection and communication of large-scale electricity consumption" carried out by Zhuhai Zhonghui Microelectronics Co. Ltd., a subsidiary of Willfar Information, won the third prize of the China Southern Power Grid Progress Award of Science and Technology.

MARCH

Hunan Weiming Energy Technology Co., Ltd., a subsidiary of Willfar Information, was honored with a national award, "Top 100 Quality Trustworthy Benchmarking and Demonstration Enterprises in China".

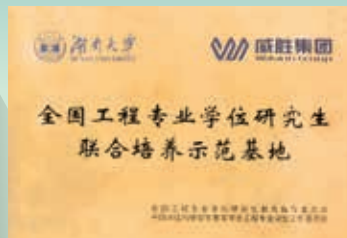
APRIL

Wasion Electric Limited ("Wasion Electric") organized and held a meeting to establish the Xiangtan Electronic Information Industry Alliances, and was awarded as a leading enterprise of the Xiangtan Electronic Information Industry Alliances.

APRIL

Wasion Group was honored with "National Labour Day Medal", demonstrating persistent efforts and struggling by the labor union, leaders and employees of Wasion Group.

QUALIFICATIONS AND AWARDS [CONTINUED]



MAY

The project concerning "research and application of key technologies for testing energy efficiency in the distributed photovoltaic power system" won the third prize of a Progress Award of Science and Technology in Hunan Province.

MAY

The "Energy Internet Industry Technology Park" was officially settled down in Lugu, pursuant to an agreement entered into between Willfar Information and the government of Changsha City to co-build a better Chang City.

SEPTEMBER

Wasion Electric was awarded as National Leading Intellectual Property Enterprise by the National Intellectual Property Administration.

OCTOBER

Wasion Electric was awarded the Xiangtan City Governor Quality Award.

OCTOBER

Wasion Group won the first prize of "Key Technology of Performance Evaluation of Smart Power Meters under Nonlinear Loads" granted by the China Institute of Apparatuses and Meters.

OCTOBER

Willfar Information was honored with "Science and Technology Award for the PRC Mechanical Industry" jointly granted by China Machinery Industry Federation and Chinese Mechanical Engineering Society.

NOVEMBER

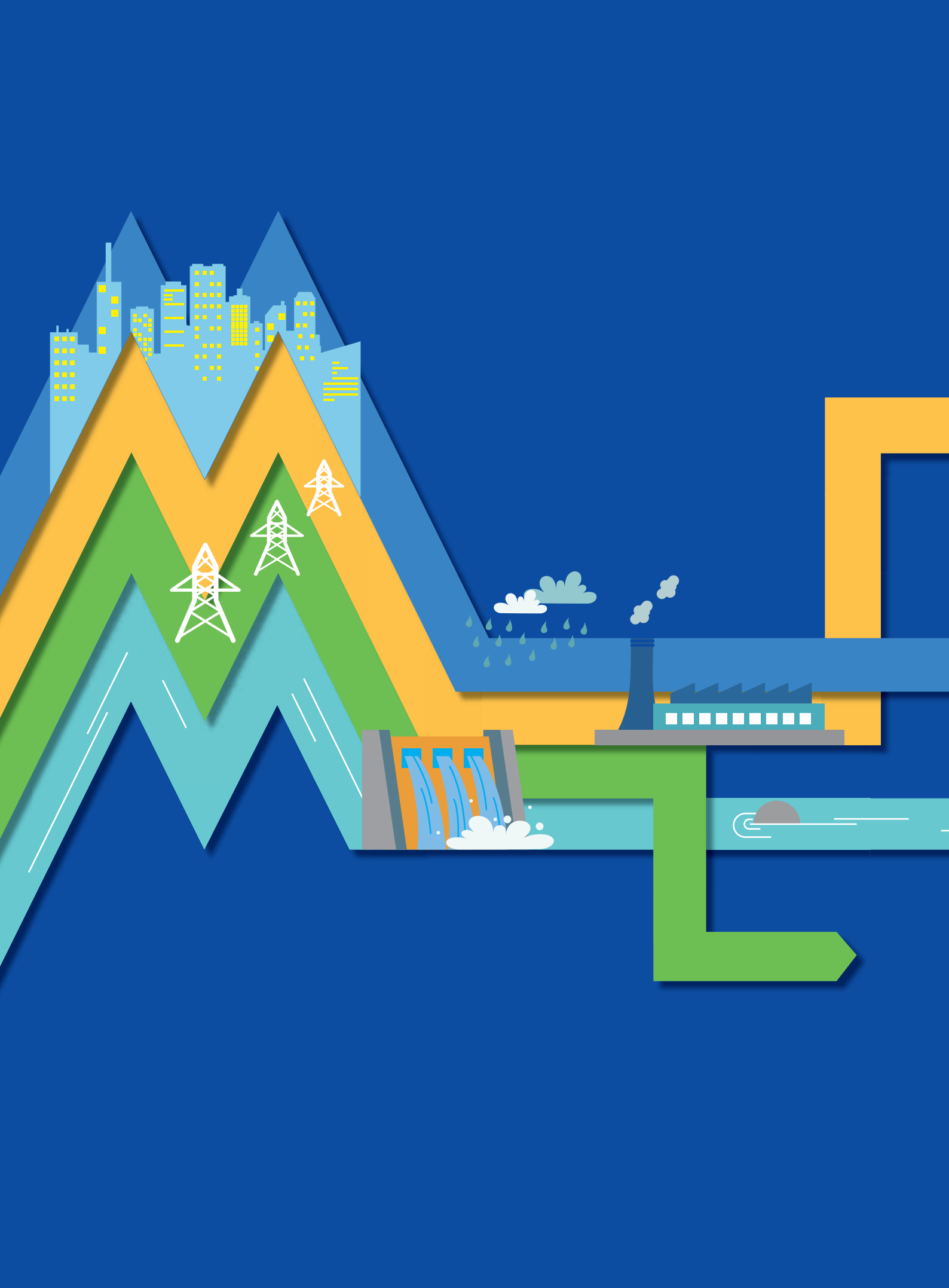
Wasion Group and Hunan University hold a signing ceremony to carry out cooperation between school and enterprise and was licensed with the demonstration base for co-cultivation of postgraduate students.

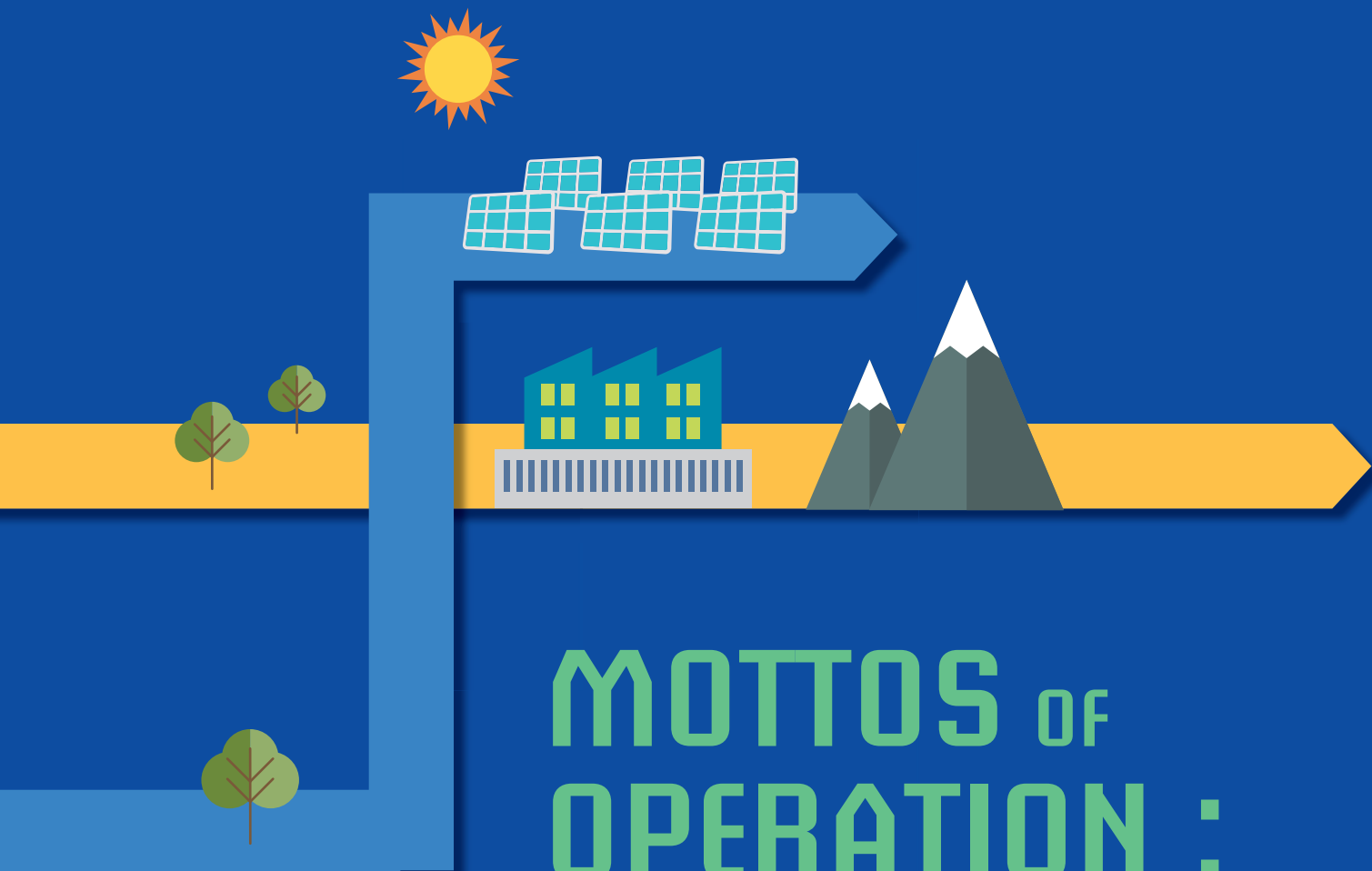
NOVEMBER

Willfar Information entered into strategic cooperation with Alibaba Cloud IoT under Alibaba Group.

DECEMBER

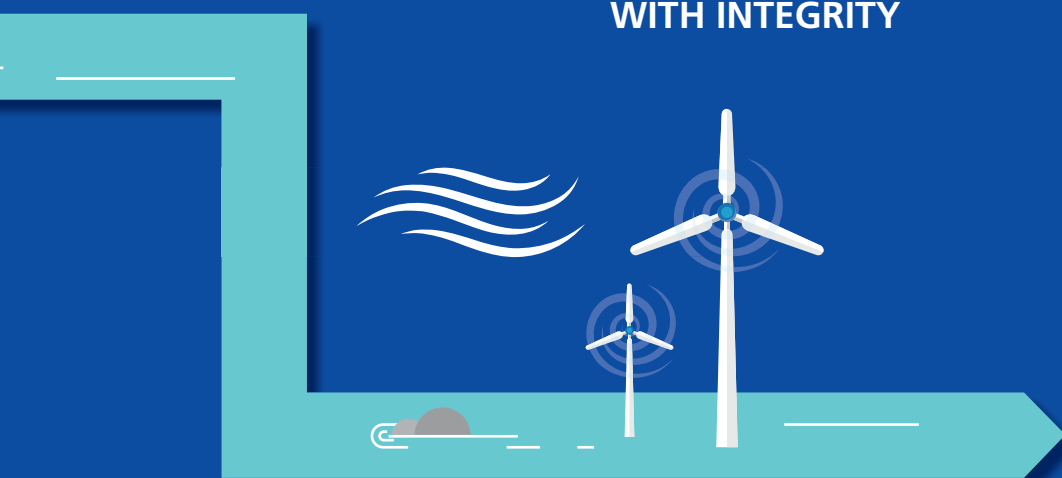
Wasion Electric was awarded the "Best Practices for Talent Development", making it the only company that won the award in Hunan Province during the year.





MOTTOS of OPERATION :

PERFECT WORK WITH PASSION
AND SUCCESS ACHIEVED
WITH INTEGRITY





CHAIRMAN'S STATEMENT



CHAIRMAN'S STATEMENT

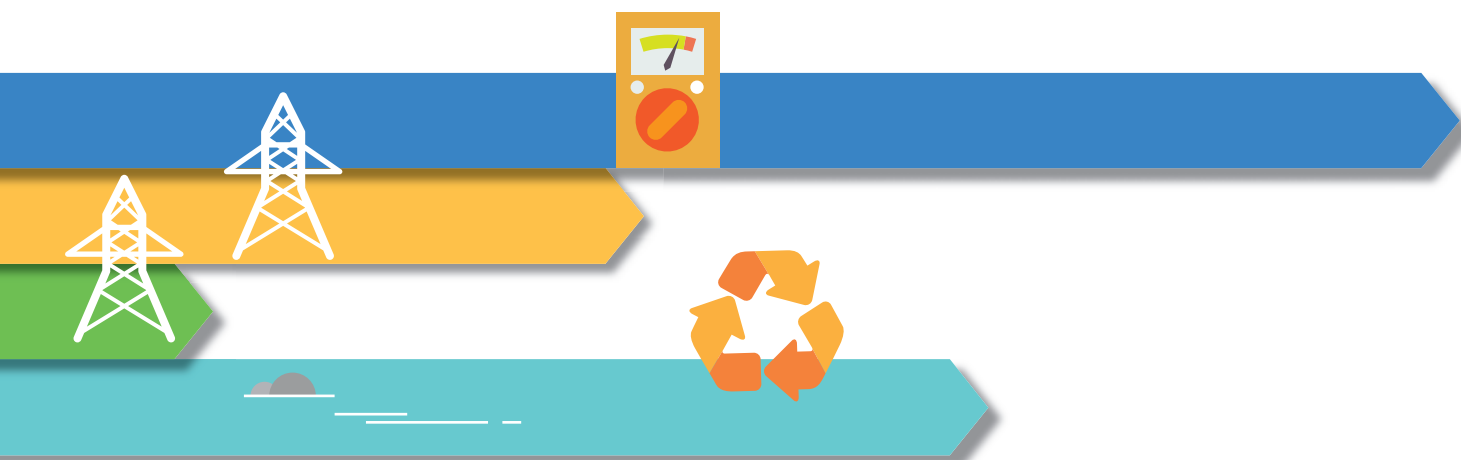
TO ALL SHAREHOLDERS,

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 2018.

During the year under review, the Group recorded turnover of RMB3,340 million, representing an increase of 14% over last year. Net profit amounted to RMB271 million. Excluding the one-off gains arising from the disposal of a subsidiary by the Group in 2017, net profit of the Group throughout the year 2018 increased by 31% over the same period last year. Earnings per share stood at RMB27 cents. The board of directors proposed to pay a final dividend of HK\$0.20 per share.

During the year under review, the Group's three principle business has developed in a healthy manner. Among these, the Power Advanced Metering Infrastructure ("Power AMI") business realized revenue of RMB1.73 billion, representing an increase of 9% over the same period last year; the Communication and Fluid Advanced Metering Infrastructure ("Communication and Fluid AMI") business realized revenue of RMB0.93 billion, representing an increase of 23% over the same period last year; and the Advanced Distribution Operations ("ADO") business realized revenue of RMB0.68 billion, representing an increase of 16% over the same period last year. Concerning customer structure, revenue from domestic power grid customers and domestic non-power grid customers increased by 12% and 22% respectively over the same period last year and revenue from overseas customers also increased by 4% over the same period last year.

As for the Power AMI business, with the promotion of new energies and the rapid development of new technologies, the meter and meter-reading technology is undergoing a new upgrading. Under the lead of the Group, preparation of the national standard for power meter in compliance with R46 was completed during the year under review. Meanwhile, the Group finished the 698 protocol sample meter examination procedures for State Grid and conducted a study on the next-generation meters of the State Grid and the Southern Grid.



CHAIRMAN'S STATEMENT (CONTINUED)

As for the Communication and Fluid AMI business, the Group continued to focus on the communication technology and make earlier arrangement for the next-generation smart power grid and the internet of energy. The Group's detection and sensing facilities reached to the sensing layer and network layer of the internet of things ("IoT") via sensor networks, then to the application layer through communication technology and smart energy management system to be widely applied to various scenarios. During the year under review, the Group entered into a strategic cooperation agreement on smart city development with Alibaba Cloud IoT, a global leading company in cloud computing and artificial intelligence technology, aiming to develop LoRaWan as a terminal of the IoT and lay a solid foundation for the development of a featured IoT centring on technology and innovation. The Group also collaborated with China Unicom to identify application of telecommunication products to various scenarios and integrate the ability for end-to-end comprehensive IoT solutions. Riding on the efforts of Chinese government in expediting the coverage of communication and Fluid AMI, the Group gives full play to its advantages in brand, technology, market and quality. During the year under review, the Group gained access to various water-supply companies at provincial and regional level, which further expanded its customer base and improved its products and solutions.

As for ADO business, the development of smart power grid shows a rising trend all over the world in recent years and in China, the government attaches great importance to the investment in power distribution and new energy. During the year under review, the miniature circuit breaker independently developed by the Group won a bidding held by the State Grid for the first time and the Group's primary and secondary integration products won the centralised bidding held by the State Grid. Besides, the Group proactively promoted cooperation with non-power grid customers, and successfully acquired numbers of power distribution projects of Changsha Metro Group through tendering and bidding. It also proactively identifies and explores new opportunities of the electronic chip industry. The Group developed its ADO business along with the development of IoT and launched various innovative products and operation & maintenance service of power distribution IoT at the grid-side. At the user end, we collect the information of users' demand for power distribution and operation & maintenance through cloud platform, which were transmitted to the cloud via remote control centre, followed by backstage analysis and monitor to provide a comprehensive energy efficiency analysis and energy management service.

In overseas market, resilient to increasing uncertainties of capital competition, geopolitics and trade protectionism, the Group developed and launched new products and solutions and identified new opportunities depending on specific countries and regions. In Asia, cooperation with a well-known enterprise in South Korea was warming up. In India, Egypt and Tanzania, the Group's power business maintained a stable growth. In Europe, the Group passed the periodical test for IDIS certification and deepened the cooperation with many well-known enterprises, including Schneider and Siemens. In addition, the Group proactively sought for acquisition opportunities in South American market to improve its competitive edge and create gigantic growth potential in the overseas market.

During the year, the two key power grid companies announced to accelerate the development into global-leading enterprises of internet of energy. Particularly, the State Grid proposed to establish an enterprise functioning as a shared hub and platform and build and operate "Strong Smart Grid and Ubiquitous Electric Power IoT", i.e. the so-called development initiative of "Three Types and Two Networks" (三型兩網). The "Ubiquitous Electric Power IoT" technology will make full use of modern information and telecommunication technology, such as big data, cloud calculation, IoT, mobile internet-based smart city, to establish five key systems (terminal, network, platform, operation & maintenance and security), and make the five principle businesses (power transmission, power transformation, power distribution, power consumption and operation management) interlinked and accessible. The Group will follow the pace of the State Grid and the Southern Grid in optimizing its products and making active deployment to promote the establishment of internet of energy.

CHAIRMAN'S STATEMENT (CONTINUED)

Looking forward, the two key power grid companies will put more efforts in comprehensive energy service as a new strategic business, which is in line with the mission of the Group and brings new opportunity for each business segment of the Group. As for the Power AMI business, the Group will closely follow the new policy issued by the two key power grid companies, stick to technologic innovation and keep leading the technology and product upgrade of the industry. Continuous efforts will also be put to the optimization and improvement of cost and quality. Concerning key technologies, the Group will deepen the cooperation with the State Grid, the Southern Grid and local power companies and participate in the establishment of new technologic standard in a proactive manner and make earlier deployment for the relevant technologies and products of the next-generation power meters and internet of energy to contribute to the realization of intellectualization of power grid.

As for the Communication and Fluid AMI business, the Group will keep abreast with the development of communication technology and make full use of its technical edge and experience in the industry in respect of fluid metering to further improve its competence for a comprehensive solution to smart water service. Taking the opportunity arising from the strategic partnership with Alibaba Cloud, the Group will focus on the improvement of its control over smart facilities, capability of big data analysis for platforms and application of artificial intelligence at the edge of internet to generate a comprehensive solution to provide better added value for our customers.

As for ADO business, in addition to its continuous focus on the opportunities for the development of smart power grid, the Group also pays attention to the gradually-rising non-power grid sector. It introduces established solutions in the power grid sector to the non-power grid sector, such as petroleum and petrochemicals, business centre, telecommunication, electronic chip and other key sectors. New products with industry features and subsequent operation and maintenance services will be launched in appropriate time to satisfy the rising quality demand of our customers and reflect our brand value. Besides, during order selection, the Group focuses on quality improvement and customer structure optimization for maximized profit.

As for overseas business, relying on the development of smart energy and smart city, seizing the opportunity from the "Belt and Road" and the "Guangdong-Hong Kong-Macau Great Bay Area", as well as the opportunity shown in the emerging markets, the Group will conduct overall construction in terms of technical solution capability, market channel network and new operation pattern development.

Looking forward, the Group will adhere to the principle of "Aggressive with keen Determination and Achieving Growth through Innovation" and be determined to develop in a sustainable and high-quality way. With concerted commitment and relentless efforts, we are confident to establish Wasion as an energy metering and energy saving expert in China and even in the world.

Yours faithfully,
Ji Wei
Chairman

Hong Kong, 27 March 2019





CORPORATE SPIRIT:

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



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Financial Highlights

	2018 RMB'000	2017 RMB'000
Revenue	3,340,321	2,927,989
Gross profit	991,286	834,671
Profit attributable to owners of the Company	270,817	301,575
Total assets	8,608,295	7,884,054
Equity attributable to owners of the Company	4,186,660	4,166,072
Basic earnings per share (RMB)	0.27	0.30
Diluted earnings per share (RMB)	0.27	0.30

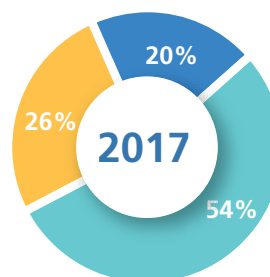
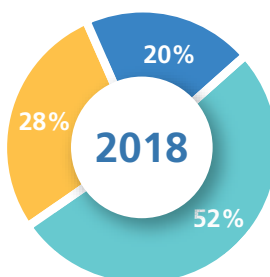
Key Financial Indexes

	2018	2017
Gross profit margin	30%	29%
Operating profit margin (Note)	13%	11%
Net profit margin	10%	12%
Return on equity of the shareholders	8%	8%
Current ratio	1.65	1.71
Quick ratio	1.51	1.55
Inventory turnover period (Days)	76	72
Trade receivable turnover period (Days)	319	344
Trade payable turnover period (Days)	331	357
Gearing ratio (Total borrowings divided by total assets)	16%	12%
Interest coverage (Profit from operations divided by finance costs)	7.03	10.04

Note: Excluding gain on disposal of a subsidiary and gain on bargain purchase of interests in subsidiaries which were non-recurring items.

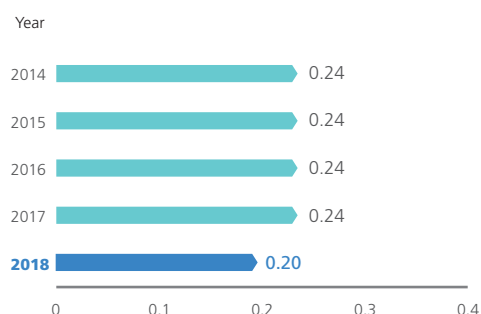
Revenue Breakdown by Business Segments

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

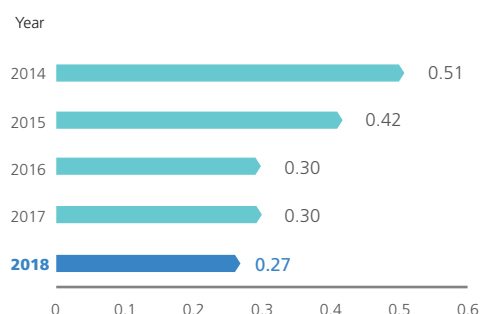


MANAGEMENT DISCUSSION AND ANALYSIS [CONTINUED]

Dividend (HKD)

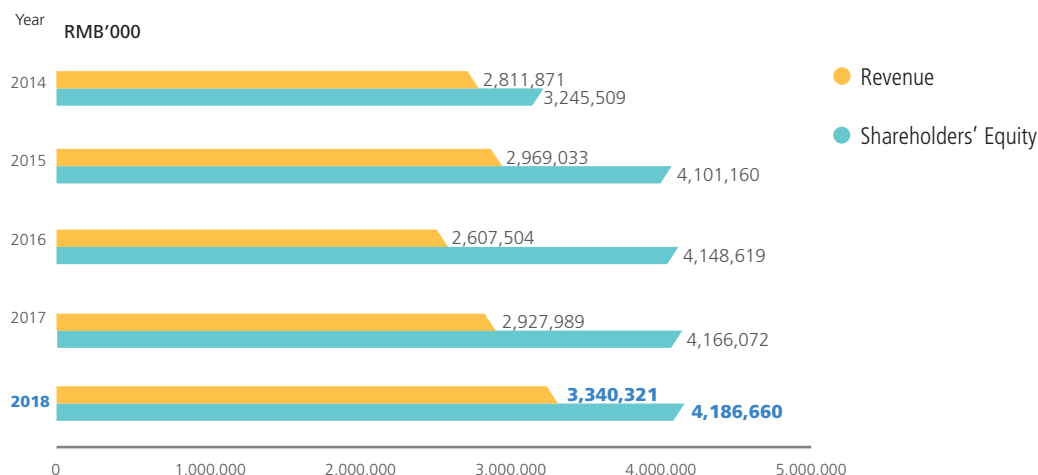


EPS (RMB)



FIVE YEARS' FINANCIAL SUMMARY

Five Years' Financial Information



	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenue	3,340,321	2,927,989	2,607,504	2,969,033	2,811,871
Profit for the year attributable to owners of the Company	270,817	301,575	307,265	423,533	482,439
Total assets	8,608,295	7,884,054	7,493,091	7,223,094	5,618,550
Total liabilities	3,866,011	3,224,104	3,315,377	3,083,522	2,312,309
Equity attributable to owners of the Company	4,186,660	4,166,072	4,148,619	4,101,160	3,245,509

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW

Revenue

During the year under review, revenue increased by 14% to RMB3,340.3 million (2017: RMB2,928.0 million).

Gross Profit

The Group's gross profit increased by 19% to RMB991.29 million for the year ended 31 December 2018 (2017: RMB834.67 million). The overall gross profit margin is 30% in 2018 (2017: 29%).

Other Income

The other income of the Group amounted to RMB122.90 million (2017: RMB141.84 million) which was mainly comprised of interest income, government grant and refund of value-added tax.

Other gains and losses

Other losses for the year ended 31 December 2018 amounted to RMB1.40 million (2017: other gains of RMB1.85 million) which comprised mainly net foreign exchange loss net of investment gain.

Operating Expenses

In 2018, the Group's operating expenses amounted to RMB685.04 million (2017: RMB648.37 million). Operating expenses accounted for 21% of the Group's revenue in 2018, representing a decrease of 1% as compared with 22% in 2017.

Finance Costs

For the year ended 31 December 2018, the Group's finance costs amounted to RMB59.59 million (2017: RMB43.29 million). The increase was attributable to the increase of bank borrowings and loan interest rate during the year.

Operating Profit

Earnings before finance costs and tax excluding gain on bargain purchase of interests in subsidiaries and gain on disposal of a subsidiary which were non-recurring items for the year ended 31 December 2018 amounted to RMB419.14 million (2017: RMB322.98 million), representing an increase of 30% as compared with last year.



MANAGEMENT DISCUSSION AND ANALYSIS [CONTINUED]

Profit Attributable to Equity Shareholders of the Company

The profit attributable to equity shareholders of the Company for the year ended 31 December 2018 decreased by 10% to RMB270.82 million (2017: RMB301.58 million) as compared with last year.

