Annual Report 2017

Wison Engineering Services Co. Ltd.

(Incorporated in the Cayman Islands with limited liability Stock Code: 2236)

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. Rong Wei *(Chief Executive Officer)*
Mr. Zhou Hongliang
Mr. Li Zhiyong
Mr. Dong Hua

Independent Non-executive Directors

Mr. Lawrence Lee
Mr. Tang Shisheng
Mr. Feng Guohua

AUDIT COMMITTEE

Mr. Lawrence Lee *(Chairman)*
Mr. Feng Guohua
Mr. Tang Shisheng

NOMINATION COMMITTEE

Mr. Tang Shisheng *(Chairman)*
Mr. Feng Guohua
Mr. Lawrence Lee

REMUNERATION COMMITTEE

Mr. Feng Guohua *(Chairman)*
Mr. Lawrence Lee
Mr. Tang Shisheng

GLOBAL HEADQUARTERS, PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

699 Zhongke Road
Zhangjiang Hi-Tech Park
Pudong New Area
Shanghai 201210
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Ltd.
P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

Corporate Information

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17/F, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

COMPANY SECRETARY

Ms. Luk Wai Mei

AUTHORISED REPRESENTATIVES

Mr. Li Zhiyong
Ms. Luk Wai Mei

AUDITORS

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

PRINCIPAL BANKS

China CITIC Bank Corporation Limited
Bank of Communications Co., Ltd.
Bank of China Limited
China Minsheng Banking Corp., Ltd.

REGISTERED OFFICE

P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 5408
54th Floor
Central Plaza
18 Harbour Road
Wan Chai
Hong Kong

COMPANY'S WEBSITE

www.wison-engineering.com

STOCK CODE

2236

Financial Summary

	For the year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		(Restated)	
Results					
Revenue	**4,124,790**	3,041,877	5,413,531	6,992,113	3,674,518
Gross profit	**861,158**	931,233	816,880	792,188	142,810
Profit/(Loss) before tax	**229,124**	121,217	311,007	225,857	(546,291)
Income tax	**(63,405)**	(98,822)	(72,491)	(54,903)	32,619
Profit/(Loss) for the year	**165,719**	22,395	238,516	170,954	(513,672)
Attributable to:					
Owners of the parent	**138,306**	15,179	205,106	143,455	(471,301)
Non-controlling interests	**27,413**	7,216	33,410	27,499	(42,371)
Earnings/(loss) per share					
– Basic and diluted	**RMB0.03**	RMB0.00	RMB0.05	RMB0.04	RMB(0.12)

Financial Summary

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)	(Restated)	
Assets and liabilities					
Non-current assets	**1,116,712**	1,195,846	1,361,318	1,816,312	1,506,863
Current assets	**6,496,159**	6,524,839	7,764,021	6,881,895	5,439,034
Current liabilities	**5,229,976**	5,532,446	7,014,353	6,928,877	5,419,531
Net current assets/(liabilities)	**1,266,183**	992,393	749,668	(46,982)	19,503
Total assets less current liabilities	**2,382,895**	2,188,239	2,110,986	1,769,330	1,526,366
Non-current liabilities	**23,513**	30,777	27,726	23,715	23,187
Net assets	**2,359,382**	2,157,462	2,083,260	1,745,615	1,503,179
Share capital	**329,968**	329,809	329,803	329,803	329,803
Reserves	**1,853,056**	1,632,560	1,565,580	1,301,345	1,086,408
Non-controlling interests	**176,358**	195,093	187,877	114,467	86,968
Total equity	**2,359,382**	2,157,462	2,083,260	1,745,615	1,503,179

Business Overview

OVERALL REVIEW

The year 2017 marked the fifth anniversary of the listing of Wison Engineering Services Co. Ltd. (the "Company", together with its subsidiaries, the "Group") on The Stock Exchange of Hong Kong Limited. The Group achieved great success during the year, winning orders as well as the recognition of the industry and praise from customers, which helped us to be fully prepared for the next five years. As the global economy gradually recovered, the prices of major chemical products remained high, presenting the entire industry with a rare development opportunity. Capitalizing on its industry-leading technological advantages and excellent project management and execution capabilities, the Group continued to drive technical innovations and actively expanded in the market to return to the track of rapid development. At the second session of the Procurement Conference of China Petroleum & Chemical Industry, the China Petroleum & Chemical Industry Federation announced that the Group had won the title of "Top 100 Suppliers of the Petroleum & Chemical Industry", and was named "Top Ten Enterprises for Engineering Services". Such rewards were the approval and praise of the industry for the Group's professional engineering services over the past two decades.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2017 (the "Year under Review"), revenue of the Group amounted to approximately RMB4,124.8 million (2016: approximately RMB3,041.9 million). The increase in revenue as compared with the previous year was mainly because new projects obtained by the Group in previous years and the current year entered the principal construction phase and proceeded smoothly, leading to the increase in revenue recognized in the Year under Review. The gross profit amounted to approximately RMB861.2 million (2016 (restated): approximately RMB931.2 million). Profit attributable to owners of the parent amounted to approximately RMB138.3 million (2016 (restated): approximately RMB15.2 million). The increase in profit attributable to owners of the parent was mainly attributable to impairment provision made by the Group during the same period last year for amounts due from contract customers in respect of the projects in previous years. During the Year under Review, the Group secured new contracts amounting to approximately RMB3,118.6 million (2016: RMB2,152.5 million) (net of estimated value

Business Overview

added tax, same hereinafter), of which petrochemicals business and coal-to-chemicals business accounted for 23.5% and 75.9%, respectively. 38 engineering, consulting and technical services and engineering, procurement and construction ("EPC") contracts were newly signed in aggregate. As at the end of the Year under Review, backlog value (net of estimated value added tax, same hereinafter) was approximately RMB9,419.6 million (as at the end of 2016: approximately RMB10,705.5 million).

BUSINESS AND OPERATIONS REVIEW

International Markets:

The Group is dedicated to implementing its internationalization strategy and actively expands in the overseas market. At present, it has established a management system and an execution team that meet the requirements for execution of international projects and a resource network for overseas procurement and construction.

- **Middle East:** During the Year under Review, the Group continued its steady operation in the Middle East market, winning customers with quality and earning reputation with integrity. Of the five projects carried out during the year, four have achieved mechanical completion, including one boiler project and three debottlenecking projects. It is worth mentioning that the EO/EG debottlenecking project carried out in Saudi Arabia achieved mechanical completion 5 days ahead of the contract period. The typical construction period of such projects is 23 months internationally. For this project, Wison Engineering not only promised to complete the project within a target construction period of 19 months, but also managed to deliver the project 5 days ahead of schedule with high quality, showcasing its excellent project management and execution ability.

Business Overview

- **South America:** In South America, another important market of the Group, we have established good cooperative relations with PDVSA of Venezuela and handled the project progress and various issues accordingly. The Group achieved a total of 10 million safety manhours, setting once again a good safety record for the Group's execution of large-scale overseas projects and winning praise from project owners with excellent project execution performance. During the Year under Review, the resident team not only started business expansion in different business of PDVSA, but also conducted market research in Argentina, Brazil and other countries around Venezuela. The Group focused on projects of which we have a high probability of winning the bid. The team has moved into the implementation phase as planned.

- **North America:** The indirect wholly owned subsidiary of the Company entered into an engineering, procurement, fabrication and construction ("EPFC") contract in respect of a Bid Section of a Low Density Polyethylene ("LDPE") project in Texas, America. This is Wison Engineering's first contract awarded in the American market, representing a new milestone in the implementation of its internationalization strategy. Wison Engineering will be responsible for modularization engineering, fabrication, transportation and on-site installation for the project. After this project, the Group was awarded a construction contract for modularized design and supply, bulk material procurement and on-site construction and installation for another petrochemical project. The orders continuously received in North America are recognition from industry about the Company's modularized design and fabrication concept.

- **Far East and Central Asia:** Countries in Far East and Central Asia, led by Russia, are important countries along "One Belt and One Road" who possess abundant oil and natural gas resources. With the recovery of the industry, many projects have moved from the planning stage to the implementation stage, and the markets are full of opportunities. We have conducted in-depth discussions with our customers according to the plan through two complementary ways, i.e. independent bidding and cooperating with internationally renowned companies.

- **Other regions:** During the Year under Review, apart from the continuous and intensive exploration in the above regions, the Group appointed personnel in Africa, Southeast Asia and other regions to actively seek business opportunities on an on-going basis and has obtained bidding opportunities for a number of projects in this market. It has achieved full-coverage of markets in the countries along "One Belt and One Road".

Wison Petrochemicals (NA) LLC, an indirect wholly-owned subsidiary of the Company, as contractor, was awarded a construction contract for the modularisation of the design and supply processes, bulk material procurement and on-site construction and installation for a petrochemical project in Texas, United States of America. The total consideration of this contract is approximately US$360 million. Please refer to the Company's announcement dated 1 March 2018 for details.

Business Overview

Domestic Market:

The Company's technical advantages in the domestic market have been widely recognized by the owners. During the Year under Review, the Company carried out 18 projects in the domestic market, five of which have completed handover. Meanwhile, a number of projects are being negotiated. During the Year under Review, main projects carried out included:

- Wison-Shell Bottom Quench Coal Gasification Technology (one set feedstock capacity of 1,500 t/d) won the contract of Phase II 900kt/a Methanol Plant of the 1.5mt/a Methanol Project by Shaanxi Changqing Energy & Chemical Co., Ltd. ("Shaanxi Changqing") and Xuzhou Coal Mining Group, marking the third time that this technology had been applied anywhere in the world. Earlier, Wison Engineering had secured the EPC contract of Phase I 600kt/a Methanol Plant.

- During the Year under Review, the metallocene PAO (mPAO) demonstration plant of Shanxi Lu'an Mining (Group) Company Limited ("Lu'an Group"), the first one in China, for which a subsidiary of the Company was engaged in preparation of the project feasibility study report, process package planning, scheme design, and detail design, commenced construction, the implementation of which filled in the mPAO market gap in China. The designed production capacity was 3,000 tons per year. In addition to the mPAO demonstration plant, at the end of the Year under Review, the 1.8 mt/a high-sulfur coal liquefaction and heating and power integration demonstration project of Lu'an Group, for which Wison Engineering acted as one of the general contractors, successfully went through the overall process flow and produced the first barrel of qualified blended diesel oil, entering a stable production stage with enhanced efficiency. This indicated that Wison Engineering had helped Lu'an Group establish the world's largest independent gasifier and purification plant, achieved through a technological breakthrough in using high-ash melting points and low silica-alumina coal in a large-scale, pulverized coal gasifier. Moreover, the 600kt/a bottom-reduction oil heterogeneous dewaxing project of Lu'an Group for which Wison Engineering acted as the EPC general contractor has entered the pipe installation stage; the 300kt/a olefin separation project of Lu'an Group for which Wison Engineering acted as the EPC general contractor has entered the construction stage; the 40kt/a synthetic base oil and 20kt/a environmental solvent oil project of Lu'an Group Nake designed by the Group has been successfully launched and in operation for 2 years, receiving repeated acclaim from the project owner. Breakthroughs made in the aforementioned projects extended our business beyond coal-to-oil products and into downstream high value-added products. They played a critical role in the Group's implementation of its five-year strategic plan.