Liquidity and Financial Resources

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

As at 31 December 2018, the Group's current assets amounted to approximately RMB5,779.53 million (2017: RMB5,355.46 million), with cash and cash equivalents totaling approximately RMB1,401.36 million (2017: RMB1,243.89 million).

As at 31 December 2018, the Group's total bank loans amounted to approximately RMB1,418.17 million (2017: RMB908.91 million), of which RMB1,069.87 million (2017: RMB841.21 million) will be due to repay within one year and the remaining RMB348.30 million (2017: RMB67.70 million) will be due after one year. In 2018, the interest rate for the Group's bank borrowings ranged from 3.50% to 6.64% per annum (2017: 2.01% to 5.68% per annum).

The gearing ratio (total borrowings divided by total assets) increased from 12% in 2017 to 16% in 2018.

Emolument Policy

As at 31 December 2018, the Group had 3,640 (2017: 3,880) staff members. The staff costs (including other benefits and contributions to defined contribution retirement plan) amounted to RMB340.22 million (2017: RMB303.81 million) in 2018. Employee remuneration is determined on performance, experience and prevailing market conditions of the employees, with compensation policies being reviewed on a regular basis. The aggregate amount of the emoluments of the Company's directors was RMB3.97 million (2017: RMB4.01 million) in 2018.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

Charge on Assets

As at 31 December 2018, the pledge deposits are denominated in Renminbi and are pledged to banks as security for bills facilities granted to the Group. In addition, the Group's land and buildings are pledged to banks as security for bank loans to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS [CONTINUED]

Capital Commitments

As at 31 December 2018, the capital commitments in respect of the acquisition of property, plant and equipment and additions of construction in progress contracted for but not provided in the consolidated financial information amounted to RMB23.65 million (2017: RMB24.25 million).

Contingent Liabilities

As at 31 December 2018, the Group had no material contingent liabilities.

MARKET REVIEW

The global economy continued to enjoy moderate growth, though momentum noticeably began to slow down in 2018 ("year under review"). There were clear differences in how the major economies performed in terms of their inflation rates and monetary policy. With Federal Reserve interest rates rising and capital outflow accelerating in the new economies, financial markets continued to fluctuate. China maintained its position as the world's second largest economy with GDP reaching RMB90.03 trillion during the year under review, a year-on-year increase in GDP of 6.6%, and representing 16% of the total global economy.

The 19th CPC National Congress report introduced new measures to build a stronger and more powerful national capital, cultivate world-class enterprises that are globally competitive; accelerate construction of power grid infrastructure networks; promote energy production and consumption; and build clean, low-carbon, energy systems that are safe and efficient. In 2018, China's total electricity consumption was 6,844.9 billion kWh, representing a year-on-year increase of 8.5%, the highest annual growth rate in seven years.

The two largest power grid companies made significant progress in constructing smart grids. State Grid Corporation of China (hereinafter referred to as "State Grid") invested RMB488.9 billion to strengthen its new energy grid connection and transmission projects. To date, it has built energy grids and installed 5,430 km of transmission lines that support 506 new power generation projects. In southern China, the booming Guangdong-Hong Kong-Macao Greater Bay Area is forming a world-class conurbation. China Southern Power Grid Company Limited (hereinafter referred to as "Southern Grid") has become an electricity benchmark for the cities to participate in the high-end industry competition worldwide. At the same time, Southern Grid increased construction work in Guangdong province with remarkable performance, and provinces and cities such as Guangdong, Guangzhou, Shenzhen and Hainan have all achieved full low-voltage data collection coverage. Southern Grid is further developing smart metering in line with the new requirements. With metering equipment being gradually replaced by State Grid and Southern Grid and smart metering technology increasingly introduced, the construction of smart grids for domestic power supply will create new development opportunities. More importantly, the two largest power grids have been accelerating their business transformation. The "Three types and Two Networks" policy promoted by State Grid aims to speed up the construction of smart grids and Ubiquitous Electric Power IoT. Both power grids have strategies for developing integrated energy services, which is entirely in line with the Group's mission and creates new development opportunities for its different business segments.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In July 2018, the National Development and Reform Commission issued its “Opinions on Innovating and Improving the Price Mechanism for Promoting Green Development” which proposes improvements in price formation mechanism for the urban water supply. It specifically aims to establish a price formation and dynamic adjustment mechanism that fully reflects the true costs of water supply and encourages improvements in water quality; to gradually adjust the price of residential water cost above the current average; to adjust the price of non-residential water to cover costs and deliver a reasonable profit level; to further increase the price difference between special water users and non-residential water users; and to improve the escalating pricing system for residential water. Since the recent NPC and CPPCC, the construction of direct drinking water systems within cities has become a hot topic for members and representatives, attracting considerable attention at a national level.

State Grid has completed the construction for smart grids and has entered the upgrade phase. The new data collection equipment (collectors, concentrators, terminals) will gradually introduce 4G networks for data transmission. Data communication modules for smart meters will also be upgraded. According to the State Grid tender requirements, the annual demand for new data collection equipment will be over 10 million multiplies. Southern Grid has begun transitioning from 2G/3G to 4G network for public grid data collection, creating opportunities to replace products and equipment.

As an energy metering and energy saving expert, the Group’s three major businesses achieved satisfactory results during the year under review, recording a turnover of RMB3,340.3 million (2017: RMB2,928.0 million) which represents a 14% increase as compared with 2017; and a net profit of RMB270.82 million (2017: RMB301.58 million) which represents a 10% decrease as compared with 2017.

BUSINESS REVIEW

Power Advanced Metering Infrastructure (“Power AMI”)

Power AMI conducts business with a wide range of power and non-power enterprises. An increasingly competitive and segmented marketplace is highlighting the Group’s business edge and competitive advantages. During the year under review, the Group successfully won RMB388 million worth of contracts within two centralised smart meter tenders organised by State Grid, maintaining its industry leading position. In the Southern Grid market, the Group won tenders in five provinces and two cities by virtue of its overall strengths in branding, technology, market share, quality, scale and management. These centralised framework project tender contracts of Southern Grid were worth a total of RMB110 million. The Group’s outstanding performance in the two largest traditional grid markets reveals its competitive advantage and market strength. The Group also ranked top among the companies for winning tenders, and increased its market share from local power grid companies in different provinces and cities such as Shaanxi, Sichuan, Guangxi, Inner Mongolia and Hunan, testament to our brand reputation and business strength.

During the year under review, the Group’s Power AMI business recorded a turnover of RMB1,734.9 million (2017: RMB1,591.1 million), representing an increase of 9% as compared with 2017, and accounting for 52% of the Group’s total turnover (2017: 54%).

MANAGEMENT DISCUSSION AND ANALYSIS [CONTINUED]

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

During the year under review, the Group’s Communication and Fluid AMI business achieved satisfactory results with a turnover of RMB929.9 million (2017: RMB755.8 million), representing an increase of 23% as compared with 2017, and accounting for 28% of the Group’s total revenue (2017: 26%).

During the year under review, the Group’s data collection terminal and concentrators successfully won RMB135.86 million worth of contracts within two centralised tenders organised by State Grid, maintaining its market leading position. Aside from the traditional grid market, the Group’s communications business also focused on other industries, achieving strategic successes during the year under review. In October 2018, the Group’s data collection terminal successfully assisted with the opening of the new Hong Kong–Zhuhai–Macao Bridge, monitoring its power supply systems. The Group also won a project with China Unicom Internet of Things Co., Ltd for its 4G power terminal to provide specialized communication components and solutions. In December 2018, the Group officially began working with Alibaba Cloud, a leading global cloud computing and artificial intelligence technology company, signing a smart city strategic cooperation agreement to develop LoRaWan Internet of Things (“IoT”) terminal. This has helped the Group to establish the foundation for its IoT business which is underpinned by technological innovation.

Building an energy internet is a major goal of State Grid and many other energy enterprises. State Grid’s “Two Networks” strategy of “Building Strong Smart Grid + Ubiquitous Electric Power IoT” offers a clear direction for the Group’s IoT business. The Group plans to produce the communication modules that are widely used by national and local power grid companies as well as industrial and commercial users. Creating a Ubiquitous Electric Power IoT with comprehensive responsiveness and highly-efficient information processing that can be widely applied across distribution networks is a priority for the Group, and station areas are the core of distribution networks. The Group has therefore set up a number of station area business departments. It has also launched new products and solutions including smart distribution and monitoring terminals, and end-terminal monitoring and sensing stations. The first batch of these products will commence operations in Jiangsu, Guangdong, Shanxi and Beijing.

The six ministries and commissions in China, including the National Development and Reform Commission, the Ministry of Water Resources, the Ministry of Finance, the Health and Family Planning Commission, the Ministry of Environmental Protection, and the Ministry of Housing and Urban-Rural Development, jointly issued a “Notice on Consolidation and Improvement of Rural Drinking Water Safety and Planning during the 13th Five-Year Plan Period”. By 2020, tap water penetration is expected to exceed 80%, with public water supply services being extended from urban areas to reach 33% of rural areas.

The Group has successfully entered into agreements with water companies in Huangshi, Shiyan, Chenzhou, Bole, Ankang, Hejian, and Liaoyang which will help further expand its customer base. Sales of water meter products reached new highs during the year under review, and these metering products have also been newly provided to provincial water companies, such as Lanzhou, Taiyuan, Xining and Urumqi. The Group also improved the capabilities of its smart solutions for water and gas meters. An auto payment system for customers and an online platform to monitor water leakage have both been introduced. A new series of smart gas meter products based on the new structure has also been launched and these include IC card smart gas meters, LoRa wireless gas meters and NB-IoT IoT gas meters.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Advanced Distribution Operations (“ADO”)

Smart grids are increasingly being adopted around the world. A report issued by research company Markets and Markets predicts that the market for smart power grids will increase from US\$23.8 billion in 2018 to US\$61.3 billion in 2023. In terms of smart power grid construction, total investment is expected to reach RMB1,400 billion, with investment in intellectualization aspect of RMB175 billion. During the year under review, State Grid has promoted the upgrade construction of power distribution networks in ten cities including Beijing, Tianjin and Shanghai.

The Group’s ADO business achieved satisfactory results in 2018, recording a turnover of RMB675.5 million (2017: RMB581.1 million), representing an increase of 16% over last year and accounts for 20% (2017: 20%) of total turnover.

Since 2017, the Group has followed a strategic plan to improve primary and secondary equipment integration, with significant progress in this area being made during the year under review. Its entire product range was certified by State Grid and Southern Grid, and also passed the special test set by China Electric Power Research Institute. The Group participated in establishing an industry standard for smart area stations, and primary and secondary integration organized by the State Grid Transportation Inspection Department. It successfully constructed pilot projects in Yizhuang and Changzhou and won a number of tenders of for smart distribution demonstration projects from provincial power grid companies in Shaanxi and Guangxi. In late 2018, the Group won a scalable tender from Jiangsu’s primary and secondary ring main unit, and plans to participate more tenders in 2019.

In May 2018, the Group was awarded the centralised inventory agreement tender from Chongqing Electric Power Company. This is the first time that the Group’s smart micro circuit breaker, which was independently researched and developed, has won a tender from the State Grid. The Group also won the 26MWP agricultural solar power generator engineering, procurement and construction (“EPC”) contract to alleviate poverty in Qichun County, Hubei and charging station’s energy maintenance service project from Changsha Transportation Group. Those achievements further enhanced the Group’s ADO service model and EPC capabilities.

Based on careful market evaluation and analysis, the Group has devoted considerable efforts to exploring non-power grid markets. During the year under review, the Group continued to win new tenders from rail transit project in Changsha.

International markets

Deloitte’s recent “Outlook of Belt and Road International Power Cooperation” in 2018 reports that the construction of power grids by Chinese companies within the ‘One Belt and One Road’ initiative has achieved good results. It notes, however, that there is growing uncertainty due to a range of factors including carbon restrictions, competition for capital, and geopolitical issues such as trade protectionism. Enterprises must therefore be fully prepared to deal with rapidly changing market conditions. The Group launched new products and identified opportunities in different countries and regions. During the year under review, turnover in international markets was RMB394.8 million (2017: RMB381.2 million), representing an increase of 4% over 2017. The Group successfully upgraded its marketing strategy; established a strong market base with cutting-edge sales capabilities; and improved its overall product range, and services and sales capabilities with a focus on communications, system integration, and water and gas products.

MANAGEMENT DISCUSSION AND ANALYSIS [CONTINUED]

In Asia, the sales volume in Bangladesh improved significantly as compared with last year, and the Group is expected to provide smart power meters, water meters and ADO products to Bangladesh. In South Korea, the Group continued to partner with high-calibre local enterprises, providing smart metering products and solutions to a wide market. In Africa, the Group's electricity business continued to steadily grow in Egypt and Tanzania. It also actively participated in tenders for electricity and water metering projects in some French-speaking countries. The Group's market share in Indonesia also continued to grow, laying the foundation for future large-volume orders. In West African markets such as Ghana and Benin, the Group's products and solutions are in the exploratory stage. In Europe, the Group passed the stringent European IDIS certification tests. In South America, the Group actively sought acquisition opportunities with local enterprises to enhance competitiveness.

Research and Development ("R&D")

Innovation is the force that drives growth and development. Upgrading and transforming the power distribution network and promoting the construction of smart grids required substantial investment and innovation. During the year under review, the Group increased its investment in R&D through recruiting new talents and providing additional funding. A total of 231 patents and 188 software copyrights were registered, resulting in 1,281 patents for new products and energy efficiency services and 1,049 software copyrights.

In terms of Power AMI area, smart meters and meter reading are being adopted as part of a drive to rapidly develop new energy technologies and applications. Since Organization Internationale de Métrologie Légale formulated its R46 technologies, the Group has played a leading role in meeting the national standard smart meters for R46. It completed 698 protocol test procedures for State Grid during the year under review, and conducted research into the next generation of smart meters for State Grid and Southern Grid. For example, to meet the new R46 standard energy requirements and electricity marketization, a multi-core solution was used to conduct in-depth research into communication, two-way interaction, remote upgrades and other technical areas. R&D was conducted into several key technologies for State Grid's new generation of energy meters including dynamic load measurement, Bluetooth communication applications, electricity load identification and improving smart manufacturing processes. The Group also partnered with different institutions and universities on various projects such as analysing big data for power meters with Central South University; and researching and developing energy smart routers with Shenzhen Power Supply.

For non-power grid area, the Group successfully developed its shared-charging socket solution. This meets the smart and custom management requirements for personal pre-paid electricity service, as well as mobile device and electric vehicle charging in public spaces.

For the Communication and Fluid AMI area, the Group successfully developed a new series of products including Smart Distribution Terminal (TTU), Branch Monitoring Terminal and Rear-end Sensing Terminal which provide product support in building and marketing total solutions for Power IoT. The completion of R&D on LoRaWan communication modules has successfully created a low-cost communications solution for Communication and Fluid AMI data collection services.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In terms of ADO market, the Group developed key technologies in Ubiquitous Electric Power IoT, and wide ranging IoT solutions for low-voltage distribution. The Group also developed a comprehensive range of power distribution terminals including box-type FTU, hood-style FTU, centralized DTU, and distributed DTU. Additionally, the Group designed and commenced manufacturing of a segmented ring network cabinet based on sealing structures for the Southern Grid market, and continued to enhance its overall capabilities in grid-level energy storage system solution.

During the year under review, the Group substantially invested in R&D for overseas markets. The Group completed a R&D programme on water and gas data collection terminals and independently developed products for collecting comprehensive data usage on water, electric and gas energies for overseas markets. In terms of power infrastructure AMI capabilities, the Group now possesses various mainstream communication technologies, further improving the overall structure of its systems, communication and energy metering products, and allowing it begin creating an implementation team. The Group also focused on the next generation smart prepayment AMI products, successfully accomplished the software platform upgrades and cost reductions. Those products have been successfully promoted to African markets such as Ghana, South Africa and Southeast Asian markets such as Bangladesh. In the high-end European market, the Group's aMeterX50 series smart meter product was recognized by the Austrian market. It is believed that under the development of the global industrial chain, the Group will continue the research on the reliability and stability of its products, strengthen the onsite communication and interaction with local clients, continue to provide quality technical services to customers.

PROSPECTS

It is estimated that China's total domestic electricity consumption will exceed 700 billion KWH in 2019, with a CAGR of 6.08% in the next five years (2019–2023). It is also estimated that China's total domestic electricity consumption will reach 9130.8 billion KWH by 2023, underscoring its rapid economic development. In the beginning of 2019, State Grid and Southern Grid announced to accelerate goals of being recognised as a world-class energy internet enterprise. In particular, State Grid plans to build a "Three Types and Two Networks" enterprise, and "Ubiquitous Electric Power IoT". These technologies will make full use of big data, cloud computing, IoT, mobile internet, smart city which belong within the five major systems namely: modern information technology; cash communication technology; construction of terminals, networks and platforms; operations and maintenance; and security. All of these will be used to open up the five major business opportunities: transmission, transformation, distribution, electricity usage, and operational management.

The Group's three major businesses will continue to be led by energy demand, making any necessary adjustments in line with market fluctuations. In its two biggest grid markets, the Group will continue seeking to reduce costs and enhance quality. It will also closely follow customer needs and actively collaborate in setting new technical standards in key technologies for State Grid, Southern Grid and local electric power companies. The Group will pioneer the next generation of smart meters and energy IoT related technologies and products and contribute to new thinking on intellectualization of power grids. The Group has greatly expanded its Power AMI product solutions certification capability, client installation services, and operations and maintenance services. The Group, with no doubt, will also benefit from the "Ubiquitous Electricity Power IoT" in the non-power grid market. It will continue to grasp opportunities in rail transportation, schools, telecommunications, petroleum and petrochemical industries, while striving to secure more orders.

MANAGEMENT DISCUSSION AND ANALYSIS [CONTINUED]

For Communication and Fluid AMI business, it is expected that more cities will bring NB-IoT intelligent solutions online. The Group will continue improving its overall solutions capabilities on scalable area implementation. Water companies in Tianjin, Jiangxi and other cities will start the replacement of smart water meters in 2019 and planning to install 5G networks and initiate 5G pilot projects. The Northwestern part of China, as a key related district of the “One Belt and One Road” initiative, it offers considerable opportunity to expand the use of Fluid AMI solutions in new energy, underground water and other resources. For example, Yinchuan city is gradually introducing sophisticated functionality smart water meters. The Group will also fully make use of the tender from China Unicom’s communication project and the strategic partnership with Alibaba Cloud, focusing on building end-to-end IoT solutions and service capabilities.

In its report to the NPC and CPPCC in 2019, State Grid said that it plans to comprehensively champion a “Three Types and Two Networks” policy, build high-quality power distribution networks, and encourage construction of power distribution networks in ten world-class cities including Beijing and Shanghai. At the same time, it plans to implement a new round of agricultural power network upgrades, which will accelerate the construction and application of automated power distribution systems. Moreover, several comprehensive new energy service demonstration projects have been rolled out, new innovative products and business models are expected to be unveiled in the near future.

With the rapid growth of solar capacity in emerging markets, the Group’s ADO business is increasingly focusing on these markets. Since the “Government Work Report” introduced the concept of “Defending Blue Sky”, the development of renewable energy sources in China is being given higher priority and renewable energy will contribute an increasing percentage of the country’s total energy output. The Group will continue focusing on emerging non-power grid areas such as petroleum and petrochemicals, business centres, communication industries, etc. It will also regularly launch new products and continue enhancing after-sales and maintenance services to meet customers’ ever higher quality expectations, thereby living up to its brand values. In order of priority, the Group will strive to continuously improve quality, optimize customer mix, and maximize profits.

Committed to harnessing the “Strong Smart Grid” and “Ubiquitous Electric Power IoT” of State Grid, and constructing smart cities and comprehensive new energy networks, the Group will increase its R&D into new technologies and products in the fields of IoT communications, artificial intelligence applications, IoT edge terminals, and energy routers. We will continue to seek for cost reduction, improve the product range and scale of AMI total solutions.

As more and more international power projects enter the implementation stage, power related enterprises need to better understand market trends to establish a “Going Out” strategy and improve their capabilities to internationalize their business model. The Greater Bay Area and “One Belt and One Road” initiatives will bring new demand for the Group’s products and total solutions, and create new opportunities for the Group.

In a complex domestic and international economic environment, the Group will be guided by the principle of “Aggressive with Keen Determination and Achieving Growth through Innovation”. We will adhere to high quality and sustainable development and meet all challenges through being united behind a single vision, seizing new development opportunities, and confidently pursuing our goal of being a world-class energy metering and energy saving export in China and throughout the world.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SUMMARY

It is the fourth corporate social responsibility report presented by Wasion Holdings Limited ("Wasion Group", "Wasion" or the "Group"), who ensures the authenticity, objectivity and timeliness of the information in the report. Based on the principles of materiality, quantitative, balance and consistency, the report discloses the Group's willingness to discharge responsibility and its responsibility performance (both environmental and social) in 2018 as well as the commitments in 2019, in order to show the Group's practices and efforts in promoting energy conservation and energy efficiency as well as social responsibility performance, and demonstrate the Group's determination to promote sustainable development of economy and society and continuously meet the needs and expectations of various stakeholders.

(1) Organizations in the report

Unless otherwise stated, the report covers Wasion Holdings Limited and its subsidiaries, of which the businesses scope are described in "About Wasion".

(2) Period of the report

The period of the report is from 1 January 2018 to 31 December 2018.

(3) Cycle of the report

The report is presented annually and generally issued before the end of April in the following year.

(4) Clarification of the data in the report

If there is any discrepancy in the economic performance data of 2018 disclosed in the report, the financial reports shall prevail.

(5) Standard of the report

The report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, issued by The Stock Exchange of Hong Kong Limited, the G4 Edition of Global Reporting Initiative (GRI) Sustainable Development Reporting Guidelines, and the CASS-CSR3.0.

(6) Statement of change

Besides the further disclosure of key performance index from the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the scope and other category of the report have nothing significant change to the 2017 Corporate Social Responsibility Report of Wasion Holdings Limited.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT [CONTINUED]

To obtain the hard copy of 2018 Corporate Social Responsibility Report of Wasion Holdings Limited, please contact us at:

Address: No. 468 Tongzi Po West Road, National High-tech Industrial Development Zone of Changsha, Hunan Province, China.
Zip code: 410205
Tel: 0731-8861 9888
Fax: 0731-8861 9555

I. ABOUT WASION

Wasion Holdings Limited is a leading Chinese equipment, system and operation supplier of smart metering, smart power distribution & utilization and energy efficiency management, smart city and internet of things and is committed to becoming an “Energy Metering and Energy Saving Expert” of China and even the world. Listed successfully on the main board of Hong Kong Stock Exchange in 2005, Wasion is the first professional group of energy metering and energy efficiency management in China listed outside mainland China, and the first company in Hunan Province listed on main board outside mainland China.

Wasion renders service to energy supply sectors, industrial and commercial users, including large public construction, petroleum & petrifaction and transportation, and resident users with its high-efficiency comprehensive energy solution, and provides support to the development of smart city, smart community and smart living with innovative products and solution.

Wasion insists on its internationalized development strategy and endeavor to expand international market. Currently, the Company is able to render services worldwide with its global-leading energy measurement and management techniques.

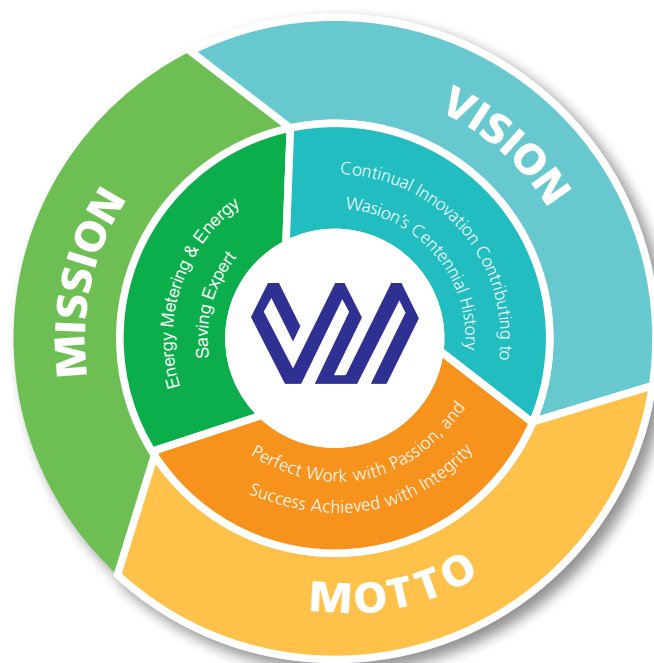
In view of the significant changes in the energy production and consumption pattern in China and the world, the great social responsibilities and development opportunities of energy conservation and emission reduction and the new demands of smart city construction for the communication technology of the internet of things, Wasion will always remember the mission of being an “Energy Metering and Energy Saving Expert”, never stop sustainable innovation, and endeavor to develop Wasion into a leading enterprise in smart metering, smart power distribution & utilization and energy efficiency management, smart city and internet of things in China, one of the major suppliers of smart metering, smart power distribution & utilization and energy efficiency management, smart city and internet of things in the world, and an internationally-known brand transcending national borders.

Wasion Group will persist in the core value of “Perfect Work with Passion, and Success Achieved with Integrity”. At the mean time of fast development, it will also perform its corporate social responsibility proactively and let every city, community, enterprise and family be benefited from the products, technologies and services provided by Wasion in a sustainable way.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

II. WILLINGNESS TO DISCHARGE RESPONSIBILITY

2.1 Concept of Social Responsibility



The ecological civilization construction, energy conservation and environment protection have always been the principles of sustainable development of human kind. As a forerunner of energy measurement and energy efficiency management, Wasion is committed to the sector it is good at and charges itself with the mission **“to make irreplaceable outstanding contributions to energy conservation and energy efficiency of the human kind”**. We do believe that by more accurate energy measuring technologies and leaner energy efficiency management services and advanced communication technology of the internet of things, we can realize the management and operation of smart city and help the whole society to gradually improve energy efficiency and boost the development of the society in a harmonious and sustainable manner.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT [CONTINUED]



Following the development trend of the times, we consider the economic value, environmental value and social value as the comprehensive value of an enterprise and seek to maximize such comprehensive value. Sticking to the motto of **"Perfect work with Passion, and Success Achieved with Integrity"**, we extend the value of shareholders to the value of stakeholders, focus on not only its own value, but also the ability to play its social role to promote and realize the sustainable development of the society and word hard for the great vision of **"Continual Innovation Contributing to Wasion's Centennial History"**.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

30

WASION HOLDINGS LIMITED

Create value for customers

Provide more accurate, more reliable and smarter products and system services, and provide safer, more efficient, more professional system solutions and integrated services.

Create value for staff

Earnestly respect the value of staffs, build a learning organization, and constantly stimulate the potential creativity of the staffs to promote their growth.

Create value for suppliers and distributors

Focus on the measurement of electricity, water, gas and heating and energy efficiency management, continuously enhance the core competence and capability in system integration, and achieve sustainable development in the harmonious interaction with all stakeholders.

Create value for shareholders

Following the internal and external resources environment and the forefront of industry competition, constantly improve the comprehensive management vitality and profitability.

Create value for the society

Make a sincere and lasting contribution to decent employment and social civilization and harmony with a strong sense of social responsibility, and make irreplaceable outstanding contributions to human energy conservation and efficient utilization.

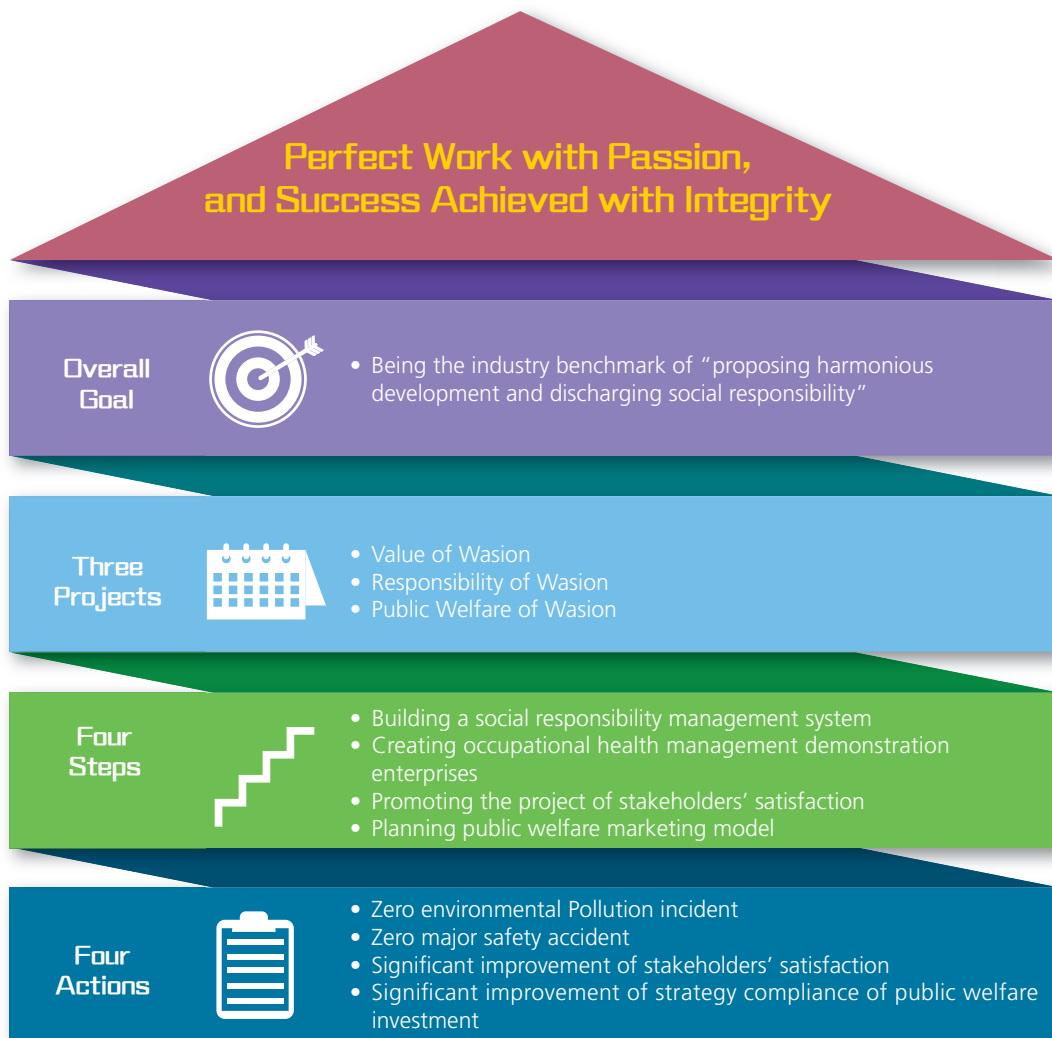
Create value for the industry

Following the rapid development of global IC & IT applications, and continuously improve the R&D capabilities and contribution capacity of science and technology.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

2.2 Development Strategy of Social Responsibility

Wasion considers the discharge of its social responsibility as a strategic opportunity to gain sustainable competitiveness and generate positive social effects. Therefore, it places corporate social responsibility into the strategic planning system of Wasion and determines the overall goal of its social responsibility strategy as "Being an industry benchmark of proposing harmonious development and discharging social responsibility". Referring to both internal and external environment of the Group and by analysis of the comprehensive long-term value of the "six stakeholders", Wasion determines **"Four Actions, Four Steps and Three Projects"** to realize its mission of "Perfect Work with Passion, and Success Achieved with Integrity".



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

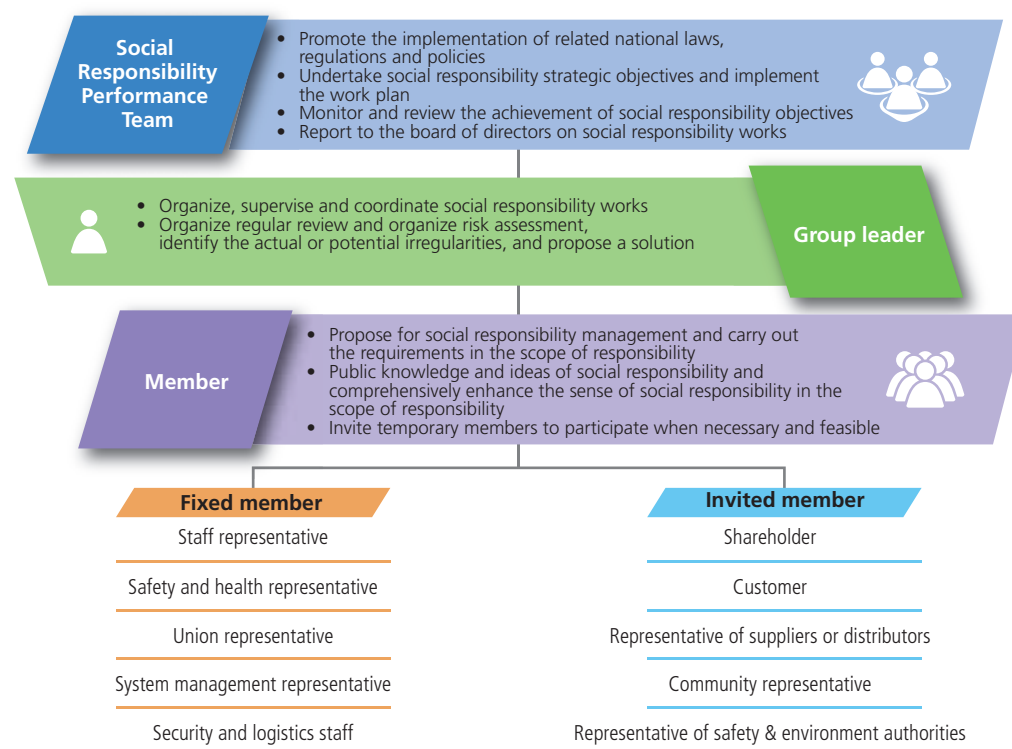
2.3 Management Mechanism of Social Responsibility

➤ Organization chart of social responsibility

In order to promote the healthy and harmonious development of the Company with its employees, the society and nature, Wasion establishes an organization structure of social responsibility and a **core performance team of social responsibility**, which consolidates and facilitates the social responsibility management and integrates the social responsibility of Wasion into its internal control system in an up-bottom manner.



➤ Responsibilities of Social Responsibility Performance Team



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT [CONTINUED]

➤ Management system for social responsibility performance

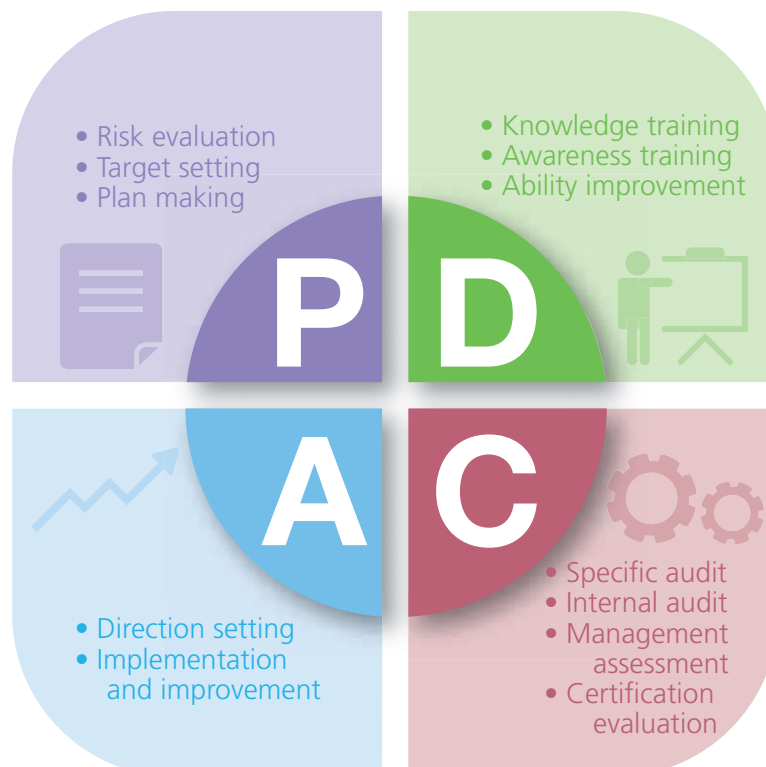
In 2014, Wasion introduced the management system of SA8000 as the standards of evaluation of corporate social responsibility performance. In 2015, Wasion received the certification from a third-party certification authority and established an integrated management system covering quality, environment, occupational health and safety and social responsibility. On this basis, the Group discharges its social responsibility, including good-faith operation, energy conservation, environment protection, employee caring and public charity, in every aspect of its operating activities. In 2018, the Group successfully renewed its certification of the management system of SA8000 upon further improving its management of social responsibility performance in respect of the Group's substantive subjects.

Amendments to the Environmental, Occupational Health and Safety and Social Responsibility Management System (total: 52)

- Further elaborate the responsibility of SPT (social performance team) in the Manual of Management
- Further elaborate the requirement of special protection for female employee in the Protection Program for Extension Education and Special Labour (《推廣教育與特殊勞動保護程序》)
- Update the Table of Risk Assessment Control (《危險評價控制表》) in the Control Program for Hazard Identification and Evaluation (《危險源辨識與評價控制程序》)

➤ Continuous improvement mechanism of social responsibility

Wasion Group has stuck to the full application of PDCA to form a long-term mechanism.

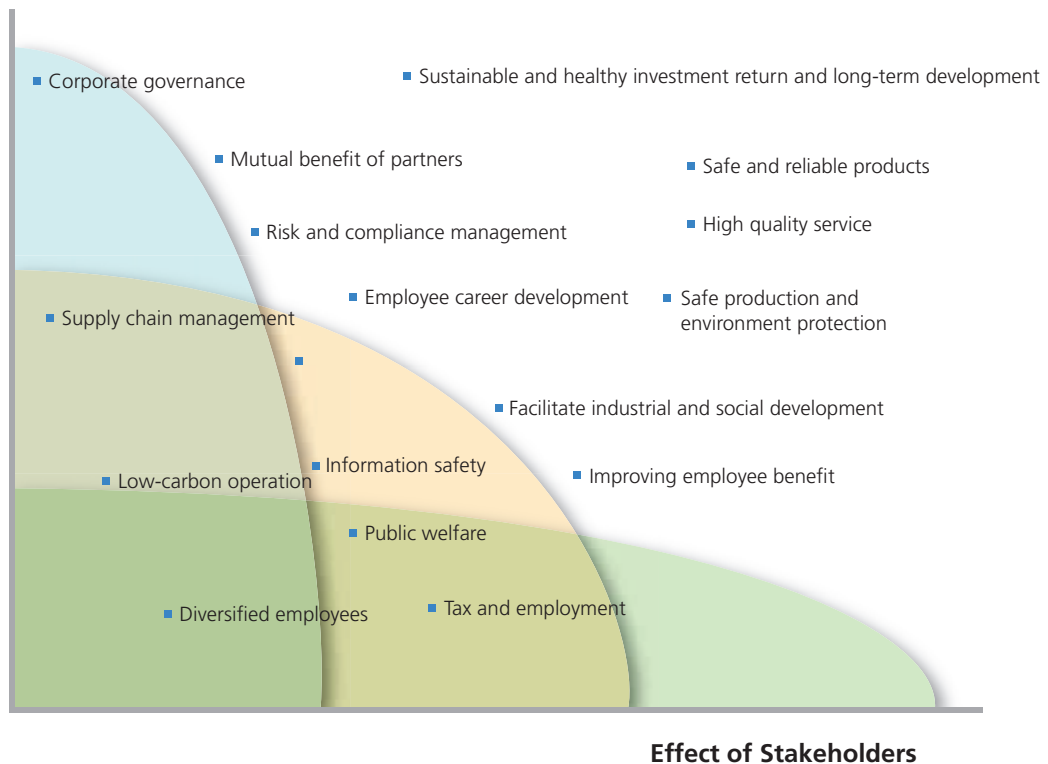


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

➤ Operation mechanism of social responsibility management system

Based on the study and analysis on the development trend of the energy sector, internal and external market environment and the opportunities and challenges exposed to the comprehensive energy service industry, and referring to Wasion's development strategy and the key priorities of the stakeholders, Wasion determines the key themes of its sustainable development in 2018.

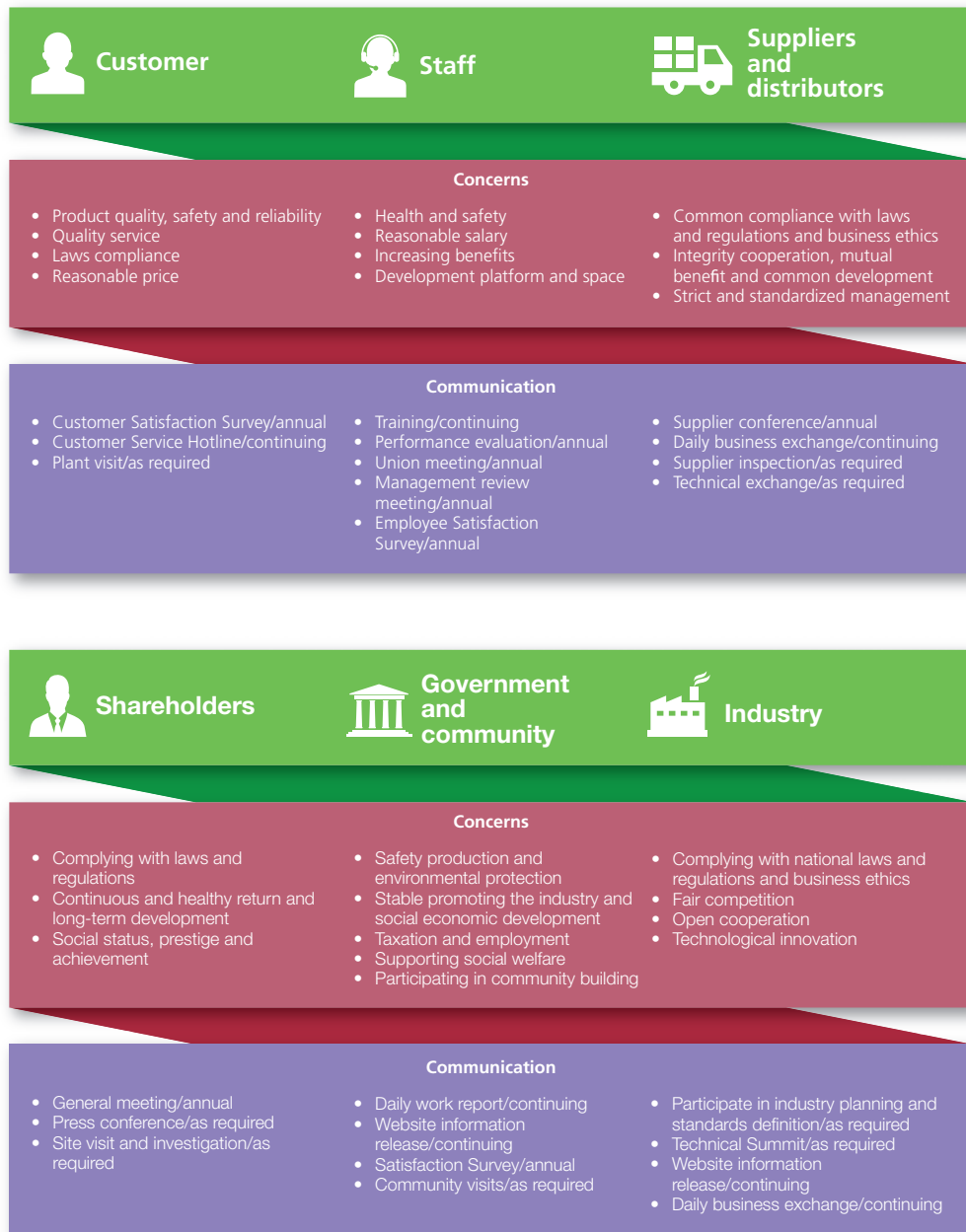
Corporate Strategic Operation



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT [CONTINUED]

2.4 Communication with Stakeholders

Wasion Group attaches great importance to the communication with stakeholders to establish a smooth and effective communication channel and mechanism. By analyzing the specific expectation and focus of the six major stakeholders, Wasion expects to create a sound social atomsphere with highlights, measures and solutions.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

2.5 Evaluation of Materiality

In 2018, the Group continues to adopt the key indicators stated in the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Based on the reporting principles of materiality, quantitation, balance and consistency, and with the participation of all stakeholders, the Group identified and conducted evaluation on the key performance indicators of its key categories in relation to the environment, society and governance.

Type	Key Categories
Environment	
Emissions	<ul style="list-style-type: none"> • Polluted water • Greenhouse gases • Solid waste • Exhaust
Use of Resources	<ul style="list-style-type: none"> • Use of energy • Use of water • Energy conservation and emission reduction
The Environment and Natural Resources	<ul style="list-style-type: none"> • Monitoring of environmental performance
Social	
Employment	<ul style="list-style-type: none"> • Compensation and dismissal, recruitment and promotion, working hours, rest periods • Equal opportunity, diversity, anti-discrimination
Health and Safety	<ul style="list-style-type: none"> • Occupational health and safety
Development and Training	<ul style="list-style-type: none"> • Employees' development and training
Labour Standards	<ul style="list-style-type: none"> • Preventing child and forced labour
Supply Chain Management	<ul style="list-style-type: none"> • Quality of supply chain and effects to social responsibility
Product Responsibility	<ul style="list-style-type: none"> • Quality management level • Measurement of customer satisfaction • Intellectual property protection • Customer privacy
Anti-corruption	<ul style="list-style-type: none"> • Principles of honesty and integrity
Community Investment	<ul style="list-style-type: none"> • Public welfare • Activities investment in the reporting period

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT [CONTINUED]

III. RESPONSIBILITY PERFORMANCE

In facilitating the scientific outlook of “establishing a resource-conservative and environment-friendly society” introduced by China, and referring to its actual condition, Wasion improves its energy conservation and cost reduction system in every aspect and strengthens the basic management of internal operation. Meanwhile, it implements a responsibility ownership system on safety and environment protection, pursuant to which, Wasion adopts on-site inspection and internal control to monitor the implementation of each environment protection system and promotes the performance of green operation throughout the Group.

3.1 Environment

We have been strictly complying with the laws and regulations in relation to environment protection and prevention of water, gas and solid pollutants. During the reporting period, no case has been identified by the Group constituting a breach of the laws and regulations in relation to environment.

➤ Emissions

During production and operation, we encourage the innovation of production process and technologies and provide reasonable suggestion in respect of high-efficient utilization of raw materials and minimization of pollutants. Employees are also encouraged to play an active role in promoting clean production. Besides, we advocate a low-carbon lifestyle focusing on energy conservation and pollution reduction, introduce green and new-energy traffic tools and minimize carbon emission.

Major management systems

No.	Name
1	Management Measures for Waste
2	Waste List and Processing Requirements

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Category of emissions

Category	Description
Polluted water	<ul style="list-style-type: none"> • Adopt non-cleaning technology so that no industrial waste water will be generated in the production process • Build a sewage treatment facility to deal with domestic sewage and implement Class III standards of emission • Average annual turnover consumption decreased by 30.9% compared with 2017
Greenhouse gases	<ul style="list-style-type: none"> • Carbon emission are mainly resulted from the greenhouse gases generated in electricity and seasonal natural gas consumption • Average annual turnover consumption decreased by 1.60% compared with 2017
Solid waste	<ul style="list-style-type: none"> • Non-hazardous waste mainly represents waste paper, waste plastics, staff's domestic garbage and kitchen waste • Major hazardous waste is solder splash generated in production processes every year • Establish the Waste List and Processing Requirements to instruct and regulate its employees to drop and collect waste by category • Hazardous wastes are stored on special site and regularly delivered to qualified contractors for processing • Due the increase in waste paper (mainly express packages) in residential area and the inclusion of waste plastics, the average annual turnover consumption of non-hazardous waste increased compared with 2017
Exhaust	<ul style="list-style-type: none"> • comply with the requirements under the Air Pollution Prevention Law of the PRC and subject to the inspection of related management authorities • Install a pipelined multi-station welding system to collect welding fume from our production process, conduct centralized purification and implement high-altitude qualified discharge • Exhaust from our canteen is purified by the fume purification devices certified by the provincial environmental protection authority before being discharged into high-altitude air • Strengthen daily leak detection and maintenance of our facilities, pipes and valves to avoid unordered discharge

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT [CONTINUED]

Key performance indicators

Category	Total emission	Average consumption per million of annual turnover	Unit
Waste water	224,000	67.1	ton
Greenhouse gases	12,863 ¹	3.9	ton
Solid wastes — waste paper and plastics	220	0.07	ton
Solid wastes — domestic garbage	730	0.22	ton
Solid wastes — solder splash	5.2	/	ton

➤ Use of Resources

The Group 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.

The Group has overcome various challenges during the process of energy conservation and cost reduction. Pursuant to the Measures on the Management of Energy Conservation and Cost Reduction (《節能降耗管理辦法》), focusing on the high-efficiency recycle of resources, the Group arranges scientific production to boost production and reduce costs. It constantly promotes the awareness of energy conservation and works hard on every minor aspect, including reducing elevator footprint, making full use of sunshine for office lightening, reducing stand-by energy consumption of office equipment, adopting high-efficiency pointolite instead of low-efficiency pointolite for lightening, replacing existing ineffective and high energy consumption equipment and conducting irregular checks to avoid unnecessary consumption of water and electricity, all of which created an atmosphere of energy-conservation throughout the Group. Among these, the average annual turnover consumption of total electricity, water and gas decreased by 1.2% compared with 2017.

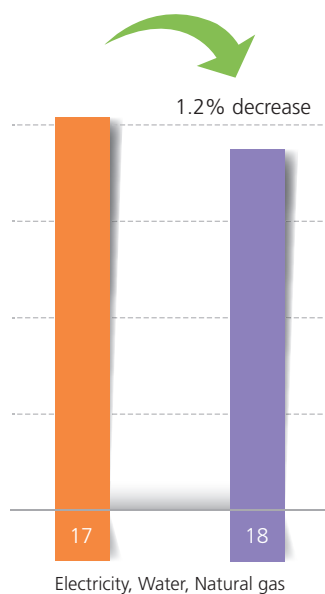
¹ The calculation of carbon emissions is based on the Greenhouse Gases Protocol published by WBCSD and WRI, Environmental Key Performance Index Reporting Guide issued by the HKEx, and the China Regional Grid Baseline Emission Factor and Guidelines for the Accounting and Reporting of Greenhouse Gases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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Key performance indicators

Category	Total	Average consumption per million of annual turnover	Unit
Electricity	18,508,700	5,542	KWH
Natural gas	378,788	113	cubic meter
Tap water	438,413	131	ton
Packing material ²	6,987	2	ton

Annual Turnover Energy Consumption Ratio



² The major packing material is hard paper case.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT [CONTINUED]

➤ Environment and Natural Resources

As an expert of energy metering and energy efficiency management, externally, Wasion Group makes continuous effort in the research & development of the accurate metering of energy consumption and the promotion of new smart metering equipment, facilitating corporate user to conduct energy conservation quality improvement. Internally, Wasion Group targets to establish a long-term effective mechanism based on its existing good performance of energy conservation and cost reduction, clean production and the comprehensive utilization of resources.

Major management systems

No.	Name
1	Control Program for Identification and Evaluation of Environmental Factors (《環境因素的識別與評價控制程序》)
2	Control Program for Laws, Regulations and Other Requirement (《法律法規和其他要求控制程序》)
3	Control Program for Monitoring and Measurement (《監測和測量控制程序》)
4	Control Program for Compliance Evaluation (《合規性評價控制程序》)

Wasion was certified as a "National Green Factory" (國家級綠色工廠) in February 2018.

In December 2018, Wasion attended the energy metering sub-forum of the Forum of Energy Conservation and Low Carbon Development of China 2018 (2018年度中國節能與低碳發展論壇), on which, the research & development project applied by Wasion was certified as a Demonstration Project for Key Energy Metering Service in China (2018年全國重點能源資源計量服務示範項目) and received 6 patents for invention and 16 utility patents. The achievement has been transformed into products which are widely used in the metering sector, representing a good potential of promotion and demonstration.

In the future, Wasion will continue to implement scientific development outlook. Focusing on the requirement of green, environmental and conservative development, Wasion endeavors to develop itself into a green factory in a comprehensive, coordinative and sustainable manner, and ultimately, a demonstration enterprise of green factory.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

3.2 Society

➤ Employment

The management of human resource is the most important part of the management of an enterprise and is a cornerstone for the enterprise to realize its long-term target of strong core competitiveness and sustainable development. In order to facilitate the strategic target of human resource, we closely connect enterprise cultural construction with human resource management and promote the value system of Wasion to all employees in a targeted and combined manner. By means of training and promotion, we conduct appraisal on knowledge, understanding and recognition. Various activities are also organized for our employees. An intra-group support mechanism is in place to integrate the group value to its business operation and management and gradually constitute a talent production line characterized by Wasion culture.

To further boost the employee' engagement, we not only continued to implement each benefit policy in previous years, but also planned many celebration activities promoting traditional culture and virtues, allowing the employee to understand the meaning of our traditional festivals.

Understanding the expectation and difficulties of the outsourcing employees in time, we require the service provider to further expand their benefit coverage and suggest mutual negotiation for reasonable solutions actively. Currently, those outsourcing employees share free launch provided by Wasion together with our employees.

The Group strictly complies with the requirements of the laws and regulations including the Labour Law of the PRC and the Law on the Protection of Women's Rights and Interests of the PRC to implement each management policy. During the reporting period, the Group had not found any case constituting a significant violation of laws and regulations in relation to human resource.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT [CONTINUED]

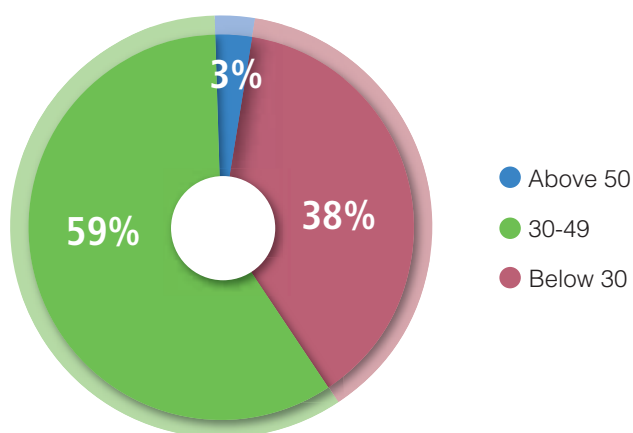
As at 31 December 2018, the Group had a total of approximately 2,500³ employees as follows:

Gender	Total (person)
Male	1,700
Female	800

Position	Total (person)
Senior	37
Middle	267
General	2,196

Country	Total (person)
China	2,499
Overseas	1

Employee Age Structure



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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

➤ Health and Safety

In 2018, the Group established a specialized safe production management department and engaged registered safety engineer responsible for the implementation of safety management. Externally, the Group increased its contact with superior regulatory department and organized various fire drills with local fire department to improve employee's safety awareness and emergency capacity. Internally, the Group took "comprehensive governance and overall implementation focus on safety and precaution" as its approach for safe production management. Sticking to the responsibility ownership system of safe production, the Group enters into memorandums of safe production management with each responsibility-owner to realize the overall target of safety in production. Through the construction of a safety warning mechanism and a safety monitoring system, the Group promotes risk identification, assessment and control mechanism and transforms from passive management to active management to realize safety management in the whole-process of production.