- The Group was awarded an engineering management, procurement and construction ("EM&PC") contract of a 600kt/a methanol-to-olefins (MTO) plant and a 100kt/a butadiene plant (collectively, the "Projects") by Nanjing Chengzhi Yongqing Energy Technology Co., Ltd. Prior to entering into the EM&PC Contract, Wison Engineering had obtained the engineering contract for the Projects and the technology licensing and process design package contracts in respect of the olefin separation unit of the MTO plant and the butadiene plant. The Projects is scheduled to be delivered on 30 December 2018. The 600kt/a MTO plant utilizes an integrated solution that takes advantage of Honeywell UOP's advanced process technologies and Wison Engineering's high recovery olefin separation technology. "Pre-cutting + Oil Absorption" technology is the core of Wison Engineering's MTO olefin separation technology, and this is the 11th time for this technology to have an industrial application. The 100kt/a butadiene plant will fully utilize Wison Engineering's proprietary technology of "Oxidative Dehydrogenation of Butene to Butadiene (ODH)", which is the second time this technology has had an industrial application.

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- The Cracking Furnace Unit in 400kt/a Light Oil Processing and Utilization Device for Yan'an Kerosene Oil-Gas Comprehensive Utilization Project fully completed the engineering construction tasks within the scope of the contract during the Year under Review, smoothly achieving a hand-over at high standards. In addition, Wison Engineering obtained outstanding results in such aspects as safety and quality and on several occasions was commended by the owner. For two consecutive years, Wison Engineering was named "Advanced Corporation in Quality Month".

In addition, during the Year under Review, two projects undertaken by the Company received awards from China Association of Construction Enterprise Management. One was the extension of 800kt/a Ethylene Project for PetroChina Fushun Petrochemical Company for which Wision Engineering acted as the PC general contractor, winning "2016-2017 National Quality Engineering Award", and the other was Wison Engineering's EPC-contracted 300kt/a polyethylene plant and PE/PP packaging warehouse project, part of the 1.8mt/a Methanol and 700kt/a Polyolefin Project owned by Pucheng Clean Energy Chemical Co., Ltd., winning the first prize for "2017 Excellent Design of Engineering Construction Projects".

Wison Engineering Ltd. ("Wison Engineering") (an indirect non-wholly owned subsidiary of the Company) has obtained two newly added qualifications comprising "Water Pollution Prevention and Control Engineering (Class Two)" and "Solid Waste Treatment Engineering (Class Two)" as approved by the Shanghai Housing and Urban-Rural Development Management Committee* (上海市住房和城鄉建設管理委員會). Thereafter, Wison Engineering will be able to undertake the environmental engineering (including building structures and non-standard equipment, etc.) special design business in water pollution prevention and control engineering and solid waste treatment and disposal engineering, of medium or smaller scale. At the same time, Wison Engineering will be able to undertake the corresponding class of engineering design business under the "drainage engineering" and "environmental and sanitation engineering" areas under the qualification of municipal industry. Water Pollution Prevention and Control Engineering includes engineering work such as industrial waste water treatment. Solid waste treatment and disposal engineering includes engineering work such as general industrial solid waste treatment and utilization, hazardous waste treatment and disposal (including medical waste disposal). Drainage engineering includes engineering work such as processing plants and pipe network (pumping stations and pipelines), while environmental and sanitation engineering includes engineering work such as sanitary landfills, composting or making of fertilizers, and transfer stations. Please refer to the Company's announcement dated 4 January 2018 for details.

Technology Research and Development:

Promoting "energy saving and consumption reduction" and developing clean energy technologies are not only the foundation on which the Group's survival depends, but also a commitment to be honoured by a responsible company. During the Year under Review, the Group continued to ramp up its efforts in technical research and development. Particularly, to meet the requirements of energy saving and emission reduction, all subjects of research and development centred on actual applications in projects, laying a good foundation for seizing market shares. Awards and orders showed the recognition received by the Group for its persistent promotion of clean energy technologies in the long run.

- During the Year under Review, the project of "Development and Engineering Application of Methanol-to-Olefin (MTO) Separation Technology" jointly undertaken by the Group, Nanjing Chengzhi Yongqing Energy Technology Co., Ltd. and Shandong Yangmei Hengtong Chemical Co., Ltd. ("Yangmei Hengtong") was awarded the second prize of Scientific and Technological Process from China Petroleum and Chemical Industry Association. The technology was the MTO separation technology in China with the largest market share, reaching an internationally advanced level. The technology has

* for identification purposes only

Business Overview

become a recommended process in the "Coal-to-Olefins Upgrade Demonstration Technology Scheme During the Twelfth Five-Year Period" developed by China National Petroleum & Chemical Planning Institute. Also, in the performance test by Yangmei Hengtong for the olefin separation unit of MTO devices, product recovery rate of ethylene and propylene reached top standard in the industry globally. The technology has realized 11 times of technology transfer, and four sets of devices have been put into operation. At present, the technology is widely approved in China. We believe that it will help the Group in future to actively expand its overseas businesses, especially towards regions along "One Belt and One Road", which will promote the development of the MTO industry throughout the world.

- The "Development and Industrial Application of Oxidative Dehydrogenation of Butene to Butadiene (ODH) Technology and Catalyst" was appraised for scientific and technological results by the China Petroleum and Chemical Industry Federation, which determined that the result reached an internationally advanced level, and the yield of the butene oxidation and dehydrogenation new catalyst products reached an internationally superior level. In recent years, as more light aromatics were used as the raw materials for ethylene cracking, significantly less butadiene was produced as a byproduct. Moreover, a large amount of C4 fraction was not used in a high value-added manner in China. Through optimization of the catalyst and technology process, Oxidative Dehydrogenation of Butene to Butadiene can increase the usage rate of C4 fraction while resolving the conflict between reduced production of butadiene globally and increasing demands for butadiene, therefore it has significant social benefits. One set of the technology has been successfully commercialized, and another one has been sub-licensed. We have won biddings of two companies in technology selection and preliminary consultation, and are conducting technical communication with a number of other companies at home and abroad. Therefore, the market application prospect of the technology is promising.

- During the year, Shanghai Intellectual Property Administration, in accordance with the Measures for Determination and Management of Pilot Enterprises and Institutions for Patent-Related Works of Shanghai (Hu Zhi Ju (2017) No.62), selected the Group as a pilot enterprise for patent-related work for the year 2017 and published the selection results on its website. Being selected as a pilot enterprise for patent-related works will have positive effects on the technical development and innovation of Wison Engineering. It will continue to boost the Group's capabilities in the creation, application, protection, and management of patents and provide strong support for the Company in such areas as standardization of intellectual property management, establishment of patent strategy, patent library and alert platform, training of patent talents, and patent insurance.

- In addition, Wison Engineering Ltd. (an indirect non-wholly owned subsidiary of the Company) was again recognized as "High and New Technology Enterprises" in Shanghai during the year, which was a recognition of the Company's strength in technology and investment in scientific research, and will be conducive for the Company to boost its corporate image, solidify its leading position in technology, enjoy favorable tax treatment, and increase its market value and capital value.

Organizational Adjustments and Talent Strategy

During the year, in order to promote efficiency, the Group has made in-depth optimization and adjustments to its organizations. One of the important measures was to allow more young people to join the management team to respond to the fast iteration of industry's information, technology, process, and management models. Meanwhile, we adopted multiple channels to carry out the recruitment work such as employee recommendation

Business Overview

and social recruitment. In particular, we stepped up efforts in recruiting talents in technology research and development, process design, and quality and safety management to maintain the Group's dominant position in the main business areas. In addition, in alignment with the Group's internationalization strategy, we have cooperated with a number of well-known overseas headhunting companies and attracted a group of highly-skilled talents familiar with the situation in overseas key business areas. As of the end of the Year under Review, the total number of employees of the Group increased by 21% as compared with 2016. Being optimistic about the prospects of the industry is the reason behind the Company's active recruitment of talents. Providing a platform for employees to show their talent and enhancing their value is a commitment of the Company to all the employees. At the time of rapid expansion in personnel, the Group did not slacken its efforts in providing various types of training program, ensuring the steady and increasing business volume.

Outlook

The 20th anniversary of the Group witnessed the recovery of the industry. During the Year under Review, we took the opportunity to set our corporate development strategy for the upcoming 5 years which included: continuing our development strategy of consolidating the domestic market and exploring overseas markets by focusing on the energy and chemical industry and solidifying our foundation; charting a path of sustainable development for energy by relying on our existing energy business and carrying out digital transformation to build up scientific and digital strength of Wison; offsetting periodic fluctuation of the industry by focusing on differentiated services and expanding into such fields as municipal administration, power, and environmental protection to achieve coordinated development in multiple industries; meanwhile, the Company will enhance the research and development in the petroleum and petrochemicals industry to secure its advantage in the industry.