In order to improve our safety management, the Group intensifies safety culture construction to improve the safety awareness and safety quality of its employees for the avoidance of accidents and protecting employee's safety and health during the process of production. Comprehensive trainings on safety and health and diversified sports and fit activities are organized for our employees. The Group increases its investment in sports facility upgrade. A "weekly fitness day" is set to instruct the employees to form a healthy, scientific and positive life style and occupational value.

Wasion Group implements occupational health and safety management in a scientific and systematic manner pursuant to its various management documents. During the reporting period, no case has been identified by the Group constituting a breach of the laws and regulations in relation to health and safety in workplace.



Diversified spare time life



Training on bus emergency



Lecture on first aid and safety & health in production

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

➤ Development and Training

Effective training is an important means for an enterprise to improve its comprehensive competitiveness. It can promote the communication between the enterprise and the employee, as well as between the management and the employee, improve the centripetal force and stickiness of an enterprise and help the employees to realize personal growth and personal value by equipping them with new knowledge and skills to adapt to or accept challenging work or tasks, which will make the employees feel spiritually satisfied and increase their engagement and responsibility. We instruct and support the employees to make personal occupational planning in a bid to establish a fair allocation mechanism and promote a harmonious and stable labour relationship.

In pursuit of training effect, we focus on the management of evaluation. By combining long-term evaluation and short-term evaluation, we expect to attract all the employees to attend and be engaged in our training. In creating a sound training environment, we follow the trend of information technology development, we launch the "Design and Development of Micro-Lecture" and "Design of Engagement-Increasing Training Course" to improve the capability of our lecturers. By means of interaction, discussion and case study, we provide various training courses on orientation, specific post training and psychology in scientific and diversified forms. We promote the "Weekly Learning Day" and adopt a method of inspiration and instruction to create active academic atmosphere.

Gender	Attendance	Average Training Hour
Female	93.2%	15.6
Male	96.1%	13.7

Position	Attendance	Average Training Hour
General	95.8%	15.0
Middle	100%	41.6
Senior	100%	47.8

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

➤ Labour Standards

Wasion has formulated a series of management documents such as Control Program for Extension Education (《推廣教育控制程序》), Control Program for Non-Forced Labour (《非強迫性勞動控制程序》) and Management Measures for Staffs' Complaints (《員工投訴管理辦法》). It has also established a employment and administrative system pursuant to the requirements of SA8000 Social Responsibility Management System to ensure there is no child labour and forced labour in the Group. We incorporate the corporate social responsibility of the Group into the orientation course scheme, allowing the employees to understand our employment policy and the rights and interests attributable to them upon joining the Group.

In order to avoid the misuse of child labour, at the beginning of the recruitment, the human resource department checks the identity information of each candidate with the public security authority. The normalized transparent internal management are realized through the review, internal audit, staff forum and operation express promoted and monitored by the social performance team, which encourages and makes full use of the effect of employee representative, enabling the Group to realize democratic management and prevent and avoid forced labour at an earlier age.

During the reporting period, no case has been identified by the Group constituting a breach of the laws and regulations in relation to anti-child labour or forced labour.

➤ Supply Chain Management

Insisting on the theme of "strategic cooperation with common goal for mutual benefit" during its supply chain management, Wasion makes integration on different members along the supply chain and focuses on active management to improve the overall efficiency and competitiveness of the supply chain ultimately.

In identifying our suppliers and partners, in addition to economic effects, we also focus on its social performance. We work closely with suppliers by expressing our social responsibility approach to them and establishing in place terms for evaluating suppliers' social responsibility and conducting relevant due diligence review for sustainable improvement and management of the social responsibility of the supply chain.

Geographic Location	Number of Supplier
China	422
Overseas	30

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT [CONTINUED]

➤ Product Responsibility

Quality management

We have established a systematic and scientific quality management function. By planning and implementing the quality management system and supported by advanced quality management tools, Wasion continuously improves the Group's quality management performance. It oversees quality over the entire product life from research & development and design, raw material supply, manufacturing, reliability verification, delivery and after-sales service to improve its quality and satisfy the needs of its customers.

2018 was the "Quality Act Year" (質量提升行動年) of Hunan province. As a corporate representative, Mr. Lv Xinwei, vice president of Wasion Group, made a statement regarding quality improvement on half of the Company at the opening ceremony. According to the statement, Wasion will **"discharge its responsibility as a body corporate, insist on quality-oriented development, strengthen overall quality management and seek for quality improvement in a bid to promote the high-quality economic and social development of the province"**.

Wasion has established an expert workstation as an innovative platform of "industry-university-research-application", an incubator for new skills and products and a training base for high-caliber personnel of Wasion. Funded by Ji Wei, chairman of the Board, Wasion Group Innovation Fund has been launched to encourage teams or employees who make innovative initiatives in the aspect of technology, market and management. Wasion has established a systematic innovation mechanism and a corporate-based technologic innovation system, which improves Wasion's technologic innovation capability and promotes the transformation of scientific results and industrialization.

The expert workstation of Wasion Group was enlisted on the first batch of "National Demonstration Expert Workstation" (全國示範院士專家工作站). It was awarded the "Hunan Provincial Demonstration Expert Workstation" (湖南省示範院士專家工作站) for the second consecutive year.

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

Measurement of customer satisfaction

The survey of customer satisfaction in 2018 was assisted by the domestic and overseas marketing and technology service departments to collect relevant comments and suggestions, and summarized and analyzed by the quality control department pursuant to the scheme of the measurement of customer satisfaction. The results are as follows:

Item	2018	2017
Customer Comprehensive Satisfaction	94.97%	95.40%
Product Quality Satisfaction	94.48%	94.95%
Service Quality Satisfaction	97.02%	96.60%

Note: Due to the expansion into new business segment and seeking for diversified business structure, the customer comprehensive satisfaction slightly decreased compared with 2017.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Maintenance and protection of intellectual properties

Wasion has delegated professional intellectual property management department responsible for the establishment and improvement of intellectual property management and incentive mechanism, supported by research & development, technology, production and legal risk control and based on laws and regulations including the Patent Law of the PRC (《中華人民共和國專利法》), the Detailed Rules for the Implementation of the Patent Law of the PRC (《中華人民共和國專利法實施細則》) and the Provisions of Patent of Hunan Province (《湖南省專利條例》) in relation to the requirement of the management of patents, copyrights and trademarks.

Customer privacy

Wasion considers data security and customer information protection to be a responsibility that the Group and its partners must assume. Based on the requirement and management strategy of ISO27001 information security management system, in respect of commercial secrets, customer information and privacy protection, Wasion adopts appropriate technical means and processes to prevent the relevant information from unauthorized use and asks relevant suppliers to sign relevant terms and conditions to protect confidential information. Any information leakage of the supplier or staff will be strictly investigated pursuant to the signed effective provisions or internal regulations.

➤ **Anti-corruption**

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

We place anti-corruption as one of the prohibitions of commercial activities in order to maintain a fair market. We strengthen our internal control mechanism and delegate the power of supervision and inspection to professional audit department according to relevant system and intensify the publicity of anti-corruption among the employees. We also procure relevant employees at key positions to sign a letter of undertaking to improve their anti-corruption awareness. A reporting process has also been set up to encourage and assist whistle-blowers to report misconduct, fraud or irregularities through confidential channels.

We undertake to review the relevant claims fairly and justly and decide appropriate investigation and corrective actions depending on specific needs.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT [CONTINUED]

➤ Community Investment

That “love the nature, love our motherland, do things beneficial to ecological protection, resource conservation and social well-being and be a person with social responsibility” is a basic code of conduct for every Wasioner. We highly recognize our social responsibility and strive to do our bit for the public welfare to extend the decency and dignity of our employees to the wide community and family.

The Group has set up the “Staff Support Fund” and “Staff Innovation Fund” for special purposes, with supporting management measures in place as a “normal”.

In 2018, the Staff Support Fund of Wasion made accumulated donation of RMB448,400 to 126 employees in the theme of “fund R&D”, “the Double Ninth Festival activity” and “the education sponsorship” respectively. Since the launch, the Staff Support Fund has donated an aggregate amount of over RMB6 million.

In order to practice the innovation value of “everyone innovates everyday”, we provides financial supports for kinds of innovative ideas and solutions. In 2018, the Group received 283 applications for different innovation funds, 91% of which, i.e. 257 applications were awarded at a total amount of RMB980,400.

With an open and inclusive culture, Wasion accepts the undergraduates for internship in finance, research and technical support posts. In 2018, over 240 short-term internships were arranged and over 260 students were employed by the Group.

Category	Capital investment	Time investment
Education	Over RMB250,000	96 hours
Society	Over RMB210,000	88 hours



Hunan University & Wasion Group Awarding ceremony of the demonstration base for cooperative postgraduate education

Voluntary blood donation

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

IV. EVALUATION AND DEVELOPMENT DIRECTION OF RESPONSIBILITY PERFORMANCE

Upon collecting and analyzing the information about the responsibility performance over the past four years and after considering and estimating the effect of the supply chain energy consumption policy and global climate change on our resource consumption, we have made some amendments to the undertaking of Wasion, for example, the undertaking to “continue to tap the potential of consumption reduction to reduce over 5% of our comprehensive energy consumption” was revised to “continue to tap the potential of consumption reduction to reduce 2%–5% of our comprehensive energy consumption”.

Under the 10 principles of “Global Compact”, Wasion made the following conclusion on the evaluation of the responsibility performance in 2018 and the undertaking and development for 2019:

10 principles of “Global Compact”	Undertaking	Evaluation of responsibility performance in 2018	Development direction in 2019
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 the Group’s footprint.	Full compliance	To 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 maintain and review whether there is a deviation and continuously improve.
	Offer job opportunities for certain disabled people to protect their rights and interests.	The Company treated all the disabled equally in recruitment.	To identify appropriate posts for the disabled.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT [CONTINUED]

10 principles of "Global Compact"	Undertaking	Evaluation of responsibility performance in 2018	Development direction in 2019
Labour			
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	Ensure the free operation of trade unions and actively support trade union activities to protect the right to collective bargaining.	Activities enriching the staffs' spare time were planned and organized, including video game, chess game, basketball, hiking and knowledge contest.	To continuously inspect and improve according to established policies.
4. The elimination of all forms of forced and compulsory labour	Promote the regularization, standardization and transparency of democratic management in forms of staff congress, staff forum and operation express.	Active participation of staff representatives was encouraged to know the needs of our staff and staff forums were held regularly to understand their situation.	To continuously inspect and improve according to established policies.
5. The effective abolition of child labour			
6. The elimination of discrimination in respect of employment and occupation	Eliminate child and forced labour.	It is specified in the recruitment system. relevant trainings were organized to ask for strict implementation. No child labour was found.	To continuously inspect and improve according to established policies.
	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 our compensation policy and staff manual have been strictly carried out.	To continuously inspect and improve according to established policies.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

10 principles of "Global Compact"	Undertaking	Evaluation of responsibility performance in 2018	Development direction in 2019
	Ensure decent employment, provide compensation in line with the national condition and actual corporate situation, balance the employees' work and life, establish a reasonable paid leave system, and realize 100% labour contracting ratio, five insurance-one fund coverage and employment compliance.	A survey on the minimum living needs of our staff was carried out to review their compensation level. 100% labour contracting ratio, five insurance-one fund coverage ratio and employment compliance were realized.	To implement a special project to improve working efficiency.

Environment

7.	Businesses should support a precautionary approach to environmental challenges	Further develop alternative and new energy products.	Our comprehensive energy consumption of electricity, water and natural gas decreased by 1.2% compared to the previous year (in terms of the percentage of annual turnover energy consumption).	Continue to promote and improve energy conservation management
8.	Undertake initiatives to promote greater environmental responsibility	Continue to tap the potential of consumption reduction to reduce 2%–5% of our comprehensive energy consumption.		
9.	Encourage the development and diffusion of environmentally friendly technologies	Upgrade the office automatic system and realize paper-free office business.	Continuously promote e-flows of business applications.	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT [CONTINUED]

10 principles of "Global Compact"	Undertaking	Evaluation of responsibility performance in 2018	Development direction in 2019
Anti-corruption			
10. Businesses should work against corruption in all its forms, including extortion and bribery	Continuously promote and implement the new 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 the Group constituting a breach of the laws and regulations in relation to bribery and corruption.	To promote relevant laws and regulations, and maintain and strengthen the supervising efforts.
	Promote transparent operation, strengthen legal governance, improve internal control system, accept supervision of the community and prevent corruption risk.	No lawsuit was pending or concluded against the Group or its employees in respect of corruption.	

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Ji Wei (吉為), aged 62, is an executive Director, the chairman of the Company and the founder of the Group. Mr. Ji is responsible for the Group's overall strategic planning and the formulation of corporate policies. Prior to founding the Group in 2000, Mr. Ji was a business manager of Hunan Province Minerals Import and Export Company (湖南省五金礦產進出口公司) between 1980 and 1985 and the import and export manager of Hunan International Economic Development (Group) Company (湖南省國際經濟開發(集團)公司) between 1985 and 1989. Mr. Ji was appointed as an executive Director of the Company with effect from 20 July 2004. Mr. Ji was consecutively appointed as a member of the 10th, 11th, and 12th Chinese People's Political Consultative Conference of Hunan Province from 2007 to date. He is now a deputy chairman of the Hunan Federation of Industry and Commerce. He was awarded with several honorary titles such as "Most Socially Responsible Entrepreneur", "The Sixth Top Ten Educational Entrepreneur Award in China", "Most Caring Entrepreneur on Staff Development", "National Machinery Industry Excellent Entrepreneur", "Key Personnel for the Construction of Innovative Culture in Hunan Province", "Special Recognition Award for Occupational Technology Creation in Hunan Province" and "Excellent Entrepreneur" at the 30th anniversary of Changsha Hi-Tech Zone.

Ms. Cao Zhao Hui (曹朝輝), aged 51, is an executive Director and the chief executive officer. Ms. Cao graduated from Hunan Commerce College with a bachelor 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 with effect from 3 March 2005.

Mr. Zeng Xin (曾辛), aged 48, is an executive Director and General Manager of Wasion Electric Limited. Mr. Zeng graduated from the National University of Defense Technology with a bachelor's degree in system engineering in 1992. During 1992 to 1993, he studied in the Qinghua University for a postgraduate degree programme. In 1995, Mr. Zeng obtained a master degree in engineering from the China Academy of Space Technology (中國空間技術研究院). In 2012, he graduated from the Advanced Management in the Energy Sector of Cheung Kong Graduate School of Business. He participated in several research projects in the China Academy of Space Technology (中國空間技術研究院) during his studies and after graduation. Mr. Zeng was a general manager for domestic sales of Wasion Group Limited, a general manager of Weisheng Energy Industrial Technology Co., Ltd., and vice president of the Group since 2006. Mr. Zeng joined the Group in July 2004 and was appointed as an executive Director of the Company with effect from 1 September 2005.

Ms. Zheng Xiao Ping (鄭小平), aged 55, is a Senior Engineer and an executive Director. Ms. Zheng graduated from the Taiyuan University of Technology with a bachelor's degree in industrial automation in 1984. She obtained a master degree of engineering in automation from the North China Institute of Technology in 1987. 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 a director of Changsha Weisheng Electronics Co., Ltd. (長沙威勝電子有限公司) in March 2004 and an executive Director of the Company with effect from 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", "Awarded Women with Contribution and Improvement in Changsha Hi-Tech Zone", "National Labour Day Medal" and "National Top Ten Technological Worker in Electronic Devices and Meters Industry".

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT [CONTINUED]

Mr. Tian Zhongping (田仲平), aged 38, is an executive Director and the President of the Group. Mr. Tian graduated from Xiangtan University (湘潭大學) with a bachelor 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 ten patents for products and technology. Mr. Tian was appointed as an executive Director of the Company on 26 January 2017. Mr. Tian was awarded with an honorary title of “Excellent Entrepreneur of Changsha Hi-Tech Zone” in 2017.

NON-EXECUTIVE DIRECTOR

Mr. Kat Chit (吉喆), aged 36, is a non-executive Director. Mr. Kat graduated from the University of British Columbia of Canada with a bachelor 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. Mr. Kat is the son of Mr. Ji Wei, the chairman, executive Director and controlling shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Huang Jing (黃靖), aged 62, is an independent non-executive Director. Professor Huang graduated from Sichuan University with a bachelor degree in English. He obtained his master degree in history from Shanghai Fudan University, and his doctor of philosophy degree in political science from Harvard University. Mr. Huang is currently a University Professor at Beijing Language and Culture University, the Academic Dean of College of International and Regional Studies (國別和區域研究院) and a Richard Von Weizsäcker fellow from the Robert Bosch Stiftung. Mr. Huang had been a Lee Foundation chair professor of US-China Relations and director of Centre on Asia and Globalisation at the Lee Kuan Yew School of Public Policy, National University of Singapore. Prior to joining the Lee Kuan Yew School of Public Policy, Mr. Huang had been a senior research analyst at the Brookings Institution and taught at Harvard University, University of Utah and Stanford University. Mr. Huang is a senior overseas economic analyst for China's Xinhua News Agency, an advisory member of European-House Ambrosetti Foundation in Italy, a member of the Academic Board of StarsFoundation in Switzerland, a member of the Academic Board of the Center on China and Globalization, and a member of the Global Agenda Council at the World Economic Forum. Mr. Huang was appointed as an independent non-executive Director of the Company on 18 October 2016.

Mr. Luan Wenpeng (樂文鵬), aged 54, was an independent non-executive Director with doctor's degree in electrical engineering. Mr. Luan is a PEng in British Columbia, Canada, a senior member of IEEE and an individual member of CIGRE. He has been engaged in the works as well as the research of systematic planning of the electrical power system, smart power grids, smart metering infrastructure, distribution automation, data analysis, distributed energy resources integration, asset management etc. for more than 16 years. As a distinguished expert of state level in China, Mr. Luan is currently a chief expert in smart metering of the China Electric Power Research Institute, 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). Mr. Luan was appointed as an independent non-executive Director of the Company on 16 May 2016.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT [CONTINUED]

Mr. Cheng Shi Jie (程時杰), aged 73, is an independent non-executive Director. Mr. Cheng graduated from the Xi'an Jiaotong University with a bachelor 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 academican 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. Hui Wing Kuen (許永權), aged 70, is an independent non-executive Director and an Australian by nationality. Mr. Hui has extensive financial and taxation experience in Hong Kong and Australia. He is a member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries and CPA Australia. He obtained his Master of Business Administration degree from the University of South Australia. Mr. Hui was previously an independent non-executive Director of the Company from September 2005 to May 2014. Mr. Hui was appointed as an independent non-executive Director of the Company on 15 May 2015.

SENIOR MANAGEMENT OF THE GROUP

Mr. Choi Wai Lung Edward (蔡偉龍), aged 50, 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 28 years of experience in accounting, auditing and finance.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

CHANGE OF COMPANY NAME

With effect from 29 June 2018, the English name of the Company has been changed from "Wasion Group Holdings Limited" to "Wasion Holdings Limited" and the Chinese name of the Company has been changed from "威勝集團控股有限公司" to "威勝控股有限公司".

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in Notes 40 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 25 of this annual report. This discussion forms part of this Directors' Report.

DIVIDENDS

The results of the Group for the year ended 31 December 2018 and the Group's financial position at that day are set out in the consolidated financial statements on pages 89 to 91 of the annual report. No interim dividend was paid to the shareholders during the year.

The directors have proposed a final dividend of HK\$0.20, per share (2017: HK\$0.24) per share to shareholders of the Company whose names appear in the register of members on 29 May 2019 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 or before 12 June 2019.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in Note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2018 comprised the share premium, merger reserve and retained profits of RMB1,526,978,000 (2017: RMB1,735,878,000) in aggregate.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Ji Wei (*Chairman*)
Cao Zhao Hui (*Chief Executive Officer*)
Zeng Xin
Zheng Xiao Ping
Tian Zhongping

Non-executive director:

Kat Chit

Independent non-executive directors:

Hui Wing Kuen
Huang Jing
Luan Wenpeng
Cheng Shi Jie

Pursuant to Article 87 of the Articles of Association of the Company (the "Articles"), at each annual general meeting of the Company ("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, Mr. Zeng Xin, Mr. Tian Zhongping 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.

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' REPORT (CONTINUED)

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2018, 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)	528,986,888	52.77%
Zheng Xiao Ping	Beneficial owner (Note 2)	3,682,000	0.37%
Cao Zhao Hui	Beneficial owner	2,000,000	0.20%
Zeng Xin	Beneficial owner	2,000,000	0.20%
Hui Wing Kuen	Beneficial owner	440,000	0.04%

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 2018.

DIRECTORS' REPORT (CONTINUED)

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, 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	528,986,888	52.77%
Star Treasure	Beneficial owner	528,986,888	52.77%
Edgbaston Asian Equity Trust	Beneficial owner	50,884,000	5.08%
Edgbaston Investment Partners LLP	Investment manager	70,630,000	7.05%

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 2018.

RELATED PARTY TRANSACTIONS

Related party transactions entered into for the year are set out in Note 32 to the consolidated financial statements.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' REPORT (CONTINUED)

SHARE OPTIONS

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

Name and category of participation	Number of share options			Date of grant of share options	Vesting period of share options	Exercise period of share options	Exercise price of share options* HK\$	Share price of the Company as at the date of grant of share options** HK\$
	As at 1 January 2018	Exercised during the year	As at 31 December 2018					
Other employees	9,000,000	—	9,000,000	10 February 2014	10 February 2014 to 9 February 2016	10 February 2016 to 9 February 2024	4.680	4.680
Other employees	9,000,000	—	9,000,000	10 February 2014	10 February 2014 to 9 February 2017	10 February 2017 to 9 February 2024	4.680	4.680
Total	18,000,000	—	18,000,000					

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

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

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

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CORPORATE GOVERNANCE

The Company is committed to maintain the high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 64 to 83 of the annual report.

DIRECTORS' REPORT (CONTINUED)

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

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited, details of which are set out in Note 28 to the consolidated financial statements. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

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.

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 2018.

FIVE YEAR FINANCIAL SUMMARY

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

AUDIT COMMITTEE

The audit committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2018.

DIRECTORS' REPORT (CONTINUED)

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Ji Wei
CHAIRMAN

Hong Kong
27 March 2019

CORPORATE GOVERNANCE REPORT

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 2018, the Company has applied the principles of and has complied with all code provisions of the Corporate Governance Code.

Code Provision A.6.7 of the Corporate Governance Code provides that independent non-executive directors and non-executive directors of the Company should attend general meetings of the Company. Mr. Huang Jing, Mr. Luan Wenpeng and Mr. Cheng Shi Jie, being independent non-executive directors of the Company, failed to attend the annual general meeting of the Company ("2018 AGM") held on 25 May 2018 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 2018.

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 2018.

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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 ensuring that 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 abovementioned officers.

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

Board Composition

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

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

CORPORATE GOVERNANCE REPORT [CONTINUED]

The Board comprises the following Directors:

Executive Directors:

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

Ms. Cao Zhao Hui, Chief Executive Officer

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

Ms. Zheng Xiao Ping

Mr. Tian Zhongping

Non-executive Director:

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

Independent Non-executive Directors:

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

Mr. Huang Jing, member of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Internal Control and Risk Management Committee

Mr. Luan Wenpeng, member of the Audit 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

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.

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

CORPORATE GOVERNANCE REPORT [CONTINUED]

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.

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 2019 annual general meeting
Mr. Hui Wing Kuen	:	up to the 2019 annual general meeting
Mr. Huang Jing	:	up to the 2019 annual general meeting
Mr. Luan Wenpeng	:	up to the 2019 annual general meeting
Mr. Cheng Shi Jie	:	up to the 2019 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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 2018, the training participated by each Director is set out below:

Directors	Training received
<i>Executive Directors:</i>	
Mr. Ji Wei	A, C, D
Ms. Cao Zhao Hui	A, C, D
Mr. Zeng Xin	A, C, D
Ms. Zheng Xiao Ping	A, C, D
Mr. Tian Zhongping	A, C, D
<i>Non-executive Director:</i>	
Mr. Kat Chit	A, C, D
<i>Independent Non-executive Directors:</i>	
Mr. Hui Wing Kuen	A, D
Mr. Huang Jing	A, B, D
Mr. Luan Wenpeng	A, B, D
Mr. Cheng Shi Jie	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

CORPORATE GOVERNANCE REPORT [CONTINUED]

Board Meetings

Number of Meetings and Directors' Attendance

In 2018, the Company has held six 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
<i>Executive Directors:</i>	
Mr. Ji Wei (<i>Chairman</i>)	6/6
Ms. Cao Zhao Hui	6/6
Mr. Zeng Xin	5/6
Ms. Zheng Xiao Ping	5/6
Mr. Tian Zhongping	5/6
<i>Non-executive Director:</i>	
Mr. Kat Chit	5/6
<i>Independent Non-executive Directors:</i>	
Mr. Hui Wing Kuen	5/6
Mr. Huang Jing	5/6
Mr. Luan Wenpeng	5/6
Mr. Cheng Shi Jie	5/6

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 apprised 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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

BOARD COMMITTEES

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

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

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

NOMINATION COMMITTEE

The duties of the Nomination Committee include the following:

- (a) to review the structure, size and composition of the Board (including the skills, knowledge and experience) at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- (b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships;
- (c) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer;
- (d) to assess the independence of independent non-executive Directors;
- (e) to review the Board diversity Policy and any measurable objectives for implementing such Board Diversity Policy as may be adopted by the Board from time to time and to review the progress on achieving the objectives; and to make disclosure of its review results in the annual report of the Company annually; and
- (f) where the Board proposes a resolution to elect an individual as an independent non-executive Director at the general meeting, the Committee should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe the individual should be elected and the reasons why they consider the individual to be independent.

NOMINATION POLICY

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

- (i) age, skills, experience, professional qualifications, educational background and personal integrity of the candidate;
- (ii) commitment of the candidate to devote sufficient time to effectively carry out his/her duties. In this regard, the number and nature of offices held by the candidate in public companies or organisations, and other executive appointments or significant commitments will be considered;
- (iii) effect on the board's composition and diversity;
- (iv) potential/actual conflicts of interest that may arise if the candidate is selected;
- (v) independence of the candidate in the case of proposed appointment of an independent non-executive director;

CORPORATE GOVERNANCE REPORT [CONTINUED]

- (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.

Three 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 (<i>Chairman</i>)	3/3
Mr. Hui Wing Kuen	3/3
Mr. Huang Jing	3/3

In accordance with the Articles, Mr. Ji Wei, Mr. Zeng Xin, Mr. Tian Zhongping 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.

CORPORATE GOVERNANCE REPORT [CONTINUED]

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 associate is involved in deciding his 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 quarterly of 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.

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

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

	Attendance/ Number of Meetings
Mr. Hui Wing Kuen (<i>Chairman</i>)	3/3
Mr. Ji Wei	3/3
Mr. Huang Jing	3/3

CORPORATE GOVERNANCE REPORT [CONTINUED]

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;

CORPORATE GOVERNANCE REPORT [CONTINUED]

- (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 three meetings during the year to review and discuss the financial results and reports, financial reporting and compliance procedures, internal control and risk management systems, and the re-appointment of the external auditors.

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

	Attendance/ Number of Meetings
Mr. Hui Wing Kuen (<i>Chairman</i>)	3/3
Mr. Huang Jing	3/3
Mr. Luan Wenpeng	3/3
Mr. Cheng Shi Jie	3/3

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 2018 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 oversee 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.

Three 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.

CORPORATE GOVERNANCE REPORT [CONTINUED]

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

	Attendance/ Number of Meeting
Mr. Hui Wing Kuen (<i>Chairman</i>)	3/3
Mr. Huang Jing	3/3
Mr. Luan Wenpeng	3/3
Mr. Cheng Shi Jie	3/3
Mr. Zeng Xin	3/3
Mr. Kat Chit	3/3

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 2018, 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 84 to 88 of this annual report.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Company's external auditor is Deloitte Touche Tohmatsu. Total auditor's remuneration paid and payable by the Group for the year ended 31 December 2018 amounted to RMB3.64 million, which comprises RMB3.01 million for the audit of the Group's consolidated financial statements for the year ended 31 December 2018 and RMB0.63 million for the review of the Group's interim report for the six months ended 30 June 2018.

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 2018 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.

CORPORATE GOVERNANCE REPORT [CONTINUED]

During the year ended 31 December 2018, 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 2018.

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 2018, 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 2018, Mr. Choi had complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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.

CORPORATE GOVERNANCE REPORT [CONTINUED]

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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

- 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 2018, the 2018 AGM was held on 25 May 2018. All the resolutions proposed at the 2018 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 2018 AGM to answer Shareholders' questions. Mr. Huang Jing, an independent non-executive Director and member of Nomination Committee, Remuneration Committee, Audit Committee and Internal Control and Risk Management Committee, Mr. Luan Wenpeng, an independent non-executive Director and member of Audit Committee and Internal Control and Risk Management Committee and Mr. Cheng Shi Jie, an independent non-executive Director and member of Audit Committee and Internal Control and Risk Management Committee, failed to attend the 2018 AGM due to conflicts with their schedules. The external auditor of the Company, Deloitte Touche Tohmatsu, attended the 2018 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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The attendance of the Directors at the 2017 AGM is set out below:

Directors	AGM Attended/held
<i>Executive Directors:</i>	
Mr. Ji Wei (<i>Chairman</i>)	1/1
Ms. Cao Zhao Hui	0/1
Mr. Zeng Xin	0/1
Ms. Zheng Xiao Ping	0/1
Mr. Tian Zhongping	0/1
<i>Non-executive Director:</i>	
Mr. Kat Chit	1/1
<i>Independent Non-executive Directors:</i>	
Mr. Hui Wing Kuen	1/1
Mr. Huang Jing	0/1
Mr. Luan Wenpeng	0/1
Mr. Cheng Shi Jie	0/1

The forthcoming annual general meeting of the Company will be held on 22 May 2019 ("2019 AGM"). The notice convening the 2019 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 2019.

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 2018.

INDEPENDENT AUDITOR'S REPORT

Deloitte.

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TO THE MEMBERS OF WASION HOLDINGS LIMITED

威勝控股有限公司

(FORMERLY KNOWN AS WASION GROUP HOLDINGS LIMITED)

(前稱：威勝集團控股有限公司)

(incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Wasion Holdings Limited (formerly known as Wasion Group Holdings Limited) (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 89 to 195, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 2018, 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 (the “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 year. 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matter

How our audit addressed the key audit matter

Recoverability of trade and bills receivables

We identified the recoverability of trade and bills receivables, amounted to RMB2,716,473,000 net of allowance for credit loss amounting to RMB45,830,000 recognised as at 31 December 2018 as set out in note 22A to the consolidated financial statements as a key audit matter due to the magnitude of the amount and the significant judgement by the management is required in determining the appropriate level of provision to be made in respect of allowance for credit loss, if any.

As disclosed in note 4 to the consolidated financial statements, except for those which had been determined as credit impaired under HKFRS 9, the management estimates the ECL by using provision matrix which is based on the Group's historical default rates taking into consideration of forward-looking information that is available without undue costs or effort. The provision rates are based on a combination of groupings of various debtors that shared similar credit risk characteristics and past due analysis. At every reporting date, the historical observed default rates are reassessed and charges in the forward-looking information are considered.

As explained in note 2 to the consolidated financial statements, in the current year, the Group adopted Hong Kong Financial Reporting Standard 9 "Financial Instruments" (HKFRS 9) and recognised an additional impairment of RMB 13,816,000 as at 1 January 2018 in accordance with the transitional provisions of HKFRS 9.

As disclosed in note 35(b) to the consolidated financial statements, the Group recognised an additional amount of RMB5,395,000 of impairment of trade receivables for the year and the Group's lifetime ECL on trade receivables as at 31 December 2018 amounted to RMB45,830,000.

Our procedures in relation to recoverability of trade and bills receivables included:

- Understanding how the credit loss of trade and bills receivables has been estimated by management;
- Testing the accuracy of the ECL adjustment made by the Group as at 1 January 2018 on initial adoption of HKFRS 9;
- Assessing management's basis and judgement in determining credit loss allowance on trade receivables as at 1 January 2018 and 31 December 2018, including their identification of credit impaired trade receivables, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); and
- Evaluating the disclosures regarding the impairment assessment of trade receivables in notes 9, 22A and 35(b) to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matter

How our audit addressed the key audit matter

Capitalisation of development costs

We identified the capitalisation of development costs, amounting to RMB414,554,000 as at 31 December 2018 as set out in Note 17(b) to the consolidated financial statements as a key audit matter due to the magnitude of the amount and the significant judgement involved.

The Group capitalises certain costs incurred during development phase of internal projects for development of new technology and new products. In order to determine the amount of cost that should be capitalised, the Group must assess whether the cost meets the capitalisation criteria set out in the significant accounting policies per Note 3 to the consolidated financial statements, especially on how the intangible asset will generate probable future economic benefits. The Group applies judgement in determining whether the Group 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 usefulness of the intangible asset.

Our procedures in relation to capitalisation of development costs included:

- Assessing and testing the key controls over the capitalisation of development costs, on a sample basis;
- Performing substantive test, on a sample basis, on the addition amount in the development costs during the year, for the occurrence and accuracy of development costs and assessing whether it meets the capitalisation criteria set out in the significant accounting policies per Note 3 to the consolidated financial statements;
- Inquiring of project managers from the development department of the Group for details of material development projects; and
- Evaluating the Group's assessment on the expected future economic benefits brought by the intangible asset by checking the budgeted benefits in development project proposals and comparing with the related benefits incurred subsequent to the completion of the project, on a sample basis.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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.

INDEPENDENT AUDITOR'S REPORT [CONTINUED]

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible 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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 skepticism 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- 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.

88

WASION HOLDINGS LIMITED

We communicate with those charged with governance 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 those charged with governance 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, related safeguards.

From the matters communicated with those charged with governance, 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 the independent auditor's report is Luk Kam Fan.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

27 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	5	3,340,321	2,927,989
Cost of sales		(2,349,035)	(2,093,318)
Gross profit		991,286	834,671
Other income	6	122,895	141,836
Other gains and losses	7	(1,398)	1,854
Impairment losses on financial assets	9	(8,023)	(6,932)
Administrative expenses		(174,517)	(176,355)
Selling expenses		(292,863)	(290,422)
Research and development expenses		(217,660)	(181,592)
Finance costs	8	(59,594)	(43,291)
Share of results of associates	18	(580)	(83)
Gain on bargain purchase of interests in subsidiaries	30	—	8,241
Gain on disposal of subsidiaries	31	—	103,294
Profit before taxation	10	359,546	391,221
Income tax expense	11	(28,775)	(53,425)
Profit for the year		330,771	337,796
Profit for the year attributable to			
— Owners of the Company		270,817	301,575
— Non-controlling interests		59,954	36,221
		330,771	337,796
Other comprehensive (expense) income			
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Fair value changes on investments in equity instruments at fair value through other comprehensive income, net of related deferred taxation		(51,147)	—
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		16,531	(12,033)
Fair value changes on available-for-sale investments		—	(3,125)
Other comprehensive expense for the year		(34,616)	(15,158)
Total comprehensive income for the year		296,155	322,638
Total comprehensive income for the year attributable to			
— Owners of the Company		236,201	286,417
— Non-controlling interests		59,954	36,221
		296,155	322,638
Earnings per share	14		
Basic		RMB27 cents	RMB30 cents
Diluted		RMB27 cents	RMB30 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15(a)	1,282,072	1,297,170
Prepaid lease payments	15(b)	148,460	151,292
Investment properties	16	28,160	15,638
Goodwill	17(a)	297,919	297,919
Other intangible assets	17(b)	472,948	425,825
Investments in associates	18	9,150	9,730
Available-for-sale investments	19A	—	217,244
Equity instruments at fair value through other comprehensive income	19B	125,889	—
Financial assets at fair value through profit or loss	19C	200,000	—
Deferred tax assets	29	17,111	—
Other non-current assets	20	142,057	113,773
Loan receivables	23	105,000	—
		2,828,766	2,528,591
CURRENT ASSETS			
Inventories	21	495,522	484,479
Trade and other receivables and prepayments	22A	3,303,877	3,245,452
Contract assets	22B	263,358	—
Prepaid lease payments	15(b)	3,541	3,541
Financial assets at fair value through profit or loss	19C	30,888	—
Loan receivables	23	—	105,000
Pledged bank deposits	24(a)	280,981	273,099
Bank balances and cash	24(b)	1,401,362	1,243,892
		5,779,529	5,355,463
CURRENT LIABILITIES			
Trade and other payables	25	2,271,847	2,253,762
Contract liabilities	26	102,259	—
Tax liabilities		55,026	44,183
Borrowings — due within one year	27	1,069,864	841,206
		3,498,996	3,139,151
NET CURRENT ASSETS		2,280,533	2,216,312
TOTAL ASSETS LESS CURRENT LIABILITIES		5,109,299	4,744,903

CONSOLIDATED STATEMENT OF FINANCIAL POSITION [CONTINUED]

At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CAPITAL AND RESERVES			
Share capital	28	9,969	9,988
Reserves		4,176,691	4,156,084
Equity attributable to owners of the Company		4,186,660	4,166,072
Non-controlling interests		555,624	493,878
		4,742,284	4,659,950
NON-CURRENT LIABILITIES			
Borrowings — due after one year	27	348,303	67,701
Deferred tax liabilities	29	18,712	17,252
		367,015	84,953
		5,109,299	4,744,903

The consolidated financial statements on pages 89 to 195 were approved and authorised for issue by the Board of Directors on 27 March 2019 and are signed on its behalf by:

Ji Wei
DIRECTOR

Cao Zhao Hui
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company														Non-controlling interests RMB'000	Total RMB'000
	Share capital RMB'000 (Note 28)	Share premium RMB'000	Merger reserve RMB'000 (Note i)	Exchange reserve RMB'000	PRC statutory reserves RMB'000 (Note ii)	Share option reserve RMB'000	Investment revaluation reserve RMB'000	Shares held for share award scheme RMB'000 (Note iii)	Share repurchase reserve RMB'000	Other reserve RMB'000 (Note iv & v)	Retained profits RMB'000	Total RMB'000				
At 1 January 2017	10,078	1,885,376	49,990	(57,320)	296,940	27,158	(1,200)	(25,119)	—	12,042	1,950,674	4,148,619	29,095	4,177,714		
Profit for the year	—	—	—	—	—	—	—	—	—	—	301,575	301,575	36,221	337,796		
Other comprehensive expense for the year	—	—	—	(12,033)	—	—	(3,125)	—	—	—	—	(15,158)	—	(15,158)		
Total comprehensive (expense) income for the year	—	—	—	(12,033)	—	—	(3,125)	—	—	—	301,575	286,417	36,221	322,638		
Recognition of equity-settled share-based payment	—	—	—	—	—	572	—	—	—	—	—	572	—	572		
Transfer to PRC statutory reserves	—	—	—	—	38,837	—	—	—	—	—	(38,837)	—	—	—		
Shares repurchased and cancelled (Note 28)	(90)	(35,509)	—	—	—	—	—	—	—	—	—	(35,599)	—	(35,599)		
Transaction cost attributable to shares repurchased	—	(225)	—	—	—	—	—	—	—	—	—	(225)	—	(225)		
Acquisition of subsidiaries (Note 30)	—	—	—	—	—	—	—	—	—	—	—	—	60,219	60,219		
Acquisition of additional interests in subsidiaries (Note 30(v) and Note v)	—	—	—	—	—	—	—	—	—	5,213	—	5,213	(57,425)	(52,212)		
Disposal of a subsidiary (Note vi)	—	—	—	—	—	—	—	—	—	3,246	(3,246)	—	—	—		
Subscription of shares of a subsidiary by non-controlling interests (Note vii)	—	—	—	—	—	—	—	—	—	(34,854)	—	(34,854)	425,554	390,700		
Proportional capital injection by non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	214	214		
Dividend recognised as distribution (Note 13)	—	(204,071)	—	—	—	—	—	—	—	—	—	(204,071)	—	(204,071)		
At 31 December 2017	9,988	1,645,571	49,990	(69,353)	335,777	27,730	(4,325)	(25,119)	—	(14,353)	2,210,166	4,166,072	493,878	4,659,950		
Adjustment (see Note 2)	—	—	—	—	—	—	6,347	—	—	—	(10,115)	(3,768)	(247)	(4,015)		
At 1 January 2018 (restated)	9,988	1,645,571	49,990	(69,353)	335,777	27,730	2,022	(25,119)	—	(14,353)	2,200,051	4,162,304	493,631	4,655,935		
Profit for the year	—	—	—	—	—	—	—	—	—	—	270,817	270,817	59,954	330,771		
Exchange difference arising on translation of foreign operations	—	—	—	16,531	—	—	—	—	—	—	—	16,531	—	16,531		
Fair value changes on investments in equity instruments at fair value through other comprehensive income, net of related deferred taxation	—	—	—	—	—	—	(51,147)	—	—	—	—	(51,147)	—	(51,147)		
Total comprehensive (expense) income for the year	—	—	—	16,531	—	—	(51,147)	—	—	—	270,817	236,201	59,954	296,155		
Transfer to PRC statutory reserves	—	—	—	—	45,760	—	—	—	—	—	(45,760)	—	—	—		
Shares repurchased and cancelled (Note 28)	(19)	(7,379)	—	—	—	—	—	—	—	—	—	(7,398)	—	(7,398)		
Share repurchased and yet to be cancelled (Note viii)	—	—	—	—	—	—	—	—	(4,961)	—	—	(4,961)	—	(4,961)		
Transaction cost attributable to shares repurchased	—	(27)	—	—	—	—	—	—	(18)	—	—	(45)	—	(45)		
Distribution of shares under share award scheme	—	—	—	—	—	—	—	3,107	—	—	—	3,107	—	3,107		
Proportional capital injection by non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	2,039	2,039		
Dividend recognised as distribution (Note 13)	—	(202,548)	—	—	—	—	—	—	—	—	—	(202,548)	—	(202,548)		
At 31 December 2018	9,969	1,435,617	49,990	(52,822)	381,537	27,730	(49,125)	(22,012)	(4,979)	(14,353)	2,425,108	4,186,660	555,624	4,742,284		

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY [CONTINUED]

For the year ended 31 December 2018

Notes:

- (i) Merger reserve represents the difference between the nominal value of shares of the subsidiary acquired over the nominal value of the shares used by the Company in exchange thereafter.
- (ii) PRC statutory reserves are reserves required by the relevant laws in the People's Republic of China (the "PRC") applicable to the Group's PRC subsidiaries.
- (iii) Shares held for share award scheme represents the own shares of the Company repurchased by a trustee for an employees' share award scheme. During the year ended 31 December 2018, a total of 900,000 ordinary shares of the Company at a fair value of RMB3,107,000 were granted to the employee of the Company.
- (iv) Other reserve of rmb14,353,000 includes an amount of RMB33,164,000 representing the excess of the balance of plan asset over the carrying amount of shares held under share award plan of the Company, which was recognised upon termination of the plan in prior years.
- (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 2017, the Group acquired an additional 44.13% equity interest in Zhuhai Zhonghui (as defined in Note 30) from the non-controlling interests. The difference between the amounts of consideration and the carrying values of the interests acquired amounting to RMB5,213,000 is recorded in other reserve.

- (vi) During the year ended 31 December 2017, the Group has completed the disposal of 85% equity interest in Hunan Jiale Property Development Co., Ltd. ("Hunan Jiale") to an independent third party and other reserve amount to RMB3,246,000 recognised between the amounts of consideration and the carrying values of the interests acquired in prior years has been realised and reclassified to retained profits.
- (vii) During the year ended 31 December 2017, Willfar Information Technology Company Limited ("Willfar Information Technology"), a subsidiary of the Company, has completed share subscriptions by two connected persons and five independent investors for an aggregate of 35% equity interest of Willfar Information Technology. After the share subscriptions, 65% equity interest of Willfar Information Technology are held by the Group and Willfar Information Technology remains as a subsidiary of the Group. The difference between the amounts of contribution from the two connected persons and the five independent investors and the amount by which non-controlling interests is adjusted amounting to RMB34,854,000 is recorded in other reserve. Further details of the subscriptions with the two connected persons are set out in the Company's announcement dated 12 January 2017.
- (viii) During the period from 17 December 2018 to 28 December 2018, 1,500,000 ordinary shares of the Company were repurchased at an aggregate cost of HK\$5,816,000 (equivalent to RMB4,961,000). As the repurchased shares were only cancelled subsequently on 31 January 2019, the repurchased shares and the relevant transaction cost were recorded at share repurchase reserve as at 31 December 2018.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	359,546	391,221
Adjustments for:		
Amortisation of intangible assets	92,176	94,602
Bank interest income	(23,950)	(23,977)
Depreciation of property, plant and equipment	59,428	45,838
Depreciation of investment properties	483	230
Dividend income from financial assets at FVTPL	(631)	—
Dividend income from available-for-sale investments	—	(6,333)
Dividend income from equity instruments at FVTOCI	(1,159)	—
Fair value loss on financial assets at FVTPL	(2,106)	—
Fair value loss on an available-for-sale investment upon reclassification as a subsidiary	—	3,670
Finance costs	59,594	43,291
Gain on bargain purchase of interests in subsidiaries	—	(8,241)
Gain on disposal of an available-for-sale investment	—	(6,000)
Gain on disposal of intangible assets	—	(10,434)
Gain on disposal of subsidiaries	—	(103,294)
Impairment loss on trade receivables	8,023	6,932
Interest income from available-for-sale investments	—	(7,558)
Interest income from financial assets at FVTPL	(15,331)	—
Interest income from consideration receivable for disposal of a subsidiary	(4,486)	(2,770)
Interest income from loan receivables	(11,919)	(20,716)
Net foreign exchange loss	3,715	11,262
Net gain on disposal of property, plant and equipment	(211)	(352)
Release of prepaid lease payments	2,832	5,927
Share-based payment expenses	—	572
Share of results of associates	580	83
Operating cash flows before movements in working capital	526,584	413,953
Increase in inventories	(11,043)	(89,689)
(Increase) decrease in trade and other receivables	(227,057)	170,257
Increase in contract assets	(263,358)	—
Increase in trade and other payables	123,486	161,254
Increase in contract liabilities	15,086	—
Cash generated from operations	163,698	655,775
Income tax paid	(17,932)	(47,121)
NET CASH FROM OPERATING ACTIVITIES	145,766	608,654

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES			
Placement of pledged bank deposits		(436,335)	(477,087)
Purchase of financial assets at FVTPL		(392,393)	—
Expenditure on intangible assets		(139,299)	(162,312)
Purchase of equity instruments at FVTOCI		(110,139)	—
Purchase of property, plant and equipment		(60,266)	(49,001)
Advance to an associate		(18,000)	—
Withdrawal of pledged bank deposits		428,453	387,285
Proceeds from disposal of financial assets at FVTPL		283,611	—
Repayment of loan receivables	22A(iv)	87,869	—
Proceeds from disposal of subsidiary in prior year		71,000	—
Interest received		61,300	55,876
Proceeds from disposal of property, plant and equipment		3,148	3,153
Dividends received from equity instruments at FVTOCI		1,159	—
Dividends received from financial assets at FVTPL		631	—
Investment in available-for-sale investments		—	(140,000)
Acquisition of a subsidiary, net of cash and cash equivalents acquired	30	—	(14,488)
Expenditure on prepaid lease payments		—	(12,217)
Capital injection upon establishment of an associate		—	(8,750)
Withdrawal of short-term bank deposits		—	150,000
Repayment of advances of short-term loan receivables under entrusted loan contracts	23	—	100,000
Proceeds from disposal of available-for-sale investment		—	73,223
Disposal of subsidiaries, net of cash and cash equivalents disposed of	31	—	59,233
Interest income received from available-for-sale investments		—	7,558
Dividends received from available-for-sale investments		—	6,333
Proceeds from disposal of intangible assets		—	2,000
NET CASH USED IN INVESTING ACTIVITIES		(219,261)	(19,194)
FINANCING ACTIVITIES			
New borrowings raised		1,229,354	814,716
Repayment of borrowings		(748,669)	(978,607)
Dividends paid		(202,548)	(204,071)
Interest paid on borrowings		(59,594)	(56,288)
Shares repurchased and cancelled		(7,398)	(35,599)
Shares repurchased and yet to be cancelled		(4,961)	—
Transaction cost attributable to shares repurchased		(45)	(225)
Acquisition of additional interests in subsidiaries		—	(52,212)
Subscription of shares of subsidiaries by non-controlling interests		—	390,700
NET CASH FROM (USED IN) FINANCING ACTIVITIES		206,139	(121,586)
NET INCREASE IN CASH AND CASH EQUIVALENTS		132,644	467,874
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,243,892	790,016
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		24,826	(13,998)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		1,401,362	1,243,892

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors consider the immediate and ultimate holding company to be Star Treasure Investments Holdings Limited, a limited liability company incorporated in the British Virgin Islands (the "BVI"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

Pursuant to a special resolution passed at the annual general meeting held on 25 May 2018, the English name of the Company was changed from "Wasion Group Holdings Limited" to "Wasion Holdings Limited" and the Chinese name of the Company was changed from "威勝集團控股有限公司" to "威勝控股有限公司".

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

The Company is an investment holding company. Particulars of the principal activities of its principal subsidiaries and associates are set out in Notes 40 and 18, respectively.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or on the disclosures as described below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from the following major sources:

- sale of smart power meters;
- sale of communication terminals and water, gas and heat sensor terminals; and
- sale of smart power distribution devices.

Information about the Group’s performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Notes 5 and 3 respectively.

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 RMB’000	Reclassification RMB’000	Carrying amounts under HKFRS 15 at 1 January 2018* RMB’000
Current Liabilities			
Trade and other payables	2,253,762	(87,173)	2,166,589
Contract liabilities	—	87,173	87,173

* The amounts in this column are before the adjustments from the application of HKFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.1 HKFRS 15 Revenue from Contracts with Customers (Continued)

The following table summarises the impacts of applying HKFRS 15 on the Group’s consolidated statement of financial position as at 31 December 2018 for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

	Notes	As reported RMB’000	Adjustments RMB’000	Amounts without application of HKFRS 15 RMB’000
Current Assets				
Trade and other receivables and prepayments		3,303,877	263,358	3,567,235
Contract assets	(a)	263,358	(263,358)	—
Current Liabilities				
Trade and other payables		2,271,847	102,259	2,374,106
Contract liabilities	(b)	102,259	(102,259)	—

Notes:

- (a) As at 31 December 2018, retention receivable from customers of RMB263,358,000 were classified as contract assets.
- (b) As at 31 December 2018, deposits received in advance from customers of RMB102,259,000 were classified as contract liabilities.

Impact on the consolidated statement of cash flows

	As reported RMB’000	Adjustments RMB’000	Amounts without application of HKFRS 15 RMB’000
Operating activities			
Increase in trade and other receivables	(227,057)	(263,358)	(490,145)
Increase in contract assets	(263,358)	263,358	—
Increase trade and other payables	123,486	15,086	138,572
Increase in contract liabilities	15,086	(15,086)	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.2 HKFRS 9 Financial instruments and the related amendments

In the current year, the Group has applied HKFRS 9 “Financial Instruments” and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and other items and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 “Financial Instruments: Recognition and Measurement”.

Accounting policies resulting from the application of HKFRS 9 are disclosed in Note 3.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Available-for-sale investments RMB'000	Equity instruments at FVTOCI RMB'000	Financial assets at FVTPL RMB'000	Trade receivables RMB'000	Deferred tax assets RMB'000	Deferred tax liabilities RMB'000	Investment revaluation reserve RMB'000	Retained profits RMB'000	Non-controlling interests RMB'000
Closing balance at 31 December 2017										
— HKAS 39		217,244	—	—	3,245,452	—	(17,252)	4,325	(2,210,166)	(493,878)
Effect arising from initial application of HKFRS 9:										
Reclassification										
From available-for-sale	(a)	(217,244)	97,244	120,000	—	—	—	—	—	—
Remeasurement										
Impairment under ECL model	(b)	—	—	—	(13,816)	3,454	—	—	10,115	247
Remeasurement at fair value	(a)	—	8,463	—	—	—	(2,116)	(6,347)	—	—
Opening balance at 1 January 2018		—	105,707	120,000	3,231,636	3,454	(19,368)	(2,022)	(2,200,051)	(493,631)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

2.2 HKFRS 9 Financial instruments and the related amendments (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

Notes:

(a) Available-for-sale investments

From AFS equity investments to FVTOCI

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale. At the date of initial application of HKFRS 9, RMB97,244,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI, of which RMB39,737,000 related to unlisted equity investments previously measured at cost less impairment under HKAS 39. The fair value gains of RMB8,463,000 and associated deferred tax liabilities relating to those unlisted equity investments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI, deferred tax liabilities and investment revaluation reserve as at 1 January 2018. The fair value losses of RMB4,325,000 relating to those investments previously carried at fair value continued to accumulate in investment revaluation reserve.

From AFS debt investments to FVTPL

Investment in trust funds with a fair value of RMB120,000,000 were reclassified from available-for-sale investments to financial assets at FVTPL. The cash flows of these investments do not represent solely payments of principal and interest on the principal amount outstanding. The fair value as at 1 January 2018 is same as the carrying amount at 31 December 2017.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL using lifetime ECL for trade receivables and contract assets. To measure the ECL, trade receivables and contract assets, have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise bills receivables, loan receivables, loan receivable from an associate, other receivables, pledged bank deposits and bank balances, are measured on 12m ECL basis as there has been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance of RMB13,816,000 has been recognised against retained profits. The additional loss allowance is charged against the trade receivables. No additional impairment allowance is charged against the remaining financial assets as the amount is considered not material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and amendments to HKFRSs that are mandatorily effective for the current year
(Continued)

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity’s accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	31 December 2017 (Audited) RMB’000	HKFRS 9 RMB’000	1 January 2018 (Restated) RMB’000
Non-current Assets			
Available-for-sale investments	217,244	(217,244)	—
Equity instruments at FVTOCI	—	105,707	105,707
Financial assets at FVTPL	—	120,000	120,000
Deferred tax assets	—	3,454	3,454
Other items with no adjustments	2,311,347	—	2,311,347
	2,528,591	11,917	2,540,508
Current Assets			
Trade and other receivables and prepayments	3,245,452	(13,816)	3,231,636
Other items with no adjustments	2,110,011	—	2,110,011
	5,355,463	(13,816)	5,341,647
Current Liabilities			
Others with no adjustments	3,139,151	—	3,139,151
Net Current Assets	2,216,312	(13,816)	2,202,496
Total Assets less Current Liabilities	4,744,903	(1,899)	4,743,004
Capital and Reserves			
Equity attributable to owners of the Company	4,166,072	(3,768)	4,162,304
Non-controlling interests	493,878	(247)	493,631
Total Equity	4,659,950	(4,015)	4,655,935
Other items with no adjustments	67,701	—	67,701
Deferred tax liabilities	17,252	2,116	19,368
Non-current Liabilities	84,953	2,116	87,069
	4,744,903	(1,899)	4,743,004

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ⁴
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKFRS 1 and HKAS 8	Definition of Material ⁵
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2021

⁴ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

⁵ Effective for annual periods beginning on or after 1 January 2020

Except for the new HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable futures.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a mode where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKFRS 16 “Leases” (Continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, and upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB3,361,000 as disclosed in Note 38. These arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB465,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

Amendments to HKFRS 3 “Definition of a Business”

The amendments clarify the definition of a business and provide additional guidance with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. Furthermore, an optional concentration test is introduced to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments will be mandatorily effective to the Group prospectively for acquisition transactions completed on or after 1 January 2020.