- **Consolidating the Domestic Market and Exploring Overseas Markets**

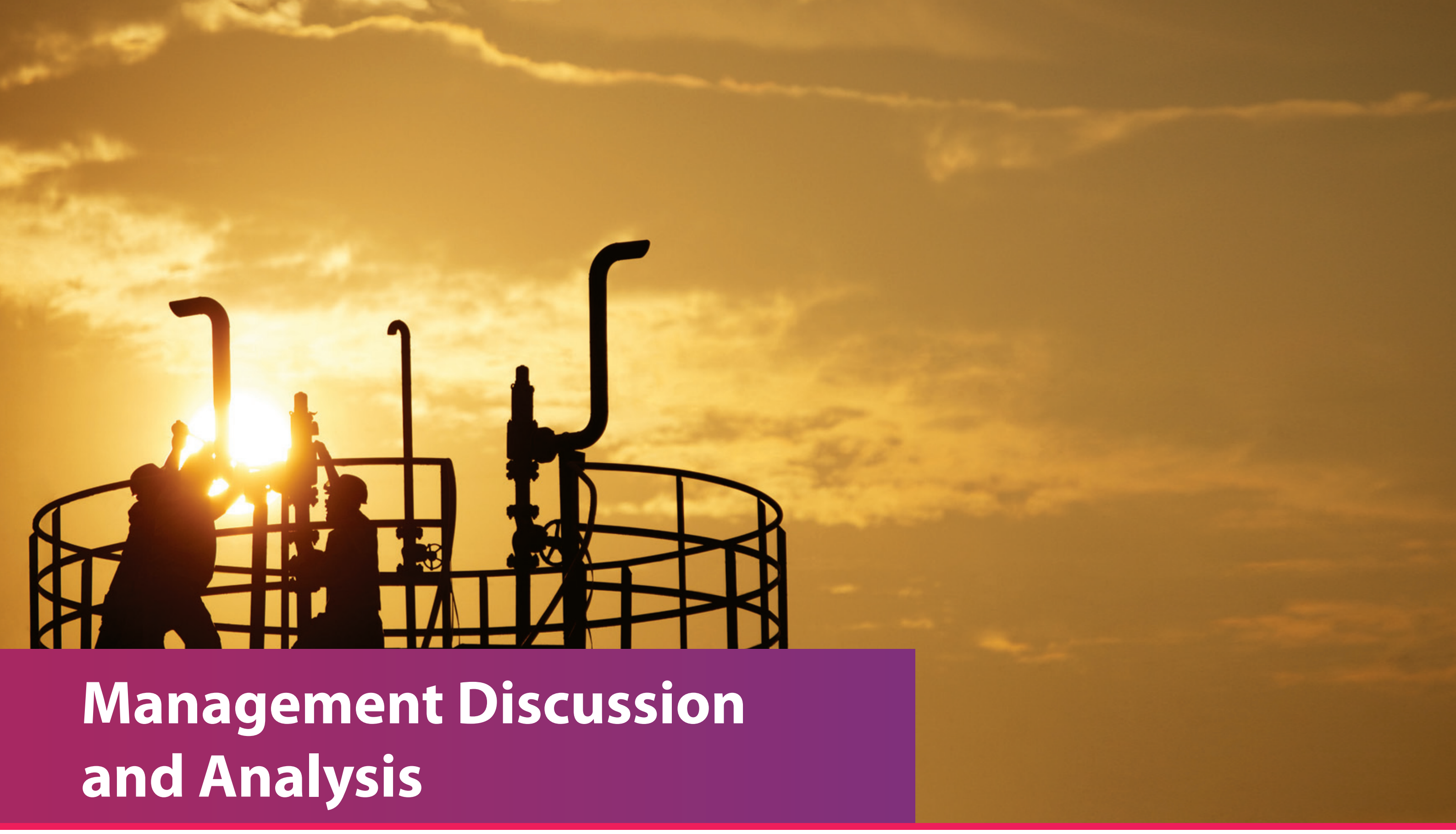
  While consolidating our advantages in the domestic market, the Company will further explore overseas markets. We will proactively build up international cooperation platforms to find new drivers of coordinated development. To this end, the Company will strengthen its capabilities in preliminary planning, quoting, execution, and resource integration. With 20 years of industrious development, the Company now has operations in 19 provinces and cities in China, which will become important exemplary projects for the Company to expand its businesses in China. As at the end of the Year under Review, the Company had presence in 12 foreign countries and regions and has secured business contracts in 7 countries. In the future, we will continue to make diligent and prudent efforts in countries and regions where we have won orders to create overseas exemplary projects on an ongoing basis, thereby providing convincing proof of our strength to bring in new orders. By providing differentiated products catering to the needs of local customers, we aim to grasp shares in international markets. We have noted that countries along "One Belt and One Road" are economically the most active regions in the world. With two-thirds of the world's population, their energy industries and infrastructure development hold enormous potential. The Company intends to take this as an entry point to achieve global presence. In future, we will consolidate our strength in China while intensively exploring markets in the Middle East, North America, South America, Africa, and South-East Asia, forming a "1+5" business layout.

Business Overview

- **Digital Transformation**
During the Year under Review, Wison Engineering introduced the development concept of "Digital Wison". In our newly founded Digitalization Innovation Centre, we performed modelling and optimization for the path from the raw material market to product market using big data and artificial intelligent, thereby being able to provide owners with product path selection and optimization for new projects, creating a new industry eco-system of energy and chemical engineering. Wison will take this opportunity to achieve a large leap in its management capability. The introduction of the digital mode served as a reshuffle for the industry. The Company is well-positioned in terms of capital and talent reserve to usher in the digital transformation. Improvement in capabilities for converting patent technologies, constructing intelligent plants, and promoting applications will help the Company achieve the important strategic goal of overtaking its competitors.

- **Coordinated Development of Multi-Industry**
Multi-industry collaboration is not a blind cross-industry development. It is the extension into upstream and downstream sectors building on Wison Engineering's dominance in the traditional field. Upstream, we venture into services in the upstream of the petrochemical industry, and downstream, we reach into engineering plastics and high-end chemicals. As clean energy is the trend of future development, we will quicken our pace of development in the natural gas and natural gas chemical industry. From our experiences, development in a single industry is subject to the industry cycles. To avoid the impact of cyclical economic, the Company will expand its business into municipal, power and environmental businesses to achieve coordinated development in multiple areas. In the next five years, the Company will enhance bidding efforts in these areas and divert various internal resources to these types of business. In addition, we will focus on the cooperation with renowned organizations from within the country and overseas in related fields in the future.

- **Increased Effort in Research and Development to Exploit the Service Value Advantages of Technology Application and Investment Planning**
Guided by the market-oriented philosophy, during the year, the Company selected experts from such fields as olefin and petroleum refining to establish the Product Technology Centre, in an attempt to ramp up its efforts in research and development in the petroleum and chemical industry. This enabled us to combine the strength of renowned experts in the energy industry from both China and other countries and carry out comprehensive cooperation with famed international patent licenser, thereby further strengthening our capabilities in applying product technologies and compound technologies. With clients' needs in mind, we provide expert services and integrated solutions covering the entire industry chain, from preliminary consultation, planning, and product solution of projects, to selection and application of technologies, in order to enhance clients' service experience and create values for clients that exceed their expectations. During the Year under Review, the Group and Topsoe entered into a cooperation agreement to collaborate on clean energy, chemicals development, engineering, and market exploration to enhance the collaboration between ecological integration and global technological services.



Management Discussion and Analysis

FINANCIAL REVIEW

OVERALL REVIEW

Revenue and Gross Profit

For the year ended 31 December 2017, the comprehensive revenue of the Group amounted to RMB4,124.8 million, representing an increase of RMB1,082.9 million, or 35.6%, from RMB3,041.9 million in the previous year.

Gross profit of the Group decreased by RMB70.0 million, or 7.5%, from RMB931.2million for the year ended 31 December 2016 to RMB861.2million for the year ended 31 December 2017. The gross profit margins of the Group for the years ended 31 December 2016 and 2017 were 30.6% and 20.9%, respectively.

Details of comprehensive revenue and gross profit breakdown by business segments are set out below:

	Segment revenue		Segment gross profit		Segment gross profit margin	
	2017	2016	**2017**	2016	**2017**	2016
	(RMB'million)		**(RMB'million)**		**(%)**	
EPC	**4,009.4**	2,975.7	**879.5**	917.7	**21.9%**	30.8%
Engineering, consulting and technical services	**115.4**	66.2	**-18.3**	13.5	**-15.9%**	20.4%
	4,124.8	3,041.9	**861.2**	931.2	**20.9%**	30.6%

Management Discussion and Analysis

Revenue of EPC increased by RMB1,033.7 million, or 34.7%, from RMB2,975.7 million for the year ended 31 December 2016 to RMB4,009.4 million for the year ended 31 December 2017. The increase was mainly because the Group's EPC projects previously and newly acquired entered into the principal construction phase and progressed smoothly, leading to an increase in revenue to be recognized. Gross profit margin of EPC decreased from 30.8% for the year ended 31 December 2016 to 21.9% for the year ended 31 December 2017. The decrease was mainly because during the year ended 31 December 2016, the Group's large-scale petrochemical and oil refinery projects approached the late construction phase, thus adjusting the overall budgets for these projects.

Revenue of Engineering, Consulting and Technical Services increased by RMB49.2 million, or 74.3%, from RMB66.2 million for the year ended 31 December 2016 to RMB115.4 million for the year ended 31 December 2017. Gross profit margin of Engineering, Consulting and Technical Services decreased from 20.4% for the year ended 31 December 2016 to -15.9% for the year ended 31 December 2017. The decrease was mainly because during the Year under Review, the estimated contract amount of some engineering projects is lower than the estimated cost. The Group expects that the successful completion of these engineering projects will have a profound impact on the future development of the Group.

Details of comprehensive revenue breakdown by industries in which our clients operate are set out below:

(RMB'million)

	2017	2016	Change	Changes %
Petrochemicals	**1,635.0**	489.2	1,145.8	234.2%
Oil refineries	**765.5**	1,296.2	–530.7	–40.9%
Coal-to-chemicals	**1,722.1**	1,251.9	470.2	37.6%
Other products and services	**2.2**	4.6	–2.4	–52.2%
	4,124.8	3,041.9	1,082.9	35.6%

In petrochemicals, revenue increased by RMB1,145.8 million, or 234.2%, from RMB489.2million for the year ended 31 December 2016 to RMB1,635.0 million for the year ended 31 December 2017. The increase was mainly because the Group's major petrochemical projects in the Middle East entered into the principal construction phase and progressed smoothly.

Management Discussion and Analysis

In oil refineries, revenue decreased by RMB530.7 million, or 40.9%, from RMB1,296.2 million for the year ended 31 December 2016 to RMB765.5 million for the year ended 31 December 2017. The decrease was mainly because the Group's major oil refinery projects have entered the late construction phase, and recognised revenue decreased accordingly.

In coal-to-chemicals, revenue increased by RMB470.2 million, or 37.6%, from RMB1,251.9 million for the year ended 31 December 2016 to RMB1,722.1 million for the year ended 31 December 2017. The increase was mainly because the Group's major coal-to-chemicals projects, signed in the previous year and the Year under Review, entered into the principal construction phase, leading to an increase in revenue to be recognized.

In other products and services, revenue decreased by RMB2.4 million, or 52.2%, from RMB4.6 million for the year ended 31 December 2016 to RMB2.2 million for the year ended 31 December 2017.

Other Income and gains

Other income and gains decreased by RMB401.2 million, or 68.0%, from RMB590.0 million for the year ended 31 December 2016 to RMB188.8 million for the year ended 31 December 2017. The significant decrease in other income and gains was because the Group recognised a gain on disposal of assets classified as held for sale of RMB220.2 million in the previous year. In addition, during the Year under Review, interest income decreased by RMB153.1 million, rental income increased by RMB12.7 million and foreign exchange gains decreased by RMB34.4 million. The significant decrease in interest income was attributed to the decrease in principal portion of the financing arrangement for certain projects, and interest income recognised according to the relevant accounting standards decreased accordingly. The decrease in foreign exchange gains was due to the decrease in exchange rate of us dollar to RMB yuan in 2017.

Sales and Marketing Expenses

Sales and marketing expenses increased by RMB8.3 million, or 13.7%, from RMB60.6 million for the year ended 31 December 2016 to RMB68.9 million for the year ended 31 December 2017. The increase was mainly because the Group has increased preliminary expenditure in order to expand domestic and foreign markets.

Administrative Expenses

Administrative expenses increased by RMB165.2 million, or 79.4%, from RMB208.0 million for the year ended 31 December 2016 to RMB373.2 million for the year ended 31 December 2017. The increase was primarily because the Group recognized equity-settled share-based payment expenses and related expenses for the new round of share options during the Year under Review, and the increase in exchange losses during the Year under Review.

Other Expenses

Other expenses decreased by RMB607.2 million, or 71.6%, from RMB848.6 million (restated) for the year ended 31 December 2016 to RMB241.4 million for the year ended 31 December 2017. The decrease was primarily because the Group made provision for impairment of overdue gross amount due from contract customers in the previous year.

Finance Costs

Finance costs decreased by RMB147.0 million, or 51.9%, from RMB283.2 million for the year ended 31 December 2016 to RMB136.2 million for the year ended 31 December 2017. Interest on bank loans increased by RMB0.5 million and interest on discounted bills decreased by RMB147.5 million. The increase in interest on bank loans was primarily due to the increase in average interest rate for the year ended 31 December 2017 compared with the year ended 31 December 2016. The decrease in interest on discounted bills was primarily due to the decrease in the principal portion of the financing arrangements for certain projects, and interest on discounted bills decreased accordingly.

Management Discussion and Analysis

Income Tax Expenses

Income tax expenses decreased by RMB35.4 million or 35.8%, from RMB98.8 million (restated) for the year ended 31 December 2016 to RMB63.4 million for the year ended 31 December 2017. The decrease was primarily due to the decrease in assessable income for the year ended 31 December 2017 and the Group has recognised the deferred tax assets related to the accruals.

Profit for the year

Profit for the year increased by RMB143.3 million, or 639.7%, from RMB22.4 million (restated) for the year ended 31 December 2016 to RMB165.7 million for the year ended 31 December 2017. Our net profit margin was 0.7% for the year ended 31 December 2016 and increased to 4.0% for the year ended 31 December 2017. The increase was primarily because the Group made provision for impairment of overdue gross amount due from contract customers for the year ended 31 December 2016, and profit for the year decreased accordingly.

Trade and Bills Receivables

The Group's trading terms with its customers are mainly on credit where payment in advance is normally required. Trade receivables are non-interest-bearing and on credit terms of a period of 30 days or the respective contracts' retention period. As at 31 December 2017 and 2016, the Group had trade receivables of RMB1,356.2 million and RMB145.3 million (restated), respectively, and bills receivables of RMB1,202.3 million and RMB194.9 million, respectively. For details please refer to note 21 to the financial statements.

The Company has been actively communicating with the relevant project owners with a view to formulating plans for their prompt settlement of the overdue receivables. The Group has maintained a favourable long-term business relationship with these project owners and the negotiations between the Company and the project owners are satisfactory.

It is a characteristic of the industry in which the Group operates that a significant proportion of revenue derives from a limited number of clients in a given period of time. Given the nature of the industry, the Group generally has a relatively limited client base. If the Group fails to complete the construction work of major projects or if the projects with the Group's major clients are terminated before completion, the Group's business, results of operations and financial condition may be adversely affected. In order to further diversify the Group's sources of revenue and reduce the Group's reliance on major clients, the Company will continue to carry out various measures to cover more mid- to large-size petrochemical producers, expand the Group's business in the oil refineries and coal-to-chemicals business segments and expand into the international markets.

Financial Resources, Liquidity and Capital Structure

The Group meets its working capital and other capital requirements principally with cash generated from its operations and borrowings.

Management Discussion and Analysis

As at 31 December 2017, the Group's pledged and unpledged cash and bank balances included the following amounts:

	As at 31 December	
	2017	2016
	(Million)	
Hong Kong Dollar	**5.8**	5.4
US Dollar	**164.1**	232.7
Renminbi	**368.7**	108.2
Saudi Riyal	**1.0**	15.3
Euro	**0.1**	0.1
Indonesian Rupiah	**869.1**	567.5
Venezuelan Bolivar	**175.1**	27.8
UAE Dirham	**3.1**	0.7

Interest-bearing bank and other borrowings of the Group as at 31 December 2017 and 2016 were set out in the table follow. The short-term bank borrowings of the Group accounted for 100% of the total bank borrowings (2016: 100%).

	As at 31 December	
	2017	2016
	(RMB million)	
Current		
Bank loans repayable within one year		
— secured	**282.3**	426.7
Other loans repayable within one year		
— unsecured	**31.0**	–
	313.3	426.7

Bank borrowings were denominated in RMB, USD and Euro at 31 December 2016 and 2017. At 31 December 2017, bank borrowings amounting to RMB167,943,000 (2016: RMB58,468,000) bore interest at fixed rates.

The effective interest rates of the Group's bank and other borrowings ranged as follows:

Year ended 31 December 2016	2.93% to 5.20%
Year ended 31 December 2017	3.25% to 5.66%

Management Discussion and Analysis

The maturity profile of interest-bearing bank and other borrowings as at 31 December 2017 and 2016, based on contractual undiscounted payments, is as follows.

	On demand	Less than 3 months	3 to 12 months (RMB million)	1 to 5 years	Total
31 December 2017					
Interest-bearing bank and other borrowings	**–**	**240.5**	**74.5**	**–**	**315.0**
31 December 2016					
Interest-bearing bank and other borrowings	–	209.9	222.1	–	432.0

As at 31 December 2017, the gearing ratio of the Group, which was derived by dividing total debt by total equity, was 0.1x (2016: 0.2x). The ratio of total borrowings to total assets was 4.1% (2016: 5.5%).

Material Acquisitions and Disposals

During the reporting year, the Group has not conducted any material acquisitions or disposals.

Capital Expenditure

During the reporting year, the capital expenditure of the Group amounted to RMB14.9 million (2016: RMB5.0 million).

Foreign Exchange Risk Control

The business transactions of the Group are mainly settled in Renminbi and US dollars. The Group is exposed to currency risks in relation to the bank balances denominated in currency other than the functional currencies of the relevant entities. At present, the Group has not maintained any hedging policy against the foreign currency risk. However, the management monitors the related foreign currency exposure closely and will consider hedging significant currency exposure should the need arise.

Asset Security

As at 31 December 2017, bank balances with carrying amount of RMB58.8 million was pledged as security for bank facilities of the Group.

Contingent Liability

In 2010, the Group submitted an application for special tax treatment under Circular No. 59 for Wison Energy (HK) to transfer its entire equity interests in Wison Yangzhou and Wison Engineering. To date, the relevant authorities have not reverted on this application. The Group calculated the prospective tax liability in relation to the transfer of equity interests in Wison Yangzhou and Wison Engineering. The Group paid RMB10.4 million in relation to the transfer of equity interests in Wison Engineering in December 2011 and made a provision of RMB4.4 million in relation to the transfer of equity interests in Wison Yangzhou in its financial statements as at 31 December 2011 accordingly. The provision was based on a valuation of Wison Yangzhou and Wison Engineering performed by a PRC valuer.

Except for the contingent liabilities as stated above, the Group had no other contingent liabilities as at 31 December 2017.

Management Discussion and Analysis

Human Resources

As at 31 December 2017, the Group had 1,339 employees (31 December 2016: 1,108 employees). The Group reviews the salaries and benefits of the employees according to market practice and the performance of the employees on a regular basis. Also, the Group contributes to various social insurance schemes in the PRC and the Mandatory Provident Fund Scheme in Hong Kong for qualified employees and provides medical insurance, work injury insurance, maternity insurance and unemployment insurance pursuant to applicable laws and regulations in the PRC and Hong Kong, as well as additional business accident and medical insurance. For the year ended 31 December 2017, the total staff cost of the Group (including salaries, bonuses, insurance and share option schemes) amounted to RMB614.8 million (during the year ended 31 December 2016: RMB617.8 million).

The Group adopted the Pre-IPO Share Option Scheme and the Share Option Scheme on 30 November 2012 as encouragement and reward for their contributions to the Company.

Comparative Figures

Certain comparative figures in the consolidated statement of profit or loss and consolidated statement of comprehensive income for the year ended 31 December 2016 and the consolidated statement of financial position as at 31 December 2016 have been restated to correct errors in the Group's consolidated financial statements for the year ended 31 December 2016. For details of such correction of prior year errors and the impact of the restatement made in respect of the errors, please refer to note 2.4 to the Group's consolidated financial statements set out in this report.

Biographies of the Directors and Senior Management

EXECUTIVE DIRECTORS

Ms. Rong Wei (榮偉), age 42, was appointed as an executive Director of our Company and the Chief Executive Officer of our Group on 5 February 2018. Ms. Rong has approximately 20 years of experience in the management and operation of state-owned enterprises, foreign enterprises and privately-owned enterprises, and has accumulated extensive experience in leading the development and transformation of various types of businesses. Ms. Rong became an external independent director of Wison Group Holding Limited ("Wison Holding") in July 2017, and was also appointed as a director and vice president of Wison Holding since January 2018. Ms. Rong studied at the University of Cambridge and Hong Kong University of Science and Technology and obtained a master's degree in mathematics and a master's degree in management.

From 2013 to 2018, Ms. Rong has served as vice president of Envision Energy Ltd., an innovative global energy enterprise in the new energy industry, where she created new business and led the development of a number of innovative initiatives in the development of the new energy industry. From 2010 to 2013, Ms. Rong was a partner at Mercer, a globally renowned consulting firm, where she led the development of its consulting business for Chinese enterprises, and the transformation of the business of Mercer in China. From 2005 to 2010, Ms. Rong took the position of chief consultant and global certification expert at the Global Services division of IBM in leading its management consulting team, and guided the transformation and development of a large number of Chinese enterprises.

Biographies of the Directors and Senior Management

Mr. Zhou Hongliang (周宏亮), age 48, is a senior vice president of our Group and was appointed as an executive Director of our Company on 10 September 2013. He is mainly responsible for project execution and is in charge of the Project Management Department, Procurement Department, Construction Management Department and Furnace Department. He graduated from Liaoning Shihua University (遼寧石油化工大學), formerly known as the Fushun Petroleum Institute (撫順石油學院) in 1991. He received his master's degree in business administration from China Europe International Business School (中歐國際工商學院) in 2014. He obtained the qualification of constructor from the Ministry of Construction of the People's Republic of China (中華人民共和國建設部) in 2006. He was responsible for project management in Sinopec Ningbo Engineering Co., Ltd. from 1991 to 2002. From 2002 to 2004, Mr. Zhou worked as a deputy manager in the Ethylene Project Team in Shanghai SECCO Petrochemical Company Limited (上海賽科石油化工有限責任公司). Mr. Zhou joined our Group in January 2005 as a manager of the construction management department of Wison Engineering and was appointed as the deputy general manager of Wison Engineering in January 2008. He has 25 years' experience in the petrochemicals industry.

Mr. Li Zhiyong (李志勇), age 46, was appointed as an executive Director of our Company and the Chief Financial Officer of our Group on 13 January 2017. Mr. Li is mainly responsible for overseeing the Group's financial operations and investor relations management. Mr. Li obtained a bachelor of science degree from the Nanjing University of Aeronautics and Astronautics (南京航空航天大學), the PRC, in 1993, a master of business administration degree conferred by Tsinghua University (清華大學), the PRC, upon completion of the Tsinghua-MIT Sloan IMBA Program in 2000 and a master of business administration degree issued jointly by Northwestern University (the United States of America) and The Hong Kong University of Science and Technology (Hong Kong) upon completion of the Kellogg-HKUST Executive MBA (EMBA) Program in 2011. Mr. Li was recognized as a Chartered Financial Analyst by the CFA Institute in 2009. From March 2014 to December 2016, Mr. Li was a partner and the general manager of Vado Consulting (Shanghai) Co., Ltd (凡道管理諮詢(上海)有限公司). From January 2012 to February 2014, Mr. Li was a vice-president of Jiangsu Shenma Electric Co., Ltd. (江蘇神馬電力股份有限公司). Prior to these positions, Mr. Li held a number of positions at certain members of the Group. In March 2001, Mr. Li joined Wison Engineering (formerly known as Shanghai Wison Chemical Engineering Co., Ltd. (上海惠生化工工程有限公司)), the principal operating subsidiary of the Company, as the financial controller until March 2011. Mr. Li also served as an executive director of the Company from June 2007 to April 2011. Mr. Li re-joined the Group in January 2017 as the chief financial officer of Wison Engineering.