Amendments to HKFRS 1 and HKAS 8 “Definition of Material”

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods or services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, for financial reporting purpose, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 “Income Taxes” and HKAS 19 “Employee Benefits” respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 “Share-based Payment” at the acquisition date (see accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary’s net assets in the event of liquidation are initially measured at the non-controlling interests’ proportionate share of the recognised amounts of the acquiree’s identifiable net assets or at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

A CGU (or groups of CGUs) to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or groups of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or groups of CGUs).

On disposal of the relevant CGU or any of the CGU within the group of CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU unit within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of an associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the associate's accounting policies to those of the Group. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2) (Continued)

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations (such as the provision of delivery, installation, repair and maintenance services), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Warranties

If a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related tax.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and the titles have passed.

Deposits and instalments received from customers prior to meeting the above criteria on revenue recognition are included in the consolidated statement of financial position under current liabilities.

Service income is recognised when services are provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (prior to 1 January 2018) (Continued)

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the rights to receive payments have been established.

Property, plant and equipment

Property, plant and equipment including buildings, leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

An item of property, plant and equipment is transferred to investment property when there is a change of use, as evidenced by end 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 investment property respectively.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties (Continued)

An item of investment property is transferred to property, plant and equipment when there is a change of use, as evidenced by end 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.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating lease in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Internally-generated intangible assets — research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Life insurance products

Life insurance products are stated in the consolidated statement of financial position at cost, plus accumulated interest earned and minus the accumulated monthly insurance premium expenses charged less subsequent accumulated impairment losses, if any.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value except for trade and bills receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (Continued)

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the other income line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and bills receivables, retentions held by trade customers, loan receivables, loan receivables from an associate, other receivables and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables, retentions held by trade customers and contract assets without significant financing component. The ECL on these assets are assessed collectively using a provision matrix based on a combination of groupings of various debtors that shared similar credit risk characteristics and past due analysis.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2)
(Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, 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. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2)
(Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

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;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2)
(Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis to cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size, industry and geographical location of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets are classified as financial assets at FVTPL, loans and receivables and available-for-sale investments. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in other income. Fair value is determined in the manner described in Note 35(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including the deposit component of the life insurance products, consideration receivable for disposal of subsidiaries, trade and bills and other receivables, loan receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Retention amounts billed for sale of goods but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

(iii) Available-for-sale investments

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as available-for-sale investments are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of available-for-sale debt instruments relating to interest income calculated using the effective interest method, and changes in foreign exchange rates, if applicable, are recognised in profit or loss. Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade and bills receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables, where the carrying amount is reduced through the use of an allowance accounts. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and bills receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale investments is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in that period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities at amortised cost

The Group's financial liabilities, including trade and other payables and borrowings, are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognised in profit or loss.

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve).

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Awarded shares granted to employees

When trustee of the share award scheme purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held for share award scheme and deducted from total equity. No gain or loss is recognised on the transactions of the Company's own shares.

The fair value of services received is determined by reference to the fair value of share awards granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share award reserve).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rate prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rate prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of tangibles and intangibles assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset (or a CGU) is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Capitalisation of development cost

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 can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset. The management has conducted a careful assessment and concluded that the future economic benefit relating to these development cost is probable which fulfills the capitalisation criteria.

Key sources of estimation uncertainty

The following are 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

(i) Estimated carrying amounts of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected or changes in facts and circumstances which result in downward revision of future cash, a material impairment loss may arise. The carrying amount of goodwill of approximately RMB297.9 million as at 31 December 2018 and 2017 was allocated to the power advanced metering infrastructure, communication and fluid advanced metering infrastructure and advanced distribution operations segments. Details of the recoverable amount calculation are disclosed in Note 17(a).

(ii) Provision of ECL for trade receivables and contract assets

Except for those which had been determined as credit impaired under HKFRS 9, the Group uses provision matrix to calculate ECL for the trade receivables and contract assets. The provision matrix is taking into consideration forward-looking information that is available without undue costs or effort. The provision rates are based on a combination of groupings of various debtors that shared similar credit risk characteristics and past due analysis. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Notes 22A and 35(b) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue from contracts with customers

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Year ended 31.12.2018 RMB'000	Year ended 31.12.2017 RMB'000
Sales of goods:					
Smart power meters	1,734,857	—	—	1,734,857	1,591,163
Communication terminals	—	801,893	—	801,893	690,644
Water, gas and heat sensor terminals	—	128,051	—	128,051	65,118
Smart power distribution devices	—	—	675,520	675,520	581,064
	1,734,857	929,944	675,520	3,340,321	2,927,989

Performance obligations for contracts with customers

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

The revenue from the sales 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 sales contract, a deposit from customers amounting to approximate 10% of the invoiced amount may be requested. Upon shipment and acceptance of products by the customers, the remaining invoiced amount is settled by customers by instalments within 90 days to 365 days after acceptance of products, except that a 10% of the invoiced amount is withheld by the customers and will be released to the Group upon the satisfaction of a one to two-years retention period. The directors of the Company assessed the existence of significant financing component and considered that the amount is insignificant at contract level and hence the effects of time value of money is not adjusted. During the retention period, the Group provides assurance-type repair and maintenances and other related services.

On the receipt of deposit, a contract liability is recognised and on the shipment and acceptance of products by the customers, the Group recognises the sales and a receivable and a contract asset (for the withholding portion) are recognised. Upon the completion of retention period, the contract asset will transfer to a receivable.

For revenue from other performance obligations, including the provision of delivery, installation, repair and maintenance services, the directors of the Company reviewed and assessed the estimated amount of transaction prices and considered that the amount is insignificant and no allocation is performed to separately account for the revenue from these other performance obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION (Continued)

Performance obligations for contracts with customers (Continued)

For the revenue from other performance obligations, including the provision of delivery, installation, repair and maintenance services, the directors of the Company reviewed and assessed the estimated amount of transaction prices and considered that the amount is insignificant and no allocation is performed to separately account for the revenue from these other performance obligations.

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

The Group's contracts with customers 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 are not disclosed.

Segment Information

Information reported to the Group's Chief Executive Officer, being the chief operating decision maker (the "CODM"), for the purposes of resources allocation and assessment of segment performance focuses on business lines of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

- (a) Power advanced metering infrastructure segment, which engages in the development, manufacture and sale of smart power meters and provision of respective system solution;
- (b) Communication and fluid advanced metering infrastructure segment, which engages in the development, manufacture and sale of communication terminals and water, gas and heat metering and sensor products and provision of respective system solution; and
- (c) Advanced distribution operations segment, which engages in the manufacture and sale of smart power distribution devices and providing smart power distribution solution and energy efficiency solution services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:

For the year ended 31 December 2018

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Consolidated RMB'000
Segment revenue	1,734,857	929,944	675,520	3,340,321
Segment profit	174,973	143,763	85,332	404,068
Unallocated income and gains/losses				47,705
Share of results of associates				(580)
Central administration costs				(32,053)
Finance costs				(59,594)
Profit before taxation				359,546

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2017

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Consolidated RMB'000
Segment revenue	1,591,163	755,762	581,064	2,927,989
Segment profit	159,227	87,412	60,943	307,582
Unallocated income and gains/losses				57,065
Gain on bargain purchase of interests in subsidiaries				8,241
Gain on disposal of subsidiaries				103,294
Share of results of associates				(83)
Central administration costs				(41,587)
Finance costs				(43,291)
Profit before taxation				391,221

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment profit represents the profit attributable to each segment without allocation of certain other income, other gains and losses, gain on bargain purchase of interest in subsidiaries, gain on disposal of subsidiaries, share of results of associates, central administration costs, directors' salaries, finance costs and taxation. This is the measure reported to the Group's CODM for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	31.12.2018 RMB'000	31.12.2017 RMB'000
SEGMENT ASSETS		
Power advanced metering infrastructure	3,113,856	3,006,801
Communication and fluid advanced metering infrastructure	1,404,164	1,420,995
Advanced distribution operations	1,671,355	1,374,445
Total segment assets	6,189,375	5,802,241
Unallocated assets	2,418,920	2,081,813
Consolidated assets	8,608,295	7,884,054
SEGMENT LIABILITIES		
Power advanced metering infrastructure	1,183,511	1,247,101
Communication and fluid advanced metering infrastructure	535,123	394,316
Advanced distribution operations	607,539	514,755
Total segment liabilities	2,326,173	2,156,172
Unallocated liabilities	1,539,838	1,067,932
Consolidated liabilities	3,866,011	3,224,104

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than certain property, plant and equipment, prepaid lease payments, investments in associates, equity instrument in FVTOCI, financial assets at FVTPL, available-for-sale investments, life insurance products, loan receivables, other receivables, pledged bank deposits, bank balances and cash and deferred tax assets; and
- all liabilities are allocated to operating segments other than certain other payables, tax liabilities, borrowings and deferred tax liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

Amounts included in the measure of segment profit or segment assets and liabilities:

For the year ended 31 December 2018

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Segment total RMB'000	Unallocated RMB'000	Consolidated RMB'000
Additions to non-current assets (Note)	95,602	54,897	47,821	198,320	1,245	199,565
Depreciation and amortisation of property, plant and equipment and intangible assets	56,871	51,463	37,579	145,913	5,691	151,604
Release of prepaid lease payments	448	670	1,714	2,832	—	2,832
(Gain) loss on disposal of property, plant and equipment	(210)	4	(5)	(211)	—	(211)

For the year ended 31 December 2017

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Segment total RMB'000	Unallocated RMB'000	Consolidated RMB'000
Additions to non-current assets (Note)	99,739	90,698	52,806	243,243	1,436	244,679
Depreciation and amortisation of property, plant and equipment and intangible assets	66,721	37,868	30,251	134,840	5,600	140,440
Release of prepaid lease payments	448	734	1,714	2,896	3,031	5,927
(Gain) loss on disposal of property, plant and equipment	(397)	—	45	(352)	—	(352)

Note: Non-current assets exclude financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue from major customers

None of the customers individually contributed over 10% of the consolidated revenue in any of the two years ended 31 December 2018 and 31 December 2017.

Geographical information

The Group's operations are mainly located in the PRC.

The following table provides an analysis of the Group's revenue by geographical location of customers, irrespective of the origin of the goods, and information about its non-current assets by geographical location of the assets.

	Revenue from external customers		Non-current assets (Note)	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
PRC	2,945,553	2,546,803	2,256,139	2,202,290
Asian countries, except for PRC	202,050	75,852	—	—
African countries	142,670	196,304	306	—
Other overseas countries	50,048	109,030	—	—
	3,340,321	2,927,989	2,256,445	2,202,290

Note: Non-current assets exclude financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

6. OTHER INCOME

	Year ended 31.12.2018 RMB'000	Year ended 31.12.2017 RMB'000
Other income comprises:		
Bank interest income	23,950	13,854
Change in fair value of financial assets classified as held for trading	—	8,916
Dividend income from available-for-sale investments	—	6,333
Dividend income from financial assets at FVTPL	631	—
Dividend received from equity instruments at FVTOCI	1,159	—
Government grants (Note i)	26,533	36,183
Interest income from available-for-sale investments	—	7,558
Interest income from consideration receivable for disposal of a subsidiary	4,486	2,770
Interest income from loan receivables (Note ii)	11,919	20,716
Interest income on financial assets at FVTPL	15,331	—
Refund of value-added tax ("VAT") (Note iii)	34,712	27,948
Rental income from investment properties	2,561	1,491
Others	1,613	16,067
	122,895	141,836

Notes:

- (i) Government grants mainly comprise financial subsidies from the PRC governments 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.
- (ii) The amount represents the interest income from short-term loans advanced by the Group to certain independent third parties under entrusted loan contracts. Details of the loans are disclosed in Note 23.
- (iii) Pursuant to the relevant regulations in the PRC, certain subsidiaries of the Group operating in the PRC are entitled to refunds of certain percentage of VAT on the sale of specified high technology products. The amount represents such VAT refund which is recognised upon the approval by the relevant tax authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

7. OTHER GAINS AND LOSSES

	Year ended 31.12.2018 RMB'000	Year ended 31.12.2017 RMB'000
Other gains (losses) comprises:		
Net foreign exchange loss	(3,715)	(11,262)
Net gain on disposal of property, plant and equipment	211	352
Fair value gain on financial assets at FVTPL	2,106	—
Gain on disposal of an available-for-sale investment	—	6,000
Gain on disposal of intangible assets	—	10,434
Fair value loss on revaluation of an available-for-sale investment upon reclassification as a subsidiary	—	(3,670)
	(1,398)	1,854

8. FINANCE COSTS

	Year ended 31.12.2018 RMB'000	Year ended 31.12.2017 RMB'000
Interest on borrowings	59,594	45,320
Less: amounts capitalised in the cost of qualifying assets	—	(2,029)
	59,594	43,291

For the year ended 31 December 2017, the borrowing costs capitalised of RMB2,029,000 (2018: nil) arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.19% to expenditures on qualifying assets.

9. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	Year ended 31.12.2018 RMB'000	Year ended 31.12.2017 RMB'000
Impairment losses recognised on:		
— Trade receivables and contract assets	8,023	6,932

Details of impairment assessment for the year ended 31 December 2018 are set out in Note 35(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

10. PROFIT BEFORE TAXATION

	Year ended 31.12.2018 RMB'000	Year ended 31.12.2017 RMB'000
Profit before taxation has been arrived at after charging:		
Staff costs (including directors' emoluments):		
Salaries and benefits	323,396	284,269
Retirement benefit scheme contributions	13,713	18,967
Share-based payment expenses	3,107	572
	340,216	303,808
Capitalised in development costs	(79,666)	(91,887)
Capitalised in inventories	(30,981)	(27,179)
	229,569	184,742
Auditor's remuneration	3,425	3,129
Depreciation of property, plant and equipment	59,428	51,022
Depreciation of investment properties	483	230
Release of prepaid lease payments	2,832	5,927
Amortisation of intangible assets (included in selling expenses, administrative expenses and research and development expenses)	92,176	91,333
Total depreciation and amortisation	154,919	148,512
Capitalised in inventories	(149,271)	(143,328)
	5,648	5,184
Cost of inventories recognised as expense	2,349,035	2,093,318

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

11. INCOME TAX EXPENSE

	Year ended 31.12.2018 RMB'000	Year ended 31.12.2017 RMB'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
— Current year	58,572	79,796
— Overprovision in prior years	(26,667)	(25,308)
	31,905	54,488
Deferred taxation (Note 29)		
— Current year	(3,130)	(1,063)
	28,775	53,425

Notes:

(i) Hong Kong

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime is insignificant to the consolidated financial statements.

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 both years.

(ii) PRC

PRC EIT was calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC, 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 continue to enjoy the preferential tax rate of 15% for a consecutive three years from year 2015 to 2017, year 2016 to 2018 or year 2017 to 2019, respectively.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

11. INCOME TAX EXPENSE (Continued)

Notes: (Continued)

(iii) Other jurisdictions

Taxation arising in other jurisdictions was calculated at the rates prevailing in the respective jurisdictions. Under the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, a Macao company incorporated under that Law ("58/99/M Company") is exempted from Macao Complementary Tax as long as the 58/99/M Company does not sell its products to a Macao resident company.

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31.12.2018 RMB'000	Year ended 31.12.2017 RMB'000
Profit before taxation	359,546	391,221
Tax at the income tax rate of 25%	89,887	97,805
Tax effect of expenses not deductible for tax purpose	26,789	23,803
Tax effect of income not taxable for tax purpose	(1,318)	(846)
Tax effect of share of results of an associate	145	21
Tax effect of tax losses not recognised	5,370	7,592
Utilisation of tax losses previously not recognised	(457)	(531)
Effect of tax concessions/exemption granted to PRC and Macao subsidiaries	(43,289)	(37,352)
Effect of additional tax deduction on research and development expenses of PRC subsidiaries	(21,685)	(11,759)
Overprovision in prior years	(26,667)	(25,308)
Income tax expense for the year	28,775	53,425

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and employees' emoluments

Details of emoluments paid or payable to each of the ten (2017: twelve) directors are set out as follows:

For the year ended 31 December 2018

	Directors' fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonuses RMB'000 (Note i)	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors:					
Ji Wei	—	514	—	15	529
Cao Zhao Hui (Note ii)	—	557	50	20	627
Zeng Xin	—	597	—	20	617
Zheng Xiao Ping	—	555	—	17	572
Tian Zhongping (Note iii)	—	459	—	23	482
Non-executive director:					
Kat Chit	—	257	—	—	257
Independent non-executive directors:					
Hui Wing Kuen	419	—	—	—	419
Huang Jing	205	—	—	—	205
Luan Wenpeng	103	—	—	—	103
Cheng Shi Jie	156	—	—	—	156
	883	2,939	50	95	3,967

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' and employees' emoluments (Continued)

For the year ended 31 December 2017

	Directors' fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonuses RMB'000 (Note i)	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors:					
Ji Wei	—	518	—	15	533
Cao Zhao Hui (Note ii)	—	560	50	23	633
Zeng Xin	—	600	—	23	623
Zheng Xiao Ping	—	558	—	23	581
Tian Zhongping (Note iii)	—	442	—	23	465
Wang Xue Xin (Note iv)	—	21	—	1	22
Li Hong (Note iv)	—	21	—	1	22
Non-executive director:					
Kat Chit	—	260	—	—	260
Independent non-executive directors:					
Hui Wing Kuen	398	—	—	—	398
Huang Jing	208	—	—	—	208
Luan Wenpeng	104	—	—	—	104
Cheng Shi Jie	157	—	—	—	157
	867	2,980	50	109	4,006

Notes:

- (i) Discretionary bonuses are recommended by the Remuneration Committee and is decided by the board of directors having regard to the Group's operating results, individual performance and comparable market statistics.
- (ii) Ms. Cao Zhao Hui is also the Chief Executive of the Company and her emoluments disclosed above include those for services rendered by her as the Chief Executive.
- (iii) Mr. Tian Zhongping was appointed as a director of the Company on 26 January 2017.
- (iv) Mr. Wang Xue Xin and Mr. Li Hong resigned as directors of the Company on 26 January 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' and employees' emoluments (Continued)

No directors waived any emoluments for any of the two years ended 31 December 2018 and 31 December 2017.

The executive director's emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were paid for their services as directors of the Company.

(b) Employees' emoluments

The five highest paid individuals of the Group for the year ended 31 December 2018 included four (2017: four) directors of the Company, details of whose emoluments are included above. The emoluments of the remaining one (2017: one) individual for the year are as follows:

	Year ended 31.12.2018 RMB'000	Year ended 31.12.2017 RMB'000
Salaries and other benefits	1,412	1,728
Retirement benefit scheme contributions	15	16
	1,427	1,744

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	2018 No. of employees	2017 No. of employees
HK\$1,500,001 to HK\$2,000,000	1	—
HK\$2,000,001 to HK\$2,500,000	—	1
	1	1

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

13. DIVIDENDS

	Year ended 31.12.2018 RMB'000	Year ended 31.12.2017 RMB'000
Dividends recognised as distribution during the year:		
2017 final dividend — HK\$0.24, equivalent to RMB0.194, per share (2017: 2016 final dividend — HK\$0.24, equivalent to RMB0.212, per share)	202,548	204,071

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of HK\$0.20, equivalent to RMB0.171, per share (2017: final dividend in respect of the year ended 31 December 2017 of HK\$0.24, equivalent to RMB0.194, per share), in an aggregate amount of HK\$199,992,000, equivalent to RMB170,993,000 (2017: HK\$241,133,000, equivalent to RMB194,474,000), has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

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

	Year ended 31.12.2018 RMB'000	Year ended 31.12.2017 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	270,817	301,575

	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	989,287,239	999,887,376
Effect of dilutive potential ordinary shares in respect of share options	5,569	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	989,292,808	999,887,376

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award scheme of the Company as set out in Note 33.

The computation of diluted earnings per share for the year ended 31 December 2017 does not assume the exercise of the Company's outstanding share options as the relevant exercise price of those options were higher than the average market price for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

15. PROPERTY, PLANT AND EQUIPMENT/PREPAID LEASE PAYMENTS

(a) Property, plant and equipment

	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
COST							
At 1 January 2017	1,102,792	4,758	282,137	47,739	24,776	125,150	1,587,352
Additions	—	—	16,672	10,071	2,752	21,534	51,029
Acquisition of subsidiaries (Note 30)	23,265	—	4,064	697	96	—	28,122
Transfer	136,023	—	2,639	2,686	—	(141,348)	—
Transfer from investment properties (Note 16)	3,958	—	—	—	—	—	3,958
Disposals/written off	(256)	—	(4,845)	(901)	(4,286)	—	(10,288)
Disposal of a subsidiary (Note 31)	—	—	—	(26)	—	—	(26)
Exchange realignment	—	(143)	—	(35)	(76)	—	(254)
At 31 December 2017	1,265,782	4,615	300,667	60,231	23,262	5,336	1,659,893
Additions	682	12,887	23,722	12,394	1,806	8,775	60,266
Transfer	—	1,230	47	1,415	—	(2,692)	—
Disposals/written off	—	—	(11,108)	(646)	(286)	—	(12,040)
Transfer to investment properties (Note 16)	(14,014)	—	—	—	—	—	(14,014)
Exchange realignment	—	98	—	25	52	—	175
At 31 December 2018	1,252,450	18,830	313,328	73,419	24,834	11,419	1,694,280
DEPRECIATION							
At 1 January 2017	92,507	4,577	166,112	40,388	15,796	—	319,380
Provided for the year	20,350	171	23,166	5,494	1,841	—	51,022
Transfer from investment properties (Note 16)	74	—	—	—	—	—	74
Eliminated on disposals/written off	(76)	—	(2,701)	(681)	(4,029)	—	(7,487)
Eliminated on disposal of a subsidiary (Note 31)	—	—	—	(22)	—	—	(22)
Exchange realignment	—	(143)	—	(35)	(66)	—	(244)
At 31 December 2017	112,855	4,605	186,577	45,144	13,542	—	362,723
Provided for the year	23,035	2,935	24,370	7,362	1,726	—	59,428
Eliminated on disposals/written off	—	—	(8,427)	(409)	(267)	—	(9,103)
Transfer to investment properties (Note 16)	(1,009)	—	—	—	—	—	(1,009)
Exchange realignment	—	98	—	24	47	—	169
At 31 December 2018	134,881	7,638	202,520	52,121	15,048	—	412,208
CARRYING VALUES							
At 31 December 2018	1,117,569	11,192	110,808	21,298	9,786	11,419	1,282,072
At 31 December 2017	1,152,927	10	114,090	15,087	9,720	5,336	1,297,170

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

15. PROPERTY, PLANT AND EQUIPMENT/PREPAID LEASE PAYMENTS (Continued)

(a) Property, plant and equipment (Continued)

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis over the following periods:

Buildings	Over the remaining period of the lease terms of the relevant land on which 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	5 to 10 years
Furniture, fixtures and office equipment	5 to 10 years
Motor vehicles	10 years

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

During the year ended 31 December 2018, an office with cost of RMB14,014,000 and accumulated depreciation of RMB1,009,000 is transferred to investment properties upon the commencement of a rental agreement entered into with an independent third party.

(b) Prepaid lease payments

The Group's prepaid lease payments comprise leasehold land outside Hong Kong held under medium-term leases and analysed for reporting purposes as:

	31.12.2018 RMB'000	31.12.2017 RMB'000
Non-current assets	148,460	151,292
Current assets	3,541	3,541
	152,001	154,833

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

16. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2017	21,204
Transfer to property, plant and equipment (Note)	(3,958)
At 31 December 2017	17,246
Transfer from property, plant and equipment (Note 15(a))	14,014
At 31 December 2018	31,260
DEPRECIATION	
At 1 January 2017	1,452
Provided for the year	230
Transfer to property, plant and equipment (Note)	(74)
At 31 December 2017	1,608
Provided for the year	483
Transfer from property, plant and equipment (Note 15(a))	1,009
At 31 December 2018	3,100
CARRYING VALUES	
At 31 December 2018	28,160
At 31 December 2017	15,638

Note: Before the acquisition of subsidiaries, the Group rented a building to Zhuhai Zhonghui (as defined in Note 30) and the building was classified as investment property. Upon the completion of the acquisition of Zhuhai Zhonghui, the building is considered as an owner-occupied property and is transferred to property, plant and equipment.

The above investment properties are depreciated on a straight-line basis over the remaining period of the lease terms of the relevant land and erected on land under medium-term land use rights outside Hong Kong.

The fair values of the Group's investment properties at 31 December 2018 were RMB37,422,000 (2017: RMB18,657,000). The fair values for the year ended 31 December 2018 and 2017 have been arrived at based on valuations carried out by 湖南中和房地產評估諮詢有限公司, an independent valuer not connected with the Group.

The fair values were determined based on the direct comparison approach, which makes reference to the recent transactions for similar properties in the proximity and adjusted for a number of factors, including differences in transaction dates, building ages, floor areas, etc., between the comparable properties and the subject matters. In estimating the fair values of the properties, the highest and best use of the properties is their current use and the fair value measurements for all of the Group's properties are categorised as Level 3 (see Note 3 for details). There has been no change from the valuation technique used in the prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

17. GOODWILL/OTHER INTANGIBLE ASSETS

(a) Goodwill

	RMB'000
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COST

At 1 January 2017, 31 December 2017 and 31 December 2018	297,919
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For the purposes of impairment testing, goodwill arising on business combinations as set out above was allocated, at acquisition, to individual CGUs which are in the following segments and the carrying amounts are as follows:

	31.12.2018 & 31.12.2017 RMB'000
Power advanced metering infrastructure CGU:	184,884
Communication and fluid advanced metering infrastructure CGU:	53,495
Advanced distribution operations CGU:	59,540
	297,919

During the year ended 31 December 2018 and 2017, management of the Group determines that there are no impairments of any of its CGUs or group of CGUs containing goodwill.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. The recoverable amounts of the CGUs as at 31 December 2018 have been arrived at on the basis of valuation carried out on the respective date by an independent qualified professional valuers. The key assumptions used in the valuations are those regarding the suitable discount rates, growth rates, budgeted sales and gross profit margin. The changes in selling prices and costs are based on historical operating records and expectation of future changes in the market. Discount rates applied are able to reflect the current market assessments of the time value of money and the risks specific to the CGUs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

17. GOODWILL/OTHER INTANGIBLE ASSETS (Continued)

(a) Goodwill (Continued)

The basis of value-in-use calculations of the above CGUs or group of CGUs containing goodwill and their major underlying assumptions are summarised below:

For the year ended 31 December 2018 and 2017, the Group determined the value-in-use by preparing cash flow projections of these CGUs based on the most recent financial forecast approved by the management covering a five-year period with a steady growth rate. Cash flows beyond the fifth year are extrapolated using an estimated growth rate. Other key assumptions for the value-in-use calculations relate to the estimation of cash flow projections which include selling prices, cost and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The discount rate reflects specific risks relating to the relevant CGUs.

	Power advanced metering infrastructure CGU	Communication and fluid advanced metering infrastructure CGU	Advanced distribution operations CGU
Average growth rate of profit for projection period			
2018	5%	3%	3%
2017	5%	3%	3%
Terminal growth rate			
2018	3%	8%	5%
2017	3%	8%	28%
Pre-tax discount rates			
2018	12.5%	12.5%	15.5%
2017	12.5%	12.5%	15.5%

As at 31 December 2018, the recoverable amount of the above CGUs exceeds their carrying amounts by 103% to 310%.

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amounts of the goodwill and other intangible assets to exceed their recoverable amounts.