Biographies of the Directors and Senior Management

Mr. Dong Hua (董華), age 50, was appointed as an executive Director of our Company on 13 January 2017. Mr. Dong joined the Group in July 2006 and served as the assistant to general manager and the manager of Beijing Design Centre. In the second half of 2008, he served concurrently as the general manager of the International Business Division, responsible for the business expansion in international markets and foreign-funded projects in the domestic market. Mr. Dong is also a senior vice president of the Group and the manager of Wison Petrochemicals (NA), LLC, an indirect wholly-owned subsidiary of the Company. Mr. Dong is mainly responsible for supervising overseas marketing and overseeing the international business, and is also responsible for supervising the overseas regional sales and overseas branches. Mr. Dong graduated from Lanzhou Petroleum College (蘭州石油學校), the PRC, with a major in chemical equipment in 1988 and subsequently graduated from China Three Gorges University (三峽大學), the PRC, with a major in law in 2006. Mr. Dong obtained an EMBA from The Hong Kong University of Science and Technology, Hong Kong in 2015. Mr. Dong joined Sinopec Engineering Incorporation (SEI) in 1988, where he engaged in project management and served as the design or EPC general contracting project manager and construction manager for a number of petrochemical projects. From 2001 to 2005, he participated in the project construction of the 800-kt ethylene integration plant of CNOOC and Shell Petrochemicals Company Limited (CSPC) Nanhai Petrochemicals, which features the highest standards to date, and served successively as the deputy general project manager, deputy general whole-plant construction manager, and government relations and approval manager for the project management company (PCM) BSF China Company Limited, a PCM comprising three internationally renowned engineering companies: BECHTEL (USA), FOSTER WHEELER (UK), and SEI (China). Mr. Dong has over 29 years' experience in the petrochemicals industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lawrence Lee (李磊), age 53, joined our Company as an independent non-executive Director on 30 March 2015. Mr. Lee has been an independent director of Guangdong New Jingang Technology Limited (a China GEM Board Company) since August 2017. During his career of over 23 years, Mr. Lee also held several senior finance positions, serving as an executive director of Kasen International Holdings Limited (卡森國際控股有限公司) (a company listed on the The Stock Exchange of Hong Kong Limited ("Stock Exchange")) from August 2014 to November 2015; as the Chief Financial Officer at Synutra International, Inc. (a company listed on NASDAQ) from October 2007 to October 2009; as a vice president and the Chief Financial Officer of Kasen International Holdings Limited (卡森國際控股有限公司) (a company listed on the Stock Exchange) from August 2004 to September 2007; as the Chief Financial Officer of Eagle Brand Holdings Limited (a company listed on the Singapore Stock Exchange), from July 2001 to April 2004; and as a financial controller at the Korean division of Exel Plc of the United Kingdom from January 1999 to July 2001. Mr. Lee received a bachelor's degree in management and engineering from the Beijing Institute of Technology in 1984. Mr. Lee also obtained a master's degree in economics from the Renmin University of China in 1987 and a master's degree in accounting and finance from the London School of Economics and Political Science in 1992. He is also a fellow member of the Association of Chartered Certified Accountants.

Biographies of the Directors and Senior Management

Mr. Tang Shisheng (湯世生), age 61, joined our Company as an independent non-executive Director on 7 December 2015. Mr. Tang, PhD in economics, is a senior economist. Mr. Tang was admitted to Hunan College of Finance and Economics in September 1978 and became a teacher in the college after graduation in August 1981. From August 1988 to July 1994, Mr. Tang served successively as deputy general manager of the international business department of Hainan branch and branch president of Yangpu branch of the Hainan Province of China Construction Bank. From July 1994 to February 1997, Mr. Tang served successively as person in charge of preparation team and vice president of China International Capital Corporation Limited (中國國際金融有限公司) (now known as China International Capital Corporation Limited (中國國際金融股份有限公司)). From February 1997 to September 2009, Mr. Tang served successively as vice president of China Cinda Trust Investment Company (中國信達信託投資公司), vice president of China Galaxy Securities Limited Liability Company (中國銀河證券有限責任公司) (now known as China Galaxy Securities Co., Ltd. (中國銀河證券股份有限公司)), chairman of Hong Yuan Securities Co., Ltd. (a company listed on Shenzhen Stock Exchange, Stock Code: 000562). Mr. Tang acted as senior vice president of Peking University Founder Group Co., Ltd. from September 2009 to June 2012; and as chairman of Founder Capital Holdings Limited from October 2010 to June 2012. Mr. Tang served as supervisor of Hodojou Technology Co., Ltd. (華多九州科技股份有限公司), formerly known as Beijing HODOJOU Technology Co., Ltd (北京華多九州科技有限公司) (a company listed on National Equities Exchange and Quotations, Stock Code: 834567) from March 2012 until he was appointed as chairman in January 2014, and was the chairman of Beijing Sinosoft Co., Ltd. (北京中科軟件有限公司) from June 2013 to March 2015. Since March 2015, Mr. Tang has been an executive director of Beijing Sinosoft Co., Ltd. Mr. Tang was also an independent director of Hunan TV & Broadcast Intermediary Co., Ltd. (湖南電廣傳媒股份有限公司) (a company listed on Shenzhen Stock Exchange, Stock Code: 000917) from February 2010 to August 2016; and an independent director of Wison (Nanjing) Clean Energy Co., Ltd. (which ceased to be a fellow subsidiary of the Company since August 2015) from December 2010 to July 2015. Mr. Tang has been an independent director of China CITIC Bank International Limited (中信銀行(國際)有限公司) since November 2013; and an independent director of Geo-Jade Petroleum Corporation (洲際油氣股份有限公司) (formerly known as Hainan Zhenghe Industrial Group Co., Ltd. (海南正和實業集團股份有限公司), a company listed on Shanghai Stock Exchange, Stock Code: 600759) since December 2013.

Mr. Tang graduated from Hunan College of Finance and Economics, majoring in finance in August 1981. Mr. Tang graduated in June 1987 from the Institute of Financial Research, Head Office, People's Bank of China with a master's degree in economics; and graduated from the Graduate School of the Chinese Academy of Social Sciences in July 2004 with a doctoral degree in economics.

Biographies of the Directors and Senior Management

Mr. Feng Guohua (馮國華), age 49, joined our Company as an independent non-executive Director on 28 December 2015. Mr. Feng has more than 22 years of experience in information technology and management consulting service. Mr. Feng has extensive international exposure and experience in providing consulting services to multinational companies, state-owned enterprises and privately-owned enterprises. Mr. Feng has served as general manager of the Greater China Region Enterprise Services division of Microsoft (China) Co., Ltd. since April 2016, prior to which he was a senior vice president of Hanergy Holding Group and the president of Hanergy Global Solar PV Solutions Group from June 2015 to April 2016. Mr. Feng was a vice president and the managing partner at IBM Strategic Service and Global Business Consulting Services from December 2012 to May 2015. From March 2012 to December 2012, Mr. Feng was a global vice president at Hewlett-Packard. From January 2011 to February 2012, Mr. Feng served as president of Kingdee International Software Group Company Limited (a company listed on the Stock Exchange, Stock Code: 00268) ("Kingdee International"), and chief executive officer of Kingdee Software (China) Co., Ltd., a wholly-owned subsidiary of Kingdee International. He also served as an executive director of Kingdee International from 15 March 2011 to 2 February 2012. From November 2002 to January 2011, Mr. Feng worked at IBM Global Business Consulting Services, Greater China Group and served successively as associate partner, partner and managing partner. Before Mr. Feng joined IBM in November 2002, Mr. Feng was a director at PricewaterhouseCoopers Consultants (Shanghai) Ltd. from May 2002 to October 2002, a senior manager at Arthur Andersen (Shanghai) Business Consulting Co., Ltd. from November 2000 to April 2002 and a senior consultant and a consultant manager at Siemens Business Service from January 1996 to November 2000.

Mr. Feng graduated from the University of Science and Technology of China in 1990 with a bachelor's degree majoring in economic management and minoring in computer application software. Mr. Feng also completed the Advanced Management Program of Harvard Business School in 2009.

SENIOR MANAGEMENT

Ms. Chen Huimei (陳惠梅), age 50, is a senior vice president of our Group. She is responsible for the technology development, Design, Quality and Safety of Wison Engineering and is also responsible for overseeing the design centre, product technology centre, technology development centre, Quality and Safety Department, and Information Technology Department. Ms. Chen graduated from Xi'an Jiaotong University (西安交通大學) with a bachelor's degree in chemistry and chemical engineering in 1989. From 1998 to 2007, Ms. Chen worked at Petrochina Lanzhou Petrochemical Company (中石油蘭州石化工程公司) as project manager, project director and the manager of technology management. Ms. Chen joined our Group in 2007 and worked at Wison Engineering as assistant manager of the quality and safety department, manager of the technical management department and manager of the research and development center. Ms. Chen has 27 years' experience in the petrochemicals industry. She obtained an EMBA degree from the Chinese University of Hong Kong in 2015.

Mr. Zheng Shifeng (鄭世鋒), age 50, is a senior vice president of our Group. He is responsible for international business in the Middle East, Africa and Europe (excluding Russia). Mr. Zheng graduated from Hefei University of Technology (合肥工業大學) with a major in welding technology and equipment in 1990 and obtained a bachelor's degree in engineering. He has been engaging in the project management in the petrochemicals and coal-to-chemicals industries and gained extensive experience. He holds the title of senior engineer and the qualification of registered qualification certificate professional constructor of electrical and mechanical engineering in the PRC (國家註冊機電工程專業一級建造師). He also holds an EMBA degree from China Europe International Business School (中歐國際工商學院). From 1996 to 2004, he worked as a project manager in the

Biographies of the Directors and Senior Management

engineering department of Sinopec Qilu Petrochemical Corporation. Mr. Zheng joined our Group in 2004 and has successively served as the deputy manager and the general manager of the Project Management Department as well as the vice president of our Group and was once in charge of the execution of Group's domestic and overseas projects. Mr. Zheng has 28 years' experience in the petrochemicals industry.

Mr. Li Yansheng (李延生), age 53, is the chief engineer and the chief scientist of our Group. He is mainly responsible for guiding and leading the technology development of Wison Engineering and supporting and participating in internal technology research and development of Wison Engineering. Mr. Li graduated from Qingdao Institute of Chemical Technology (青島化工學院) with a bachelor's degree in organic chemical engineering. Mr. Li also obtained a certificate in business administration (MBA core course) from Antai College of Economics and Management of Shanghai Jiao Tong University (上海交通大學安泰經濟與管理學院) in 2006. Mr. Li then obtained an executive education program certificate from Cheung Kong Graduate School of Business (長江商學院) in 2010. Prior to joining our Group, Mr. Li worked at Shandong Qilu Petrochemical Engineering Co. Ltd as vice chief engineer from 1987 to 2004. Mr. Li joined our Group in 2004 and worked at the technical department of Wison Engineering. He then worked in the design management department and technical management department of Wison Engineering as a manager and vice chief engineer in 2005 and 2006, respectively. Since 2008, Mr. Li has been working at Wison Engineering as an assistant to general manager and technical director. Mr. Li also received various awards such as First-class Technical Progress Award (科技進步一等獎) from All-China Federation of Industry & Commerce (中華全國工商業聯合會) and the nationwide outstanding chemical engineering worker (全國化工優秀科技工作者) from China Petroleum and Chemical Industry Federation (中國石油和化學工業聯合會) in 2010. He earned the title as a master of exploration design in the petroleum industry of the PRC in 2013.

Mr. Yan Feng (閆峰), age 53, is a senior vice president of the Group, mainly responsible for organizational development and reform, formulation of the Group's development strategy, and recruitment, development and cultivation of global talents to achieve the strategic goals of development. He graduated from Jiangxi University of Finance and Economics in July 1988 and obtained a master's degree in business administration from Hong Kong University of Science and Technology in June 2011. From July 1988 to September 1998, he worked for Sinopec Yangzi Petrochemical Company, engaging in human resources and administrative management works. From October 1998 to July 2002, he served as the manager of Personnel and Administration Department for Yangzi Eastman Chemical Ltd., a Sino-US joint venture. From October 2002 to August 2007, he served successively as the Manager of Personnel and Administration Department and Director of Personnel of the Human Resource Department of Wison Engineering Ltd. From September 2007 to November 2011, he served as the Director of Human Resources for Wison Group Holding Limited. From December 2011 to December 2015, he served successively as the assistant to the president and vice president for Wison Group Holding Limited. On 14 August 2017, he re-joined the Group as a senior vice president. Mr. Yan has 30 years' experience in the petrochemicals industry.

Report of the Directors

The board of directors of the Company (the "Board") is pleased to present its report together with the audited financial statements of the Company and its subsidiaries (the "Group"), for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activity of the Group is the provision of chemical engineering, procurement and construction management, or EPC services. The Group provides a broad range of integrated services spanning the project lifecycle from feasibility studies, consulting services, provision of proprietary technologies, design, engineering, raw materials and equipment procurement and construction management to maintenance and after-sale technical support.

BUSINESS REVIEW

A fair review of the business of the Group, a discussion and analysis using financial key performance indicators and an account of the Group's relationships with its key stakeholders that have a significant impact on the Group are set out in the Business Overview and Management Discussion and Analysis sections of this report. An indication of likely future development in the Group's business is set out in the Business Overview section of this report. Particulars of important events affecting the Group that have occurred since the end of the financial year are set out in the Business Overview section and the Notes to the financial statements.

The Group's business, financial condition or results of operation may be affected by a number of risks and uncertainties. Description of the principal risks and uncertainties facing the Group can be found in the Business Overview section and Note 38 to the financial statements.

Report of the Directors

The Group has established and implemented environmental management systems in accordance with the GB/T 24001-2004/ISO14001:2004 standards, and it obtained the Environmental Management System Certificate after qualifying under the review by a third-party certification body. The Group strictly adheres to laws and regulations related to environmental protection, actively pursues the development strategies of "Green Engineering", and through implementing controls at different stages of the engineering design and construction process, achieves the goals of energy saving, emission reduction and environmental protection. In the feasibility studies, basic (preliminary) design and overall design phases of engineering construction projects, the Group has compiled specifications on environmental protection and energy saving in accordance with relevant environmental protection and energy saving design specifications and requirements, and determined the investments required for the prevention of and remedy for pollution, and energy saving measures. In the construction phase of engineering projects, the Group effects soil protection through the adoption of anti-leakage measures; the Group enables full utilization of reusable resources through the sorting, collection and treatment of waste; and the Group reduces wastage of materials through the use of advanced material management systems to optimize construction plans and enable precise calculations.

With respect to the compliance with laws and regulations, the Group proactively keeps itself abreast of regulatory updates. Apart from the above, details of the Group's compliance with relevant laws and regulations which have a significant impact on the Group are also provided in the Business Overview, Management Discussion and Analysis and Corporate Governance Report sections of this report. These review and discussion form part of this Report of the Directors.

Further details of the Group's environmental, social and governance ("ESG") matters will be set out in the ESG Report to be published by the Company separately in due course and will be made available on the website of the Company and that of the Stock Exchange.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, the aggregate purchases of raw materials attributable to the Group's five largest suppliers accounted for approximately 19.1% of the Group's total purchases. Our purchases attributable to the single largest supplier accounted for approximately 5.9% of the Group's total purchases for the same period.

Report of the Directors

For the year ended 31 December 2017, our five largest clients, in aggregate, accounted for approximately 72.2% of our total revenue. Our revenue derived from the single largest client for the same period amounted to approximately 26.2% of our total revenue.

None of our Directors, any of their close associates or any shareholders that, to the knowledge of our Directors, own more than 5% of the issued share capital of our Company had any interest in any of our five largest suppliers or clients during the year ended 31 December 2017.

SUBSIDIARIES AND ASSOCIATE

Particulars of the Company's subsidiaries and the Group's associate as at 31 December 2017 are set out in Notes 1 and 18 to the financial statements respectively.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2017 and the Group's financial position as at that date are set out in the financial statements on pages 57 to 146 of this report.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017.

DONATIONS

No donations were made by the Group during the year ended 31 December 2017 (2016: NIL).

PROPERTY, PLANT AND EQUIPMENT

Changes to the property, plant and equipment of the Group during the year are set out in Note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEMES

Details of the Company's share capital and share option schemes are set out in Notes 29 and 30 to the financial statements and the paragraph "Share Option Schemes" below, respectively.

RESERVES

Changes to the reserves of the Group during the year ended 31 December 2017 are set out in the consolidated statement of changes in equity. Changes to the reserves of the Company during the year ended 31 December 2017 are set out in Note 40 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands comprise the share premium and retained earnings totaling approximately RMB668,399,000.

Report of the Directors

DIRECTORS

The directors during the year and as at the date of this annual report are:

Executive Directors

Ms. Rong Wei *(Chief Executive Officer)*
(appointed on 5 February 2018)
Mr. Zhou Hongliang
Mr. Li Zhiyong *(Chief Financial Officer)*
Mr. Dong Hua
Mr. Liu Haijun (resigned on 5 February 2018)

Non-executive Director

Mr. Cui Ying (resigned on 12 October 2017)

Independent Non-executive Directors

Mr. Lawrence Lee
Mr. Tang Shisheng
Mr. Feng Guohua

In accordance with Article 108 of the Company's Articles of Association, Mr. Zhou Hongliang and Mr. Tang Shisheng will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

In accordance with Article 112 of the Company's Articles of Association, Ms. Rong Wei will retire at the forthcoming annual general meeting of the Company, and being eligible, offers herself for re-election.

None of Mr. Zhou Hongliang, Mr. Tang Shisheng and Ms. Rong Wei has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than under normal statutory obligations.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

Save as disclosed under the section "Share Option Schemes" below, at no time during the year or at the end of the year was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the Securities and Futures Ordinance (the "SFO") or 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

Save as disclosed under the section "Connected Transactions" below, no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries, holding companies or fellow subsidiaries was a party and in which a director of the Company and/or any of his connected entity had a material interest, whether directly or indirectly, and no contract of significance between the Company or any of its subsidiaries and the Company's controlling shareholder or any of its subsidiaries, subsisted at the end of the year or at anytime during the year.

Report of the Directors

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this report, none of the directors of the Company and directors of the Company's subsidiaries, or their respective associates had interests in businesses, which compete or are likely to compete either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

Name of Director	Company/ Name of Group Company	Capacity/ Nature of interest	Number of Shares(1)	Approximate percentage of shareholding
Mr. Liu Haijun(2)	Company	Beneficial owner	8,780,000 (L)(3)	0.22%
Mr. Zhou Hongliang	Company	Beneficial owner	6,290,000 (L)(4)	0.15%
Mr. Dong Hua	Company	Beneficial owner	5,100,000(L)(5)	0.13%
Mr. Lawrence Lee	Company	Beneficial owner	1,000,000 (L)(6)	0.02%
Mr. Tang Shisheng	Company	Beneficial owner	1,000,000 (L)(6)	0.02%
Mr. Feng Guohua	Company	Beneficial owner	1,000,000 (L)(6)	0.02%

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) Mr. Liu Haijun resigned as an executive director of the Company and the Chief Executive Officer of the Group with effect from 5 February 2018.

(3) These 8,780,000 shares include options granted under the pre-IPO share option scheme of the Company entitling Mr. Liu Haijun to subscribe for 3,040,000 shares.

(4) These 6,290,000 shares include options granted under the pre-IPO share option scheme of the Company entitling Mr. Zhou Hongliang to subscribe for 3,040,000 shares.

(5) These 5,100,000 shares include options granted under the pre-IPO share option scheme of the Company entitling Mr. Dong Hua to subscribe for 2,660,000 shares.

(6) Shares in respect of options granted under the share option scheme of the Company.

Report of the Directors

Save as disclosed above, as at 31 December 2017, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEMES

Share Option Scheme of the Company

On 30 November 2012, a share option scheme (the "Share Option Scheme") of the Company was approved and adopted by the shareholders of the Company. The Share Option Scheme will remain in force for a period to be notified by the Board, such period shall not exceed the period of ten years from the adoption date.

The purposes of the Share Option Scheme are to attract and retain the best available personnel, to provide additional incentive to employees, directors, consultants and advisers of our Group and to promote the success of the business of our Group. Pursuant to the Share Option Scheme, the Board may offer any employee (whether full-time or part-time), Director, consultant or adviser of our Group (the "Eligible Person") options to subscribe for Shares. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company as consideration for the grant.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of our Company shall not exceed such number of shares as shall represent 30% of the issued share capital of our Company from time to time. Subject to the above, the Board may grant options under the Share Option Scheme in respect of such number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes in aggregate not exceeding 10% of the issued share capital of the Company as at the date on which dealings in the Shares commenced on the main board of the Stock Exchange (the "Scheme Mandate Limit") (being 400,000,000 Shares). Therefore, as at 31 December 2017, the total number of shares which may be issued on the exercise of options granted or to be granted under the Share Option Scheme and any other schemes is 398,055,800, representing approximately 9.79% of the issued share capital of the Company as at the date of this report. Options lapsed in accordance with the Share Option Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit. Unless approved by the Shareholders in a general meeting, the total number of Shares issued and to be issued upon the exercise of the options granted to each Eligible Person (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the relevant class of securities of our Company in issue.

The amount payable for each Share to be subscribed for under an option in the event of the option being exercised shall be determined by the Board and shall be not less than the greater of:

(i) the closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the date of grant;

(ii) the average closing price of the Shares on the Main Board as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of the Shares.

Report of the Directors

An option may be exercised in whole or in part by the option holder in accordance with the terms of the Share Option Scheme at any time during the period to be notified by the Board to each option holder upon the grant of options, such period not to exceed ten years from the date of grant of the relevant option. Terms and conditions of options can be specified upon grant of such options, which may include provisions as to the performance conditions which must be satisfied before the option can be exercised, the minimum period for which an option must be held before it can be exercised, vesting conditions (if any), lapse conditions and such other provisions as the Board may determine provided such provisions are not inconsistent with the relevant requirements of the Share Option Scheme or the Listing Rules.