During each of the year ended 31 December 2018 and 2017, management of the Group determines that there is no impairment of any of the CGUs or group of CGUs containing goodwill.

The recoverable amounts of the CGUs have been determined based on a value in use calculation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

17. GOODWILL/OTHER INTANGIBLE ASSETS (Continued)

(a) Goodwill (Continued)

For the year ended 31 December 2018 and 2017, the calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rates ranging from 12.50% to 15.50% (2017: 12.50% to 15.50%). The cash flows beyond the 5-year period are extrapolated using a steady growth rate. For the CGUs of power advanced metering infrastructure, a rate of 3% (2017: 3%) is used. This growth rate is based on the global economic growth rate. For the CGU of communication and fluid advanced metering infrastructure and the CGUs of advanced distribution operations, growth rates of 5% and 9% (2017: 5% and 9%) are used, respectively. These growth rates are based on the directors' best estimate on the CGU's past performance and management's expectations for the market development.

For both years, other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of any of the CGUs and group of CGUs to exceed the aggregate recoverable amount of the relevant CGUs and group of CGUs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

17. GOODWILL/OTHER INTANGIBLE ASSETS (Continued)

(b) Other intangible assets

	Development costs RMB'000	Acquired patents, copyrights and trademarks RMB'000	Acquired technology RMB'000	Customer relationship and contracts RMB'000	Premium on land RMB'000	Total RMB'000
COST						
At 1 January 2017	620,421	78,061	95,257	63,669	46,713	904,121
Additions	159,014	3,298	—	—	—	162,312
Disposals	(10,066)	—	—	—	—	(10,066)
Acquired on acquisition of subsidiaries (Note 30)	—	3,217	—	—	—	3,217
At 31 December 2017	769,369	84,576	95,257	63,669	46,713	1,059,584
Additions	137,803	1,496	—	—	—	139,299
At 31 December 2018	907,172	86,072	95,257	63,669	46,713	1,198,883
AMORTISATION						
At 1 January 2017	328,908	66,695	91,205	46,622	8,996	542,426
Provided for the year	79,493	6,009	2,570	2,326	935	91,333
At 31 December 2017	408,401	72,704	93,775	48,948	9,931	633,759
Provided for the year	84,217	3,882	817	2,326	934	92,176
At 31 December 2018	492,618	76,586	94,592	51,274	10,865	725,935
CARRYING VALUES						
At 31 December 2018	414,554	9,486	665	12,395	35,848	472,948
At 31 December 2017	360,968	11,872	1,482	14,721	36,782	425,825

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

17. GOODWILL/OTHER INTANGIBLE ASSETS (Continued)

(b) Other intangible assets (Continued)

Development costs represent expenses capitalised during development phase of internal projects for development of new technology and new products.

The entire balances of acquired technology, customer relationship and contracts and premium on land, and certain amounts of development costs and acquired patents, copyrights and trademarks were acquired as part of business combinations in prior years.

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

Development costs	3 to 5 years
Acquired patents, copyrights and trademarks	3 to 10 years
Acquired technology	3 to 5 years
Customer relationship and contracts	10 years
Premium on land	Over the remaining period of the lease terms of the relevant land

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

18. INVESTMENTS IN ASSOCIATES

	31.12.2018 RMB'000	31.12.2017 RMB'000
Cost of unlisted investments in associates	28,750	28,750
Share of post-acquisition losses	(16,876)	(15,751)
Less: effect of elimination of gain on transfer of intangible assets from the Group to an associate to the extent of the Group's interest therein	(2,724)	(3,269)
	9,150	9,730

Details of the Group's associates at the end of the reporting period are as follows:

Name of entity	Form of entity	Country of establishment/ principal operations	Proportion of ownership interest and voting rights held by the Group		Principal activity
			2018	2017	
Smart Metering Solution (Changsha) Co., Ltd. ("Smart Metering")	Established	PRC	40%	40%	Research, development, manufacturing, and selling meter products, meter data management system, smart meter solution system and provide relevant consulting services
Chengsha High-tech Development Zone Energy Integrated Services Co., Ltd. ("Chengsha Energy") 長沙高新開發區能源綜合服務有限公司	Established	PRC	35%	35%	Sales of electricity, design, development and maintenance of electric power information systems, renewable energy generation, energy performance contract, provision of electric power engineering construction and design services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

18. INVESTMENTS IN ASSOCIATES (Continued)

Smart Metering is co-established by the Group and an independent third party and the Group is able to exercise significant influence over Smart Metering because it has power to appoint two out of five directors.

Chengsha Energy is co-established by the Group and two independent third parties and the Group is able to exercise significant influence over Chengsha Energy because it has power to appoint one out of four directors.

The Group's associates are accounted for using equity method in these consolidated financial statements.

Summarised financial informations in respect of the Group's associates are set out below. The summarised financial informations below represents amount shown in the associates' financial statements prepared in accordance with HKFRSs.

	Smart Metering		Chengsha Energy	
	Year ended 31.12.2018 RMB'000	Year ended 31.12.2017 RMB'000	Year ended 31.12.2018 RMB'000	Year ended 31.12.2017 RMB'000
<i>Financial information of consolidated statement of profit or loss and other comprehensive income</i>				
Revenue	42,934	159,799	25	—
(Loss) profit and total comprehensive (expense) income for the year	(36,811)	(1,978)	679	462
(Loss) profit for the year attributable to the Group	(14,724)	(790)	238	162
<i>Reconciliation to the share of results of associates:</i>				
(Loss) profit for the year attributable to the Group	(1,363)	(790)	238	162
Amortisation of gain on transfer of intangible assets from the Group to the associate to the extent of the Group's interest therein	545	545	—	—
Share of results of associates	(818)	(245)	238	162
Loss allocated in excess of investment cost in current period	(13,906)	—	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

18. INVESTMENTS IN ASSOCIATES (Continued)

	Smart Metering		Chengsha Energy	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Financial information of consolidated statement of financial position</i>				
Intangible assets	6,880	9,306	—	—
Other non-current assets	35	10,248	—	—
Current assets	48,914	54,805	26,168	25,681
Current liabilities	(76,553)	(64,139)	(25)	(217)
Non-current liabilities	(5,867)	—	—	—
Net (liabilities) assets of the associates	(26,591)	10,220	26,143	25,464
<i>Reconciliation to the carrying amount of interests in the associates:</i>				
Net (liabilities) assets attributable to the Group's ownership interests in the associates	(10,637)	4,088	9,150	8,912
Effect of share of loss on amortisation of gain on transfer of intangible assets from the Group to the associate to the extent of the Group's interest therein	(545)	—	—	—
Effect of elimination of gain on transfer of intangible assets from the Group to the associate to the extent of the Group's interest therein	(2,724)	(3,270)	—	—
Unrecognised share of loss for the year	13,906	—	—	—
Carrying amount of the Group's interests in the associates	—	818	9,150	8,912
			Year ended	Year ended
			31.12.2018	31.12.2017
			RMB'000	RMB'000
The unrecognised share of loss of an associate for the year			13,906	—
Cumulative share of loss of an associate			13,906	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

19A. AVAILABLE-FOR-SALE INVESTMENTS

	31.12.2017 RMB'000
Available-for-sale investments comprise:	
Equity securities listed in Hong Kong measured at fair value	57,507
Unlisted equity securities, at cost less impairment (Note i)	39,737
Investments in trust funds, at fair value (Note ii)	120,000
	217,244

Notes:

- (i) Amount represents unlisted equity securities issued by private entities established in the PRC. They are measured at cost less impairment at the end of the reporting period because the fair value cannot be measured reliably.
- (ii) Amounts represent investments in trust funds made by the Group through security houses. The trust funds invested in ranges of debt instrument products which were generally government bonds and corporate loans.

19B. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Equity instruments at fair value through other comprehensive income comprise:

	31.12.2018 RMB'000
Equity securities listed in Hong Kong (Note i)	89,198
Equity securities listed in the PRC (Note i)	14,943
Unlisted equity securities (Note ii)	21,748
	125,889

Notes:

- (i) The above listed equity investments represent equity shares of entities listed in Hong Kong or the PRC. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.
- (ii) The above unlisted equity investments represent the Group's equity interest in private entities established in the PRC. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

19B. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Continued)

Notes: (Continued)

(ii) (Continued)

During the year ended 31 December 2018, in order to align with Group's investment strategy of remaining 15% equity interest in Hunan Jiale, the Group disposed an unlisted equity securities with carrying amount of RMB33,000,000 which approximate the fair value to an independent third party at a consideration of RMB33,000,000. No gain or loss has been recognised. The consolidation of RMB33,000,000 will be settled by installments and is included in other receivables as at 31 December 2018.

19C. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2018 RMB'000
Equity securities listed in the PRC	888
Investments in trust funds (Note i)	230,000
	230,888
Analysed for reporting purposes as:	
Current	30,888
Non-current	200,000
	230,888

Note:

- (i) Amounts represent investments in trust funds made by the Group through security houses. The trust funds invest in a ranges of debt instrument products which are generally government bonds and corporate loans. Included in the amount is RMB200,000,000 which has a maturity period of 3 years and therefore classified under non-current assets. The remaining amount of RMB30,000,000 has a maturity period of 90 days and therefore classified under current assets.

20. OTHER NON-CURRENT ASSETS

	31.12.2018 RMB'000	31.12.2017 RMB'000
Consideration receivable for disposal of subsidiaries (Note i)	77,000	77,000
Consideration receivable for disposal of unlisted equity instruments (Note ii)	29,700	—
Deposit paid for purchase of certain properties	—	3,042
Life insurance products (Note iii)	35,357	33,731
	142,057	113,773

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

20. OTHER NON-CURRENT ASSETS (Continued)

Notes:

- (i) The balance of RMB77,000,000 as at 31 December 2018 carries fixed interest at 4.75% per annum, and is repayable in 2022.
- (ii) The balance carries fixed interest at 4.35% per annum and is repayable in 2020.
- (iii) In prior years, the Company entered into two life insurance policies with an insurance company to insure two executive directors. Under these policies, the beneficiary and policy holder is 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 (the "Cash Value"). If such withdrawal is made at any time during the first to the fifteen or eighteenth policy year, as appropriate, a pre-determined specified surrender charge would be imposed on the Company.

Particulars of the policies are as follows:

Policy	Insured sum	Upfront payment	Guaranteed interest rates	
			First year	Second year and onward
Policy A	US\$7,557,000 (equivalent to RMB49,005,000)	US\$3,421,000 (equivalent to RMB21,762,000)	4.25% per annum	3% per annum
Policy B	US\$10,000,000 (equivalent to RMB60,961,000)	US\$1,771,000 (equivalent to RMB10,799,000)	4% per annum	2% per annum

The entire balance of the life insurance policies is denominated in United States Dollar ("USD"), being a currency other than the functional currency of the relevant group entities.

21. INVENTORIES

	31.12.2018 RMB'000	31.12.2017 RMB'000
Raw materials	203,543	183,807
Work in progress	140,934	144,036
Finished goods	151,045	156,636
	495,522	484,479

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

22A. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	31.12.2018 RMB'000	31.12.2017 RMB'000
Trade and bills receivables, gross	2,762,303	2,383,762
Less: Allowance for credit loss (Note i)	(45,830)	(26,624)
Trade and bills receivables, net (Note ii)	2,716,473	2,357,138
Retentions held by trade customers (Note iii)	174,280	327,021
Other receivables, other deposits and prepayments	169,671	177,709
Purchase and bidding deposits	123,887	99,109
Loan receivables (Note iv)	51,000	138,869
Loan receivable from an associate (Note v)	18,000	—
VAT receivables	50,566	74,606
Consideration receivables for disposal of subsidiaries	—	71,000
	3,303,877	3,245,452

Notes:

- (i) The entire balance of the allowance for doubtful debts as at 31 December 2017 were individually impaired trade and bills receivables which are in severe financial difficulties. Movements in the provision for impairment of trade and bills receivables are as follows:

	2017 RMB'000
At 1 January 2017	19,692
Impairment loss recognised on trade receivables	6,932
At 31 December 2017	26,624

- (ii) Included in the Group's trade receivables is trade balance with an associate of RMB39,925,000 (2017: RMB42,559,000). Due to the nature of business, the settlement terms of trade and bills receivables are based on the achievement of certain milestones of each sales transaction, and, accordingly, the Group generally allows credit periods ranging from 90 days to 365 days to its trade customers, except for certain customers, the credit periods maybe beyond 365 days. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts, presented based on the revenue recognition dates at the end of the reporting period:

	31.12.2018 RMB'000	31.12.2017 RMB'000
0–90 days	1,219,657	995,265
91–180 days	382,137	397,833
181–365 days	508,310	402,859
Over 1 year	606,369	561,181
	2,716,473	2,357,138

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. 96% (2017: 93%) of the trade receivables that are neither past due nor impaired have good credit rating.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

22A. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

Notes: (Continued)

(ii) (Continued)

As at 31 December 2017, included in the Group's trade receivable balance were debtors with aggregate carrying amount of RMB167,492,000, which were past due as at the reporting date for which the Group had not provided for impairment loss. The directors considered no deterioration in the credit qualities of these debtors and concluded that these debtors were not considered as default. The Group did not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired is as follows:

	31.12.2017 RMB'000
Days overdue:	
0–90 days	110,351
91–180 days	5,143
181–365 days	8,577
Over 1 year	43,421
	167,492

The Group's trade and other receivables denominated in currencies other than functional currency of the relevant group entities are set out as follows:

	31.12.2018 RMB'000	31.12.2017 RMB'000
Hong Kong dollars ("HKD")	10,884	11,723
USD	214,581	103,296

(iii) Included in the retentions held by trade customers is an aggregate amount of RMB64,792,000 (2017: RMB97,540,000) that is expected to be realised after twelve months from the end of the reporting period.

Upon the application of HKFRS 15, the retentions held by trade customers arising from the sales contracts entered into after 1 January 2018 are classified as contract assets. The amount of RMB174,282,000 (2017: RMB327,021,000) represents retentions held by trade customers arising from the sales contracts which were already completed as of 31 December 2017.

(iv) Upon disposal of 85% equity interest in Hunan Jiale to an independent third party as detailed in Note 31, Hunan Jiale will repay a shareholder's loan of RMB138,869,000 to the Company. Up to 31 December 2018, an amount of RMB87,869,000 was settled and RMB40,550,000 is subsequently settled in January 2019. The remaining amount is expected to be repaid in one year.

(v) The amount represents short-term loan to an associate which carries fixed interests at 4.71% per annum and is repayable in March 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

22B. CONTRACT ASSETS

The contract assets primarily relate to the Group's right to consideration for goods delivered and not billed for the sales contracts entered after 1 January 2018. Details of the typical payment terms are disclosed in Note 5. The contract assets are transferred to trade receivables when the rights become unconditional. This amount is expected to be realised after twelve months from the end of the reporting period, which is under the Group's normal operating cycle and therefore are presented as current asset.

23. LOAN RECEIVABLES

	31.12.2018 RMB'000	31.12.2017 RMB'000
Fixed-rate loan receivables	105,000	105,000
Analysed as:		
Current	—	105,000
Non-current	105,000	—

The amounts represent loans advanced by the Group to an independent third party under entrusted loan contracts with a principal amount of RMB205,000,000. During the year ended 31 December 2017, an amount of RMB100,000,000 is settled and the maturity day of the remaining amounts of RMB105,000,000 have been extended to October 2018. During the year ended 31 December 2018, the maturity of the loan is further extended to September 2020, and the amount is reclassified under non-current liabilities.

These entrusted loans carry fixed interests at 12% (2017: 12%) per annum and are repayable within twelve months from the end of the reporting period.

24. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

(a) Pledged bank deposits

The pledged bank deposits are pledged to banks to secure credit facilities granted to the Group. The deposits were pledged to secure bills payables and short-term bank borrowings and are therefore classified as current assets. The deposits carry fixed interest rate ranging from 0.35% to 1.50% (2017: 0.35% to 1.50%) per annum and will be released upon settlement of the relevant borrowings.

(b) Bank balances and cash

Bank balances and cash comprise cash held by the Group and bank balances that carry interest rates ranging from 0.35% to 1.10% (2017: 0.35% to 1.10%) per annum and have original maturity of three months or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

24. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH (Continued)

(b) Bank balances and cash (Continued)

The Group's bank balances and cash denominated in currencies other than functional currency of the relevant group entities are set out as follows:

	31.12.2018 RMB'000	31.12.2017 RMB'000
HKD	704	84,892
USD	122,206	392,552

25. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	31.12.2018 RMB'000	31.12.2017 RMB'000
Trade and bills payables		
0–90 days	1,761,118	1,314,662
91–180 days	224,373	534,649
181–365 days	115,260	176,102
Over 1 year	72,642	65,739
	2,173,393	2,091,152
Other payables	98,454	162,610
	2,271,847	2,253,762

The Group's trade and other payables denominated in currency other than functional currency of the relevant group entities are set out as follows:

	31.12.2018 RMB'000	31.12.2017 RMB'000
HKD	3,932	2,166

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

26. CONTRACT LIABILITIES

The Group receives advance payments from customers for products, this gives rise to contract liabilities at the start of the contract. The entire amount of contract liabilities will be recognised as revenue once the products are delivered and accepted by the customers. The balance will be recognised as revenue within one year. During the year, the amount of contract liabilities of RMB987,173,000 as at 1 January 2018 was fully recognised as revenue.

27. BORROWINGS

	31.12.2018 RMB'000	31.12.2017 RMB'000
Unsecured bank loans and trust receipt loans	1,418,167	908,907

The Group's borrowings are repayable based on repayment schedules as follows:

	31.12.2018			31.12.2017		
	Fixed-rate borrowings RMB'000	Floating-rate borrowings RMB'000	Total RMB'000	Fixed-rate borrowings RMB'000	Floating-rate borrowings RMB'000	Total RMB'000
Within one year	323,964	745,900	1,069,864	123,490	717,715	841,205
More than one year, but not exceeding two years	—	348,303	348,303	—	66,216	66,216
More than two years, but not exceeding five years	—	—	—	—	1,486	1,486
	323,964	1,094,203	1,418,167	123,490	785,417	908,907
Less: Amounts due within one year shown under current liabilities	(323,964)	(745,900)	(1,069,864)	(123,490)	(717,716)	(841,206)
Amounts due after one year	—	348,303	348,303	—	67,701	67,701

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

27. BORROWINGS (Continued)

The floating-rate borrowings carry interest at either the benchmark lending rate offered by the People's Bank of China or London Interbank Offered Rate plus certain percentages. The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2018	2017
Effective interest rate:		
Fixed-rate borrowings	3.50% to 5.25% per annum	2.01% to 4.57% per annum
Floating-rate borrowings	3.50% to 6.64% per annum	2.28% to 5.68% per annum

At 31 December 2018, borrowings of the Group amounting to RMB3,039,000 (2017: RMB5,724,000) were denominated in USD, being a currency other than the functional currency of the relevant group entities.

At the end of the reporting period, the Group has the following undrawn short-term borrowing facilities:

	31.12.2018 RMB'000	31.12.2017 RMB'000
Expiring within one year	1,628,305	1,698,156
Expiring over one year	518,865	153,453
	2,147,170	1,851,609

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

28. SHARE CAPITAL

Ordinary shares of HK\$0.01 each:

	Number of shares	Nominal value HK\$'000
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Authorised

At 1 January 2017, 31 December 2017 and 31 December 2018	100,000,000,000	1,000,000
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	Number of shares	Nominal value RMB'000
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Issued and fully paid

At 1 January 2017	1,014,881,675	10,078
Share repurchased and cancelled (Note)	(10,160,000)	(90)

At 31 December 2017	1,004,721,675	9,988
Share repurchased and cancelled (Note)	(2,260,000)	(19)

At 31 December 2018	1,002,461,675	9,969
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Note:

The Company repurchased its own shares through the Stock Exchange as follows:

Year ended 31 December 2018

Month of repurchase	Number of ordinary shares of HK\$0.01 each of the Company	Price per share		Aggregate consideration paid RMB'000
		Highest HK\$	Lowest HK\$	
October 2018	1,960,000	3.89	3.60	6,361
November 2018	300,000	4.05	3.99	1,037
December 2018	1,500,000	3.95	3.75	4,961
	3,760,000			12,359

Out of 3,760,000 ordinary shares repurchased, 2,260,000 shares were cancelled during the year 31 December 2018 while the remaining 1,500,000 ordinary shares were cancelled subsequently on 31 January 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

28. SHARE CAPITAL (Continued)

Note: (Continued)

Year ended 31 December 2017

Month of repurchase	Number of ordinary shares of HK\$0.01 each of the Company	Price per share		Aggregate consideration paid RMB'000
		Highest HK\$	Lowest HK\$	
March 2017	4,160,000	4.20	4.01	14,932
April 2017	6,000,000	4.08	3.81	20,667
	10,160,000			35,599

The above ordinary shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

29. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	31.12.2018 RMB'000	31.12.2017 RMB'000
Deferred tax assets	17,111	—
Deferred tax liabilities	(18,712)	(17,252)
	(1,601)	(17,252)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

29. DEFERRED TAXATION (Continued)

The following are the deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior years:

	Fair value adjustments of prepaid lease payments and property, plant and equipment arising on business combination RMB'000	Fair value adjustments of intangible assets on business combinations RMB'000	Fair value adjustments of equity instruments at FVTOCI RMB'000	ECL provision RMB'000	Total RMB'000
At 1 January 2017	—	17,146	—	—	17,146
Acquisition of subsidiaries (Note 30)	1,169	—	—	—	1,169
Credit to profit or loss	—	(1,063)	—	—	(1,063)
At 31 December 2017	1,169	16,083	—	—	17,252
Adjustments (Note 2)	—	—	2,116	(3,454)	(1,338)
At 1 January 2018 (restated)	1,169	16,083	2,116	(3,454)	15,914
Credit to profit or loss	(126)	(2,258)	—	(746)	(3,130)
Credit to other comprehensive income	—	—	(11,183)	—	(11,183)
At 31 December 2018	1,043	13,825	(9,067)	(4,200)	1,601

As at 31 December 2018, the Group had unused tax losses of RMB144,277,000 (2017: RMB124,619,000) available for offset against future profits. No deferred tax asset has been recognised in respect of any of the tax losses due to the unpredictability of future profit streams. The tax losses may be carried forward for a period of five years from the respective year of assessment.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries amounting to approximately RMB2,432 million (2017: RMB2,015 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

30. ACQUISITION OF SUBSIDIARIES

Year ended 31 December 2017

In May 2017, the Group completed its acquisition of 31.413% equity interest in Zhuhai Zhonghui Microelectronics Co. Ltd. ("Zhuhai Zhonghui") and its subsidiaries, a former 18.64% held available-for-sale investment of the Group, from certain independent third parties and connected persons at an aggregate consideration of RMB32,701,000. Upon completion of the acquisition, the Group owns a total equity interest of 50.053% in Zhuhai Zhonghui and Zhuhai Zhonghui becomes a non wholly-owned subsidiary of the Group. Further details of the transaction are set out in the Company's announcement dated 13 February 2017.

Zhuhai Zhonghui is a company established in the PRC which principally engaged in the design and development, manufacture and sale of integrated circuits, intelligent instrument communication and measurement solutions.

	RMB'000
Consideration transferred:	
Cash	32,701
Available-for-sale investment (Note i)	19,404
	52,105
Fair value of assets acquired and liabilities recognised at the date of acquisition:	
Property, plant and equipment	28,122
Prepaid lease payment	5,540
Other intangible assets	3,217
Trade and other receivables	102,137
Inventories	48,800
Bank balances and cash	18,213
Trade and other payables	(84,295)
Deferred tax liability	(1,169)
	120,565
Bargain purchase gain arising on the acquisition (Note ii):	
Consideration transferred	52,105
Plus : non-controlling interests (Note iii)	60,219
Less : net assets acquired	(120,565)
	(8,241)
Net cash outflow arising from the acquisition:	
Cash consideration paid	(32,701)
Bank balances and cash acquired	18,213
	(14,488)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

30. ACQUISITION OF SUBSIDIARIES (Continued)

Notes:

- (i) The previously held interest in Zhuhai Zhonghui was remeasured at fair value at the date of acquisition and the resulting loss of RMB3,670,000 was recognised in other gains and losses (see Note 7).
- (ii) The introduction of the Group as the new controlling shareholder of Zhuhai Zhonghui was expected to strengthen its capital base, meet its working capital requirements and facilitate its future business development and expansion. In the opinion of the directors of the Company, the above are the key factors leading to the recognition of a bargain purchase gain of RMB8,241,000.
- (iii) The non-controlling interests recognised at the acquisition date were measured with reference to the non-controlling interest's proportionate share of fair values of the net assets at that date.
- (iv) The aggregate acquisition-related costs amounting to RMB106,000 have been excluded from the consideration transferred and have been recognised as an expense during the year ended 31 December 2017, within the administrative expenses line item in the consolidated statement of profit or loss and other comprehensive income.
- (v) In November 2017, the Group acquired from the non-controlling interests an additional 44.13% equity interest in Zhuhai Zhonghui at a consideration of RMB52,212,000. The Group accounts for changes in the ownership interests in existing subsidiaries that do not result in the Group losing control over those subsidiaries as equity transaction as detailed in Note (v) of the consolidated statement of changes in equity.
- (vi) Included in the profit for the year ended 31 December 2017 were revenue of RMB141,911,000 and profit of RMB7,757,000 attributable to the additional business generated by Zhuhai Zhonghui and its subsidiaries.

31. DISPOSAL OF SUBSIDIARIES

Year ended 31 December 2017

On 28 June 2017, the Group completed the disposal of 85% equity interest in Hunan Jiale to an independent third party (the "Buyer") for a deferred cash consideration of RMB187,000,000, and Hunan Jiale will repay a shareholder's loan of RMB138,869,000 owing to the Group by June 2018. Following the completion of the disposal, the Group retains 15% equity interest in Hunan Jiale as an available-for-sale investment.

Out of the total amount of deferred cash consideration of RMB187,000,000, an amount of RMB110,000,000 is repayable within one year, and the remaining amount of RMB77,000,000 carries fixed interest at 4.75% per annum and is repayable in 2022.

The management has assessed the ultimate realisation of these consideration receivables by considering the financial conditions and the current creditworthiness of the Buyer and Hunan Jiale, and the subsequent settlement of the deferred cash consideration. Up to the date of approving these consolidated financial statements, total amount of RMB110,000,000 is settled from the Buyer and two pieces of land from the Buyer is pledged to the Group. The directors of the Company are in the opinion that there is no recoverability problem for the consideration receivables and the shareholder's loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

31. DISPOSAL OF SUBSIDIARIES (Continued)

Year ended 31 December 2017 (Continued)

The net assets of Hunan Jiale at the date on which control was lost were as follows:

	RMB'000
Consideration:	
Cash received	60,000
Deferred cash consideration	
— non-current	77,000
— current (included in other receivables as at 31 December 2017)	50,000
Available-for-sale investment	33,000
	220,000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	4
Prepaid lease payment	257,519
Bank balances and cash	767
Other payables	(141,584)
Net assets disposed of	116,706
Gain on disposal:	
Consideration	220,000
Net assets disposed of	(116,706)
Gain on disposal	103,294
Net cash inflow arising from the disposal:	
Cash received	60,000
Less: bank balances and cash disposed of	(767)
	59,233

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

32. RELATED PARTY DISCLOSURES

(a) Transactions

Relationship	Transaction	Year ended 31.12.2018 RMB'000	Year ended 31.12.2017 RMB'000
An associate	Sales of goods by the Group	34,464	95,345
	Rental income received by the Group	474	474

(b) Balances

The balances with an associate as at 31 December 2018 and 2017 are set out in Note 22A.

(c) The remuneration of key management (including the directors) during the year were as follows:

	Year ended 31.12.2018 RMB'000	Year ended 31.12.2017 RMB'000
Short-term benefits	5,284	5,497
Retirement benefit scheme contributions	110	146
	5,394	5,643

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

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 2018, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 18,000,000 (2017: 18,000,000), representing approximately 1.8% (2017: 1.8%) of the then issued share capital of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

33. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share option scheme (Continued)

The following table discloses movements of the Company's share options held by directors, employees and consultants during the current and prior year under the Scheme:

Category	Date of grant	Vesting period	Exercisable period	Exercise price HK\$	Outstanding at 1.1.2017	Exercised during the year	Outstanding at 31.12.2017	Exercise during the year	Outstanding at 31.12.2018
Employees/ Consultants	10.2.2014	10.2.2014 to 9.2.2016	10.2.2016 to 9.2.2024	4.680	9,000,000	—	9,000,000	—	9,000,000
	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
Total					18,000,000	—	18,000,000	—	18,000,000
Exercisable at year end					18,000,000		18,000,000		18,000,000
Weighted average exercise price (HK\$)					4.680	N/A	4.680	N/A	4.680

No share-based payment expenses (2017: RMB572,000) has been recognised in profit or loss for the year ended 31 December 2018 as the share option has fully vested on 9 February 2017.

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 official closing price of the ordinary shares of the Company on the Stock Exchange on the date of the offer of grant of options, the average of the official closing price of the ordinary shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options and the nominal value of an ordinary share of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

33. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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 contributions by certain employees and to provide them with incentives in order to retain them for the continual operation and development of the Group and also to attract suitable personnel for further development of the Group. The Share Award Scheme became effective on 3 May 2016 and, unless otherwise terminated or amended, will remain in force for 10 years.

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 at which the directors of the Company are prohibited by the Listing Rules or any corresponding codes or securities dealing restrictions adopted by the Company. In any given financial year of the Company, the maximum number of shares to be purchased by the trustee for the purpose of the 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 making of any award to any participants. Upon the receipt of such notice, the trustee would set aside the appropriate number of awarded shares in the pool of shares. No new shares would be allotted and issued to satisfy the awards made under the Share Award Scheme.

During the year ended 31 December 2017, 7,500,000 ordinary shares of the Company have been acquired at an aggregate cost of HK\$29,681,000 (equivalent to RMB25,119,000). On 16 March 2018, 11 employees have been awarded under the Share Award Scheme and 900,000 ordinary shares of the Company were distributed. The fair value of the shares awards amounting to RMB3,107,000 is recognised as staff cost in the profit or loss for the year ended 31 December 2018. As at 31 December 2018, 6,600,000 ordinary shares of the Company were held by trustee of the Share Award Scheme.

34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 27 and equity attributable to owners of the Company, comprising issued share capital, various reserves and retained profits as disclosed in the consolidated statement of changes in equity.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

35. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	31.12.2018 RMB'000	31.12.2017 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	—	4,711,326
Amortised cost	4,980,992	—
FVTPL	230,888	—
FVTOCI	125,889	—
Available-for-sale investments	—	217,244
Financial liabilities		
Financial liabilities at amortised cost:		
Trade and other payables	2,239,722	2,139,260
Borrowings	1,418,167	908,907
	3,657,889	3,048,167

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, consideration receivables for disposal of subsidiaries, trade and bills receivables, other receivables, loan receivables, pledged bank deposits, bank balances and cash, trade and other payables and borrowings. Details of the financial instruments are disclosed in respective Notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no change to the policies on how to mitigate these risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

35. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk

(i) Currency risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB, the functional currency of the relevant group entities. Certain entities in the Group have foreign currencies transactions, trade and other receivables, life insurance products, bank balances and cash, trade and other payables and borrowings which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	31.12.2018 RMB'000	31.12.2017 RMB'000	31.12.2018 RMB'000	31.12.2017 RMB'000
HKD	14,761	50,976	590,559	625,780
USD	260,860	527,399	3,039	5,931
	275,621	578,375	593,598	631,711

One of the Group's subsidiaries, Gam Sheng Macao Commercial Offshore Limited, whose functional currency is USD, has an aggregate amount of intra-group receivables of RMB9,999,000 (2017: RMB9,999,000) which are denominated in RMB as at 31 December 2018.

Sensitivity analysis

The Group's foreign currency risk is mainly concentrated on the fluctuation of HKD and USD.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A (negative) positive number below indicates a (decrease) increase in profit where RMB strengthen 5% against the relevant foreign currencies. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the profit for the year.

	HKD		USD	
	Year ended 31.12.2018 RMB'000	Year ended 31.12.2017 RMB'000	Year ended 31.12.2018 RMB'000	Year ended 31.12.2017 RMB'000
Increase (decrease) in post-tax profit for the year	28,790	28,740	9,668	(19,555)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

35. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances (see Note 24(b)) and floating-rate borrowings (see Note 27). Management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group is also exposed to fair value interest rate risk in relation to consideration receivable for disposal of subsidiaries (see Notes 22A and 20), fixed-rate loan receivables (see Note 23), pledged bank deposits (see Note 24(a)) and fixed-rate borrowings (see Note 27).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this Note.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the benchmark lending rate offered by the People's Bank of China and London Interbank Offered Rate arising from the Group's bank balances, RMB borrowings and USD borrowings.

Total interest income from financial assets that are measured at amortised cost or at FVTPL is as follows:

	Year ended 31.12.2018 RMB'000
Other income	
Financial assets at amortised cost	40,355
Financial assets at FVTPL	15,331
Total interest income	55,686

Total interest income from financial assets that are measured at amortised cost or at fair value is as follows:

	Year ended 31.12.2017 RMB'000
Other income	
Loans and receivables (including bank balances and cash)	37,340
Available-for-sale investments	7,558
Total interest income	44,898

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

35. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates of bank balances and borrowings. The analysis is prepared assuming the amount of the outstanding at the end of the reporting period was outstanding for the whole year. A 10 basis points (2017: 10 basis points) increase or decrease for bank balances and 50 basis points (2017: 50 basis points) for borrowings are used and represent management's assessment of the reasonably possible change in interest rates for the year ended 31 December 2018.

If interest rates had been 10 or 50 basis points higher/lower, as appropriate, and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would decrease/increase by RMB3,536,000 (2017: RMB2,587,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances and floating-rate borrowings.

(iii) Equity price risk

The Group is exposed to equity price risk through its equity securities listed in Hong Kong and PRC and investment in trust fund, which are accounted for as FVTPL and FVTOCI (2017: available-for-sale investments) (see Note 19A, 19B and 19C). The Group's equity price risk is mainly concentrated on equity instrument which operates in the public utility service provider industry sector quoted on the Stock Exchange and the underlying debt securities of the trust fund. The management is closely monitoring the equity price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risk at the end of the reporting period. For the year ended 31 December 2018, if the prices of the equity securities listed in Hong Kong and PRC and unlisted trust fund had been 5% higher/lower, investment revaluation reserve would increase/decrease by RMB8,658,000 (2017: RMB8,875,000) and the profit for the year would be increased/decrease by RMB9,284,000 (2017: nil) as a result of the changes in fair value of the equity instrument and unlisted trust fund held by the Group. In the management's opinion, the sensitivity analysis is unrepresentative of the inherent equity price risk as the year end exposure does not reflect the exposure during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

35. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment

As at 31 December 2018, 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 is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which covered over 96% (2017: over 96%) of its total receivables as at 31 December 2018. 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.

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 performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. The Group does not hold any collateral over these balance.

The Group has concentration of credit risk on liquid funds, which are deposited with several banks with good reputation. The loan receivables disclosed in Note 22A are also concentrated in certain independent third parties, and the directors consider the credit risk is significantly reduced as there were history of continuous repayment. Other than the above, the Group does not have any other significant concentration of credit risk.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ contract assets	Other financial assets/other items
Low risk	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	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL — not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

35. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's trade receivables, bills receivables, other receivables, contract assets, retentions held by trade customers, loan receivables, loan receivable from an associate, pledged bank deposits and bank balances, which are subject to ECL assessment:

2018	Note	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RMB'000
Financial assets at amortised cost				
Trade receivables	22A	(Note 2) Loss	Lifetime ECL (provision matrix) Credit-impaired	2,608,882 28,649
				2,637,531
Retentions held by trade customers	22A	(Note 2)	Lifetime ECL (provision matrix)	174,280
Bills receivables	22A	(Note 1)	12-month ECL	124,772
Loan receivables	22A	(Note 1)	12-month ECL	51,000
Loan receivable from an associate	22A	(Note 1)	12-month ECL	18,000
Pledged bank deposits	24(a)	(Note 3)	12-month ECL	280,981
Bank balances	24(b)	(Note 3)	12-month ECL	1,401,362
Other receivables	22A	(Note 1)	12-month ECL	129,264
Other item				
Contract assets	22B	(Note 2)	Lifetime ECL (provision matrix)	265,991

Notes:

- There are no past due amounts for bills receivables, loan receivables, loan receivables from an associate and other receivables and the Group assess there has been no significant increase in credit risk since initial recognition.
- For trade receivables, retentions held by trade customers, contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for those which had been determined as credit-impaired under HKFRS 9, the Group determines the expected credit losses on these items by using a provision matrix based on a combination of groupings of various debtors that shared similar credit risk characteristics and past due analysis.
- The management of the Group considers pledged bank deposits and bank balances that are deposited with state-owned banks or financial institutions with high credit rating to be low credit risk financial assets. The management of the Group also considers these assets are short-term in nature and the probability of default is negligible on the basis of high-credit-rating issuers upon the adoption of HKFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

35. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables and contract assets under the simplified approach.

	Contract assets lifetime ECL (not credit- impaired) RMB'000	Trade receivables lifetime ECL (not credit- impaired) RMB'000	Trade receivables lifetime ECL (credit- impaired) RMB'000	Total RMB'000
As at 31 December 2017 under HKAS 39	—	—	26,624	26,624
Adjustment upon application of HKFRS 9	—	13,816	—	13,816
As at 1 January 2018 — As restated	—	13,816	26,624	40,440
Credit losses recognised	2,633	3,365	2,025	8,023
As at 31 December 2018	2,633	17,181	28,649	48,463

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

As at 31 December 2018, the Group does not hold any collateral or other credit enhancements to cover its credit risks associated with the perpetual bonds classified as financial assets at FVTPL. Accordingly, its carrying amount of HK\$200,000,000 represents the maximum exposure to credit risk at 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

35. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table for non-derivative financial liabilities has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from the interest rate at the end of the reporting period.

Liquidity risk tables

	Weighted average interest rate	Less than 90 days RMB'000	91 to 180 days RMB'000	181 to 365 days RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 December 2018 RMB'000
2018								
<i>Non-derivative financial liabilities</i>								
Trade and other payables	—	2,070,602	76,422	36,798	55,900	—	2,227,577	2,239,722
Borrowings	4.43%	443,655	246,058	408,112	382,542	—	1,480,367	1,418,167
		2,514,257	322,480	444,910	438,442	—	3,707,944	3,657,889

	Weighted average interest rate	Less than 90 days RMB'000	91 to 180 days RMB'000	181 to 365 days RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 December 2017 RMB'000
2017								
<i>Non-derivative financial liabilities</i>								
Trade and other payables	—	1,456,850	491,624	86,426	104,360	—	2,139,260	2,139,260
Borrowings	3.67%	426,994	110,049	321,908	71,592	1,671	932,214	908,907
		1,883,844	601,673	408,334	175,952	1,671	3,071,474	3,048,167

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

35. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments

This Note provides information about how the Group determines fair values of various financial assets.

Some of the Group's financial instruments are measured at fair value for financial reporting purposes.

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Fair value hierarchy as at 31 December 2018

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVTPL				
Equity securities listed in the PRC (Note 19C)	888	—	—	888
Investments in trust funds (Note 19C)	—	230,000	—	230,000
Equity instruments at FVTOCI				
Equity securities listed in Hong Kong (Note 19B)	89,198	—	—	89,198
Equity securities listed in the PRC (Note 19B)	14,943	—	—	14,943
Unlisted equity securities (Note 19B)	—	—	21,748	21,748

Fair value hierarchy as at 31 December 2017

	Level 1 RMB'000	Level 2 RMB'000	Total RMB'000
AFS instruments			
Equity securities listed in Hong Kong (Note 19A)	57,507	—	57,507
Investments in trust funds, at fair value (Note 19A)	—	120,000	120,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

35. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	31 December 2018	31 December 2017			
(1) Listed equity securities of FVTPL (2017: classified as AFS)	Listed equity securities in PRC: RMB888,000	N/A	Level 1	Quoted bid prices in an active market	N/A
(2) Unlisted investments in trust fund	RMB230,000,000	RMB120,000,000	Level 2	Redemption price provided by fund manager, which was based on net assets value of the fund	N/A
(3) Listed equity securities at FVTOCI (2017: classified as AFS at fair value)	Listed equity securities in Hong Kong: RMB89,198,000 Listed equity securities in PRC: RMB14,943,000	Listed equity securities in Hong Kong: RMB57,507,000	Level 1	Quoted bid prices in an active market	N/A
(4) Unlisted equity investments at FVTOCI (2017: classified as AFS at cost less impairment)	17.42% equity investment in a PRC company engaged in development of electronic meters — RMB18,748,000; and 15% in a PRC company engaged in energy supplies services — RMB3,000,000	N/A N/A	Level 3	Asset approach	Fair market value of assets and liabilities as at valuation date. The higher the fair value of assets, the higher the fair value

There were no transfers among Level 1, 2 and 3 during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

35. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

(ii) Reconciliation of Level 3 fair value measurements

31 December 2018

	Equity instruments at FVTOCI RMB'000
Opening balance	6,737
Remeasurement of interest in a PRC company from AFS to FVTOCI	8,463
	15,200
Total gains	
— recognised in other comprehensive income	3,548
Purchases	3,000
	21,748
Closing balance	

The only financial assets subsequently measured at fair value on Level 3 fair value measurement represents unlisted equity securities in PRC company (see Note 19B).

Included in other comprehensive income is an amount of RMB3,548,000 gain relating to unlisted equity securities classified as equity instruments at FVTOCI (2017: AFS investments) held at the end of the current reporting period and is reported as changes of 'investment revaluation reserve'.

(iii) Fair value of financial instruments that are recorded at amortised cost

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank borrowings RMB'000	Dividend payable RMB'000	Total RMB'000
At 1 January 2018	908,907	—	908,907
Financing cash flows	480,685	(202,548)	278,137
Foreign exchange translation	28,575	—	28,575
Declaration of dividend	—	202,548	202,548
At 31 December 2018	1,418,167	—	1,418,167
At 1 January 2017	1,095,274	—	1,095,274
Financing cash flows	(163,891)	(204,071)	(367,962)
Foreign exchange translation	(22,476)	—	(22,476)
Declaration of dividend	—	204,071	204,071
At 31 December 2017	908,907	—	908,907

37. CAPITAL COMMITMENTS

	31.12.2018 RMB'000	31.12.2017 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
— acquisition of property, plant and equipment	23,532	23,716
— additions of construction in progress	121	530
	23,653	24,246

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

38. OPERATING LEASES

(a) The Group as lessee

	31.12.2018 RMB'000	31.12.2017 RMB'000
Minimum lease payments paid under operating leases during the year in respect of rented premises	8,889	7,406

At the end of the reporting period, the Group has commitments for future minimum lease payments for rented premises under non-cancellable operating leases which fall due as follows:

	31.12.2018 RMB'000	31.12.2017 RMB'000
Within one year	3,154	2,416
In the second to fifth year inclusive	207	678
	3,361	3,094

Operating lease payments represent rentals payable by the Group for certain of its premises. Leases are negotiated for a term ranging from one to five years with fixed rentals.

(b) The Group as lessor

Property rental income earned during the year was RMB2,561,000 (2017: RMB1,491,000). Certain properties held have committed tenants for the next two years (2017: three years).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	31.12.2018 RMB'000	31.12.2017 RMB'000
Within one year	2,057	1,398
In the second to fifth year inclusive	1,779	1,374
	3,836	2,772

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

39. RETIREMENT BENEFIT PLANS

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group also operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all its qualifying employees in Hong Kong. The assets of the MPF Schemes are held separately from those of the Group, in funds under the control of trustees. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rate specified in the rules.

The total cost of RMB13,713,000 (2017: RMB18,967,000) charged to profit or loss represents contribution paid or payable to the above retirement benefit plans by the Group for the year.

At the end of the reporting period, the Group had no significant obligation apart from the contribution as stated above.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place of incorporation or registration/operation	Paid up/issued/registered capital	Proportion of nominal value of issued/registered capital held by the Company				Principal activities
			Directly 2018	2017	Indirectly 2018	2017	
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. ("Weisheng Energy") (Note i)	The PRC	RMB200,000,000	—	—	100%	100%	Development, manufacturing and sale of energy saving products
Changsha Weisheng Import and Export Trading Company Limited ("Weisheng Import and Export") (Note ii)	The PRC	RMB10,000,000	—	—	100%	100%	Trading of power meters
Willfar Information Technology Company Limited ("Willfar Information Technology") (Note i)	The PRC	RMB450,000,000	—	—	65%	65%	Development, manufacturing and sale of power meters, data collection terminals and related services
Changsha Vitae Plastic Technology Co., Ltd ("Vitae") (Note iii)	The PRC	RMB20,000,000	—	—	100%	100%	Development, manufacturing and sale of parts of power meters, data collection terminals and related services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation or registration/operation	Paid up/issued/registered capital	Proportion of nominal value of issued/registered capital held by the Company				Principal activities
			Directly 2018	2017	Indirectly 2018	2017	
Gam Sheng Macao Commercial Offshore Limited	Macao	MOP1,000,000	—	—	100%	100%	Trading of electronic components
Hunan Weike Power Meters Company Limited ("Hunan Weike") (Note i)	The PRC	HK\$100,000,000	—	—	100%	100%	Development, manufacturing and sale of power meters
Hunan Weiming Technology Co., Ltd. ("Hunan Weiming") (Note i)	The PRC	RMB50,000,000	—	—	65%	65%	Development, manufacturing and sale of water, gas and heat meters
Wasion Electric Limited ("Wasion Electric") (Note iii)	The PRC	RMB300,000,000	—	—	100%	100%	Development, manufacturing and sale of smart distribution devices
Wasion Group Limited ("Changsha Weisheng") (Note iii)	The PRC	RMB1,480,000,000	—	—	100%	100%	Development, manufacturing and sale of power meters
Wasion Technology Shenzhen Company Limited ("Wasion Shenzhen") (Note ii)	The PRC	RMB10,000,000	—	—	100%	100%	Trading of power meters
Hunan Switchgear Co. Ltd. ("Hunan Switchgear") (Note ii)	The PRC	RMB100,000,000	—	—	65%	65%	Development, manufacturing and sale of switchgears
Zhuhai Zhonghui Microelectronics Co., Ltd. ("Zhuhai Zhonghui") (Note iii)	The PRC	RMB34,700,000	—	—	61%	61%	Development, manufacturing and sale of power meters

Notes:

- (i) Weisheng Energy, Willfar Information Technology, Hunan Weike and Hunan Weiming are sino-foreign enterprises.
- (ii) Weisheng Import and Export, Wasion Shenzhen and Hunan Switchgear are limited liability companies established in the PRC.
- (iii) Vitae, Wasion Electric, Changsha Weisheng, and Zhuhai Zhonghui are wholly foreign owned enterprises established in the PRC.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of registration and principal place of business	Proportion of ownership interest and voting rights held by non-controlling interest		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	2018	2017	2018	2017
				RMB'000	RMB'000	RMB'000	RMB'000
Willfar Information Technology	The PRC	35%	35%	60,415	34,349	520,318	459,903
Individually immaterial subsidiaries with non-controlling interests				(461)	1,872	35,306	33,975
				59,954	36,221	555,624	493,878

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	Willfar Information Technology	
	31.12.2018 RMB'000	31.12.2017 RMB'000
Current assets	1,546,015	1,248,919
Non-current assets	531,604	502,064
Current liabilities	(579,305)	(432,739)
Non-current liabilities	(11,690)	(4,235)
Net asset value	1,486,624	1,314,009
Equity attributable to owners of Willfar Information Technology	1,479,346	1,306,698
Non-controlling interests of Willfar Information Technology	520,318	459,903
Non-controlling interests of the subsidiaries of Willfar Information Technology	7,278	7,311
Revenue	1,144,791	962,633

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests
(Continued)

	Year ended 31.12.2018 RMB'000	Year ended 31.12.2017 RMB'000
Profit and total comprehensive income attributable to owners of Willfar Information Technology	112,200	32,695
Profit and total comprehensive income attributable to the non-controlling interests	60,415	34,349
Profit and total comprehensive income for the year	172,615	67,044

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	31.12.2018 RMB'000	31.12.2017 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	1,206,304	1,196,815
Other non-current assets	71,630	33,731
	1,277,934	1,230,546
CURRENT ASSETS		
Other receivables	10,776	137,473
Amounts due from subsidiaries	709,685	813,172
Bank balances and cash	12,428	11,706
	732,889	962,351
CURRENT LIABILITIES		
Other payables	4,936	3,124
Borrowings — due within one year	165,453	331,150
	170,389	334,274
NET CURRENT ASSETS	562,500	628,077
TOTAL ASSETS LESS CURRENT LIABILITIES	1,840,434	1,858,623
CAPITAL AND RESERVES		
Share capital	9,969	9,988
Reserves	1,570,162	1,780,934
TOTAL EQUITY	1,580,131	1,790,922
NON-CURRENT LIABILITIES		
Borrowings — due after one year	260,303	67,701
TOTAL EQUITY AND NON-CURRENT LIABILITIES	1,840,434	1,858,623

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

For the year ended 31 December 2018

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

	Share premium RMB'000	Merger reserve RMB'000	Share option reserve RMB'000	Share held for share award scheme RMB'000	Other reserve RMB'000	Share repurchase RMB'000	Retained profits/ (Accumulated loss) RMB'000	Total RMB'000
At 1 January 2017	1,885,376	198,399	27,158	(25,119)	33,164	—	9,982	2,128,960
Loss and total comprehensive expense for the year	—	—	—	—	—	—	(108,793)	(108,793)
Shares repurchased and cancelled	(35,509)	—	—	—	—	—	—	(35,509)
Transaction costs attributable to subscription of shares	(225)	—	—	—	—	—	—	(225)
Recognition of equity-settled share- based payments	—	—	572	—	—	—	—	572
Dividends recognised as distribution	(204,071)	—	—	—	—	—	—	(204,071)
At 31 December 2017	1,645,571	198,399	27,730	(25,119)	33,164	—	(98,811)	1,780,934
Profit and total comprehensive expense for the year	—	—	—	—	—	—	1,054	1,054
Shares repurchased and cancelled	(7,379)	—	—	—	—	—	—	(7,379)
Transaction costs attributable to subscription of shares	(27)	—	—	—	—	(18)	—	(45)
Share repurchased and yet to be cancelled	—	—	—	—	—	(4,961)	—	(4,961)
Distribution of shares under share award scheme	—	—	—	3,107	—	—	—	3,107
Dividends recognised as distribution	(202,548)	—	—	—	—	—	—	(202,548)
At 31 March 2018	1,435,617	198,399	27,730	(22,012)	33,164	(4,979)	(97,757)	1,570,162

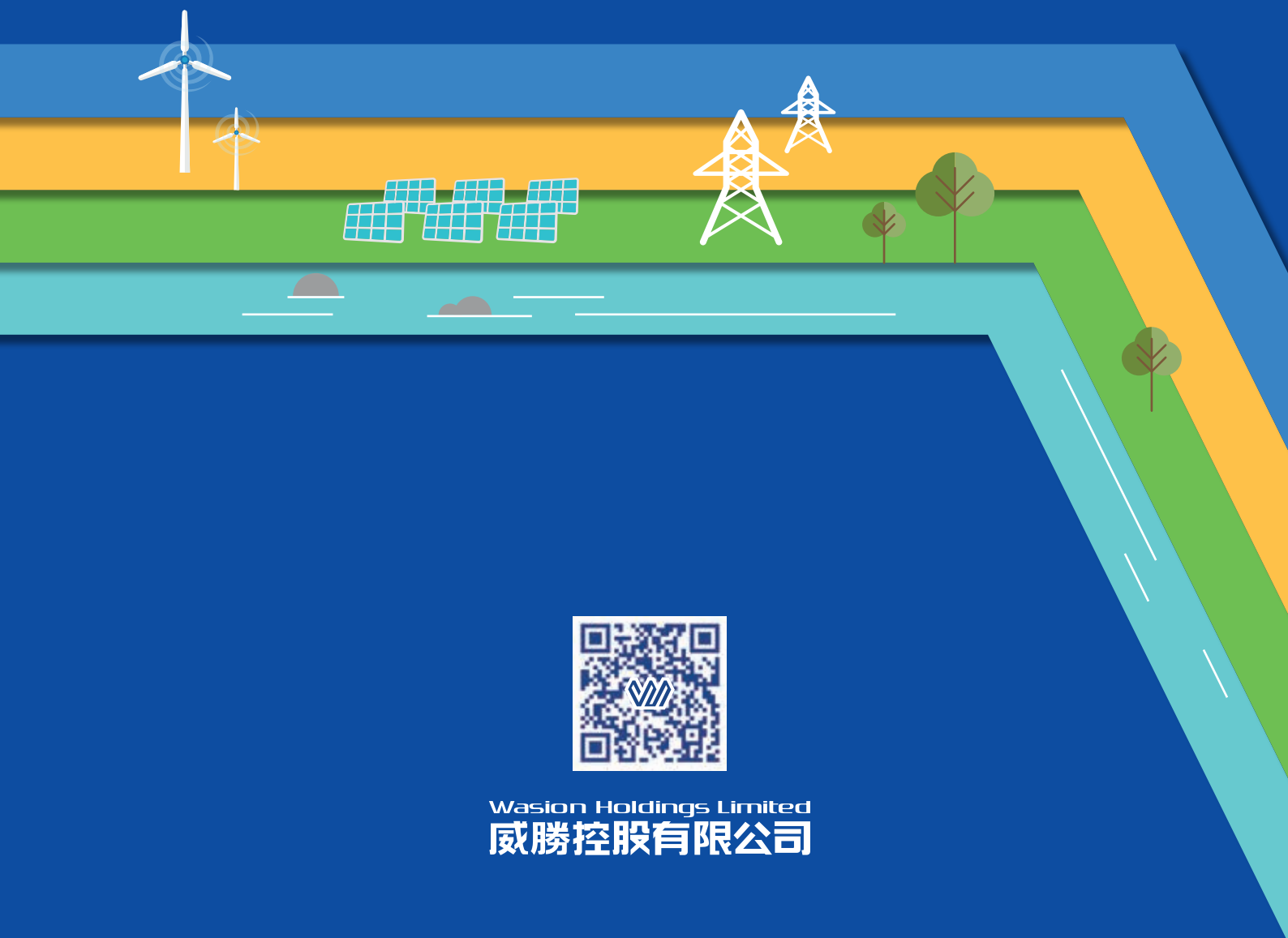
FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000
Revenue	2,811,871	2,969,033	2,607,504	2,927,989	3,340,321
Profit (loss) for the year attributable to:					
Owners of the Company	482,439	423,533	307,265	301,575	270,817
Non-controlling interests	3,735	(1,714)	640	36,221	59,954
	486,174	421,819	307,905	337,796	330,771

ASSETS AND LIABILITIES

	As at 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000
Total assets	5,618,550	7,223,094	7,493,091	7,884,054	8,608,295
Total liabilities	(2,312,309)	(3,083,522)	(3,315,377)	(3,224,104)	(3,866,011)
	3,306,241	4,139,572	4,177,714	4,659,950	4,742,284
Equity attributable to:					
Owners of the Company	3,245,509	4,101,160	4,148,619	4,166,072	4,186,660
Non-controlling interests	60,732	38,412	29,095	493,878	555,624
	3,306,241	4,139,572	4,177,714	4,659,950	4,742,284



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