On 14 November 2017, options involving 134,200,000 shares were granted under the Share Option Scheme. Subject to the satisfaction of certain performance targets by the relevant grantees of the options for the year immediately preceding each vesting date, 25% of such options shall be vested and become exercisable on the trading day immediately following each of the 12th, 24th, 36th and 48th month after the date of grant. Vested options shall be exercisable until the expiry of a five-year period from the date of grant. The closing price per share immediately before the date of grant of such options is HK$1.77.

Particulars of the outstanding options granted under the Share Option Scheme are set out below:

Categories of participants	Exercise price per share (HK$)	No. of shares involved in the options outstanding at 1 January 2017	Exercised during the year	Lapsed during the year	Granted during the year	No. of Shares involved in the options outstanding at 31 December 2017
Directors, chief executive or substantial shareholders of the Company, or their respective associates						
Lawrence Lee	1.744	–	–	–	1,000,000	1,000,000
Tang Shisheng	1.744	–	–	–	1,000,000	1,000,000
Feng Guohua	1.744	–	–	–	1,000,000	1,000,000
Directors, chief executive or substantial shareholders of the Company's subsidiaries, or their respective associates	1.744	–	–	–	1,250,000	1,250,000
Employees of the Group	1.744	–	–	–	129,950,000	129,950,000
Total		–	–	–	134,200,000	134,200,000

Report of the Directors

Save as disclosed above, no option have been granted under the Share Option Scheme during the year ended 31 December 2017. No option has been cancelled or lapsed during the year ended 31 December 2017.

Pre-IPO Share Option Scheme of the Company

On 30 November 2012, a Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") of the Company was approved and adopted by the shareholders of the Company. No further pre-IPO options shall be offered under the Pre-IPO Share Option Scheme after the Listing Date but the provisions of the Pre-IPO Share Option Scheme shall in all other respects remain in full force and effect to the extent necessary to give effect to the exercise of any pre-IPO options granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme and pre-IPO options granted prior thereto but not yet exercised shall continue to be valid and exercisable in accordance with the Pre-IPO Share Option Scheme.

The purpose of the Pre-IPO Share Option Scheme is to enable our Company to grant pre-IPO options to eligible participants, including directors, senior management and employees of the Group and certain employees, executives and officers of Wison Group Holding Limited ("Wison Holding"), our controlling shareholder, and its subsidiaries as recognition and acknowledgement of the contributions that such eligible participants have made or may make to our Group or any affiliates.

Each of the grantees to whom a pre-IPO option has been granted under the Pre-IPO Share Option Scheme shall be entitled to exercise his/her pre-IPO option at any time during the option period or such period as may be specified by the Board at the time of grant.

As at 31 December 2017, the maximum number of shares in respect of which pre-IPO options have been granted and outstanding under the Pre-IPO Share Option Scheme is 143,481,800 shares, representing approximately 3.53% of the issued share capital of our Company as at the date of this report. No further options can be granted under the Pre-IPO Share Option Scheme after the Listing Date.

As at 31 December 2017, options to subscribe for an aggregate of 143,481,800 shares representing 3.53% of the total issued share capital of our Company as at the date of this report have been granted by our Company for a consideration of HK$1.00 and remain outstanding under the Pre-IPO Share Option Scheme. Save as disclosed below, no Directors, substantial shareholders or other connected persons or their respective associates have been granted options under the Pre-IPO Share Option Scheme.

Report of the Directors

Particulars of the outstanding options granted under the Pre-IPO Share Option Scheme are set out below:

Category of participants	Exercise price per share (HK$)	No. of shares involved in the options outstanding at 1 January 2017	Exercised during the year	Lapsed during the year	Reassigned during the year	No. of Shares involved in the options outstanding at 31 December 2017
The Group						
Directors, chief executive or substantial shareholders of the Company, or their respective associates						
Liu Haijun	0.837	3,040,000	–	–	–	3,040,000
Zhou Hongliang	0.837	3,040,000	–	–	–	3,040,000
Dong Hua	0.837	2,660,000	–	–	–	2,660,000
Directors, chief executive or substantial shareholders of the Company's subsidiaries, or their respective associates	0.837	3,648,000	–	–	2,228,000[(a)]	5,876,000
Employees of the Group	0.837	109,098,000	(1,461,800)	(4,932,400)	(4,470,000)[(b)(a)]	98,233,800
Wison Holding and its subsidiaries						
Cui Ying[(c)]	0.837	3,040,000	–	–	–	3,040,000
Employees, executives and officers of Wison Holding or any of its subsidiaries	0.837	29,146,000	(414,000)	(3,382,000)	2,242,000[(b)]	27,592,000
Total		153,672,000	(1,875,800)	(8,314,400)	–	143,481,800

Notes:

(a) Options representing 2,228,000 Shares were held by certain then employees of the Group at the beginning of the year, who were reassigned as directors of the Company's subsidiaries during the year.

(b) Options representing 2,242,000 Shares were held by certain then employees of the Group at the beginning of the year, who were reassigned as employees of Wison Holding or its subsidiaries during the year.

(c) Mr. Cui Ying resigned as a director of the Company on 12 October 2017 and was reassigned as an employee of Wison Holding upon his resignation.

The outstanding options granted under the Pre-IPO Share Option Scheme above were granted on 30 November 2012. During the year ended 31 December 2017, options representing 1,875,800 shares have been exercised by the holders, options to subscribe for an aggregate of 8,314,400 shares have lapsed.

Pursuant to the Pre-IPO Share Option Scheme, outstanding and unexercised options may be exercisable in tranches during the option period (which shall expire on the last business day of the 96th month after the Listing Date) such that 20% of such options shall be exercisable at any time on or after the first business day following each of the 36th, 48th, 60th, 72th and 84th month after the Listing Date.

Report of the Directors

Share Awards by the Controlling Shareholder

On 14 November 2017, Wison Engineering Investment Limited ("**Wison Investment**"), being the controlling shareholder of the Company, granted share awards representing an aggregate of 57,346,800 shares to certain directors of the Company and employees of the Group in recognition of their contributions to the Group.

These share awards were satisfied by the existing shares beneficially owned by Wison Investment. These share awards have been vested immediately upon the acceptance by the grantees of the share awards and Wison Investment had, upon the acceptance by the grantees of the share awards, transferred the relevant number of shares to the grantees of the share awards at a consideration of HK$1.00. The closing price per share on the date of grant of such share awards is HK$1.74.

Particulars of share awards granted by Wison Engineering are set out below:

Categories of participants	No. of share awards granted
Directors, chief executive or substantial shareholders of the Company, or their respective associates	
Liu Haijun	5,740,000
Zhou Hongliang	3,250,000
Dong Hua	2,440,000
Directors, chief executive or substantial shareholders of the Company's subsidiaries, or their respective associates	13,360,000
Employees of the Group	32,556,800
Total	57,346,800

Save as disclosed above, no share awards have been granted by the controlling shareholders of the Company or the Company during the year ended 31 December 2017.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, the following persons (other than the Directors or the chief executive of the Company) has interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name	Company/Name of Group Company	Capacity/ Nature of interest	Number of Shares directly or indirectly held[1]	Approximate percentage of shareholding
Wison Investment	Company	Beneficial owner	3,088,782,146 (L)	75.96%
Wison Holding[2]	Company	Interest in controlled corporation	3,088,782,146 (L)	75.96%
Mr. Hua Bangsong[3]	Company	Interest in controlled corporation	3,088,782,146 (L)	75.96%
Ms. Huang Xing[4]	Company	Interest of spouse	3,088,782,146 (L)	75.96%

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) Wison Holding, as the sole shareholder of Wison Investment, is deemed or taken to be interested in the Shares which are owned by Wison Investment.

(3) Mr. Hua Bangsong, as the sole shareholder of Wison Holding, is deemed or taken to be interested in the Shares which are beneficially owned by Wison Holding.

(4) Ms. Huang Xing is the spouse of Mr. Hua Bangsong. Under the SFO, Ms. Huang Xing is deemed to be interested in the same number of Shares in which Mr. Hua is interested.

Save as disclosed above, as at 31 December 2017, no persons (other than the Directors or the chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

CONNECTED TRANSACTIONS

Mr. Hua Bangsong ("Mr. Hua"), a controlling shareholder of our Company, is a connected person of our Company under Rule 14A.07 (1) of the Listing Rules.

Wison Holding, a company wholly-owned by Mr. Hua, holds 100% of Wison Investment. Wison Investment owns approximately 75.96% of our Company as at the date of this report, and therefore is a controlling shareholder and a connected person of the Company under the Listing Rules.

Wison (China) Holding Company ("Wison (China) Investment") is an indirectly wholly-owned subsidiary of Wison Holding. Therefore, Wison (China) Investment is an associate of Mr. Hua and a connected person of our Company under the Listing Rules.

Report of the Directors

Jiangsu Xinhua Chemical Engineering Co., Ltd. ("Jiangsu Xinhua") is a substantial shareholder of Wison Engineering Ltd. ("Wison Engineering") (an indirect non-wholly owned subsidiary of the Company), holding 25% of its equity interest (but is entitled as to 10% of its distributable profits). Jiangsu Xinhua is therefore a connected person of our Company under the Listing Rules.

Wison (Nantong) Heavy Industry Co., Ltd. ("Wison Nantong") is indirectly wholly-owned by Wison Holding. Wison Nantong is therefore an associate of Mr. Hua and a connected person of our Company under the Listing Rules.

Zhoushan Wison Offshore & Marine Co., Ltd. ("Zhoushan Wison") is indirectly wholly-owned by Wison Holding and is therefore an associate of Mr. Hua and a connected person of our Company under the Listing Rules.

One-off Connected Transactions

The following transactions are one-off transactions entered into by our Group:

1. **Processing and Assembling Contract with Wison Nantong**

   On 11 May 2017, Wison Engineering and Wison Nantong entered into a processing and assembling contract (the "**Processing and Assembling Contract**"), pursuant to which Wison Engineering engaged Wison Nantong to process and assemble the processing piping pre-fabrication parts of model codes "DA-1" and "DA-2" (the "**Piping Pre-Fabrication Parts**") in the PRC for a project of the Group at a total contract price of RMB13,500,000.

   The total contract price under the Processing and Assembling Contract was determined with reference to the scope of work including pre-fabrication, shop design, painting material supply and packing, as well as market rates of similar services, and is exclusive of value-added tax on the presumption that exemption from value-added tax could be applied for and approved. In the case where value-added tax is adjudged to be payable thereon for any reason in the future, Wison Engineering and Wison Nantong shall reach further agreement on matters regarding the contract price and value-added tax. Moreover, the contract price shall be adjusted if the eventual quantity of the Piping Pre-Fabrication Parts to be processed and assembled by Wison Nantong deviates by more than 2% from the initial agreed quantity. The contract price under the Processing and Assembling Contract shall be payable by Wison Engineering to Wison Nantong in cash by installments at various stages of the project. For the year ended 31 December 2017, no amount was paid by Wison Engineering to Wison Nantong under the Processing and Assembling Contract.

2. **Prefabrication and Supply Contract with Wison Nantong**

   On 13 June 2017, Wison Engineering and Wison Nantong entered into a prefabrication and supply contract (the "**Prefabrication and Supply Contract**"), pursuant to which Wison Engineering engaged Wison Nantong to design the structure, procure paint materials, prefabricate and assemble certain chemical equipment modules for a third-party project in the PRC at a total contract price of RMB102,860,000.

Report of the Directors

The total contract price under the Prefabrication and Supply Contract was determined with reference to the scope of work, the direct and indirect costs and expenses, management fees and risk management costs to be incurred, as well as market rates of similar services, and is inclusive of value-added tax. The contract price shall be adjusted in accordance with the eventual quantity of the chemical equipment modules to be prefabricated or assembled by Wison Nantong and the formulae specified in the Prefabrication and Supply Contract. The contract price under the Prefabrication and Supply Contract shall be payable by Wison Engineering to Wison Nantong in cash by installments at various stages of the project. For the year ended 31 December 2017, a total sum of RMB53,858,000 was paid by Wison Engineering to Wison Nantong under the Prefabrication and Supply Contract.

3. **Piperack Module Fabrication Contract with Wison Nantong**

On 22 August 2017, Wison Petrochemicals (NA), LLC (an indirect wholly-owned subsidiary of the Company) ("**Wison Petrochemicals**") and Wison Nantong entered into a piperack module fabrication contract (the "**Piperack Module Fabrication Contract**"), pursuant to which Wison Petrochemicals engaged Wison Nantong to supply pipe rack structures, piping works and pipe supports ("**Piperack Modules**") for a third-party project located in the United States at a total contract price of US$7,375,772.

The total contract price under the Piperack Module Fabrication Contract was determined with reference to the scope of work, the direct and indirect costs and expenses to be incurred, as well as market rates of similar services, and is inclusive of tax. The contract price and the date of delivery may be adjusted in accordance with the eventual specification, drawings and quantities of the Piperack Modules which shall then be mutually agreed between Wison Petrochemicals and Wison Nantong in writing to reflect the effect of such change. The contract price under the Piperack Module Fabrication Contract shall be payable by Wison Petrochemicals to Wison Nantong by telegraphic transfer by installments at various stages of the project. For the year ended 31 December 2017, a total sum of US$5,163,040 was paid by Wison Petrochemicals to Wison Nantong under the Piperack Module Fabrication Contract. The Piperack Module Fabrication Contract was completed as at the date of this report.

Continuing Connected Transactions

For the financial year ended 31 December 2017, all the continuing connected transactions (the "Continuing Connected Transactions") have not exceeded their respective annual caps:

1. **Leases and property management services agreements**

Wison Engineering Ltd. ("Wison Engineering"), an indirect non-wholly owned subsidiary of the Company, leased (the "Leases") to Wison (China) Investment and Wison Nantong of certain premises in Pudong New District, Shanghai. The Group also provided property management services (the "Property Management Services Agreements") to Wison (China) Investment and Wison Nantong for the premises under the Leases for office use.

Report of the Directors

Details of the Leases and Property Management Services Agreements are as follows:

Lesser	Lessee	Leased Properties	Duration of Lease	g.f.a of Leased Properties (m^2)	Annual Rental (RMB in thousands)	Annual Property management services fee and electricity fee (RMB in thousands)
Wison Engineering	Wison (China) Investment	• Certain premises located at 7th Floor, Block A and Rooms 613, 615 to 621, 6th Floor, Block A, No. 699 Zhongke Road, Pudong New District, Shanghai, PRC.	1 January 2017 to 31 December 2018 (Note 1)	2,372	3,809	691
Wison Engineering	Wison Nantong	• Certain premises located at Rooms 416 to 417 and a portion of Room 401, 4th Floor, Block A and Room 501, 5th Floor, Block A No. 699 Zhongke Road, Pudong New District, Shanghai, PRC.	1 September 2016 to 31 December 2018 (Note 2)	2,500	4,015	726

Note 1: Pursuant to the supplemental agreements entered into between Wison Engineering and Wison (China) Investment on 24 March 2017, Wison Engineering (as landlord) and Wison (China) Investment (as tenant) agreed that the subject premises of the lease shall be changed from 6th Floor, Block A, No. 699 Zhongke Road, Pudong New District, Shanghai, PRC to 7th Floor and Rooms 613, 615 to 621, 6th Floor, Block A, No. 699 Zhongke Road, Pudong New District, Shanghai, PRC, with gross floor area being increased from 2,000 square metres to 2,372 square metres. The monthly rental shall be adjusted from RMB267,666 (representing annual rental of approximately RMB3,212,000) to RMB317,452.67 (representing annual rental of approximately RMB3,809,000), the monthly property management services fee shall be adjusted from RMB44,000 (representing annual fee of RMB528,000) to RMB54,556 (representing annual fee of RMB654,672) and the monthly electricity fees shall be adjusted to RMB3,000 (representing annual fee of RMB36,000). Such amendments took effect from 1 April 2017.

Note 2: Pursuant to the supplemental agreements entered into between Wison Engineering and Wison Nantong on 24 March 2017, Wison Engineering (as landlord) and Wison Nantong (as tenant) agreed that the subject premises of the lease shall be changed from Room 401, 4th Floor, Block A and Room 501, 5th Floor, Block A, No. 699 Zhongke Road, Pudong New District, Shanghai, PRC to Rooms 416 and 417 and a portion of Room 401, 4th Floor and Room 501, 5th Floor, Block A, No. 699 Zhongke Road, Pudong New District, Shanghai, PRC, with gross floor area being reduced from 3,000 square metres to 2,500 square metres. The monthly rental shall be adjusted from RMB401,500 (representing annual rental of RMB4,818,000) to RMB334,583.33 (representing annual rental of approximately RMB4,015,000), the monthly property management services fee shall be adjusted from RMB66,000 (representing annual fee of RMB792,000) to RMB57,500 (representing annual fee of RMB690,000) and the monthly electricity fees shall be adjusted to RMB3,000 (representing annual fee of RMB36,000). Such amendments took effect from 1 April 2017.

Report of the Directors

As the Leases were entered into by Wison Engineering with Wison (China) Investment and Wison Nantong, respectively, both of which are connected persons of our Company, the Leases are considered under Rule 14A.82 (1) of the Listing Rules to be entered into between our Group and "parties who are connected with one another". Hence, the Leases should be aggregated under Rule 14A.82 (1) of the Listing Rules.

The rental, property management services fee and electricity fee payable by each of Wison (China) Investment and Wison Nantong to the Group under the Leases (where applicable, as amended) and Property Management Services Agreements (where applicable, as amended) are consistent with the prevailing market rates for similar properties in similar locations as of the commencement date of their respective tenancies (or where appropriate, as of the effective date of the amendments). The annual caps for the aggregate amounts of the rental, property management services fee and electricity fee payable by Wison Nantong to Wison Engineering under the 2016 Wison Nantong Property Leasing Agreement (as amended) and the 2016 Wison Nantong Property Management Services Agreement (as amended) for the years ended 31 December 2016 and 2017 and for the year ending 31 December 2018 are RMB1,900,000, RMB5,000,000 and RMB4,800,000 respectively. The annual caps for the aggregate amounts of the rental, property management services fee and electricity fee payable by Wison (China) Investment to Wison Engineering under the 2017 Wison (China) Investment Property Leasing Agreement (as amended) and the 2017 Wison (China) Investment Property Management Services Agreement (as amended) for the year ended 31 December 2017 and the year ending 31 December 2018 are RMB4,400,000 and RMB4,600,000. As at 31 December 2017, the amounts of outstanding rental and property management services fees due from Wison (China) Investment and Wison Nantong are nil and RMB1,155,500, respectively.

In the opinion of the independent non-executive directors, the continuing connected transactions above were entered into by the Group:

(i) in the ordinary and usual course of its business;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreements governing such transactions and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Further, the Board has engaged the auditor of the Company to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules.

A copy of the auditor's letter on the continuing connected transactions of the Group for the year ended 31 December 2017 has been provided by the Company to the Stock Exchange.

Details of the related party transactions of the Group during the year ended 31 December 2017 are set out in Note 31 to the financial statements. During the year ended 31 December 2017, the related party transactions set out in Notes 31(a)(iii) and (a)(iv) are regarded as continuing connected transactions of the Group, and the related party transactions set out in Note 31(a)(ix) and (a)(x) are regarded as connected transactions of the Group,

Report of the Directors

under Rule 14A.76(2) of the Listing Rules as each of the relevant percentage ratios as set out in Rule 14.07 of the Listing Rules is less than 5%, and the related party transaction set out in Note 31(a)(xi) is regarded as non-exempt connected transaction under Chapter 14A of the Listing Rules as one or more of the relevant percentage ratios as set out in Rule 14.07 of the Listing Rules in respect of the transaction, when aggregated with the related party transactions set out in Note 31(a)(ix) and (a)(x), are above 5%, while the related party transactions set out in Notes 31(a)(i), (a)(ii), (a)(v) and (a)(viii) are regarded as exempt continuing connected transactions of the Group under Rule 14A.76(1) of the Listing Rules, and the financial assistances provided by Wison (China) Investment, Wison Nantong and Zhoushan Wison set out in Notes 31(a)(vi), 31(a)(vii) and 31(a)(xii) are exempt financial assistances under Rule 14A.90 of the Listing Rules.

In respect of the Continuing Connected Transactions, the Company has complied with the disclosure requirements under the Listing Rules in force from time to time.

EQUITY-LINKED AGREEMENTS

Other than the Pre-IPO Share Option Scheme and the Share Option Scheme as disclosed under the section "Share Option Schemes" above, no equity-linked agreements were entered into by the Company during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company, although there are no restrictions against such rights under the laws in the Cayman Islands.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2017.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 4 to 5 of this report.

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2017 are set out in Note 26 to the financial statements.

EMOLUMENT POLICY

The Company is well aware of the importance of incentivising and retaining its employees. The Group offers competitive salaries and bonuses to its employees, and make contributions to various social welfare funds for its employees, which in turn provide retirement benefits, pension payments, medical insurance, unemployment insurance, public housing reserves, work injury insurance and maternity insurance benefits to the employees. The Company also offers a long-term incentive scheme in the form of share option schemes for eligible employees, details of which are set out under the paragraph headed "Share Option Schemes" above.

EMPLOYEE RETIREMENT BENEFITS

Particulars of the employee retirement benefits of the Group are set out in Note 8 to the financial statements.

Report of the Directors

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association of the Company, the Directors, secretary and other officers of the Company shall be indemnified and secured harmless out of the assets of the Company from and against all liabilities incurred by such Directors, secretary or other officers in the execution of their duty. The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions that may be bought against the Directors, secretary or other officers of the Company.

PUBLIC FLOAT

The Company has obtained a waiver from the Stock Exchange and the Stock Exchange has accepted, under Rule 8.08(1)(d) of the Listing Rules, a lower public float percentage of 21.87% of our total issued share capital.

As at the date of this report and based on the information that is publicly available to the Company and to the knowledge of the Directors of the Company, the Company has maintained the minimum public float as permitted by the Stock Exchange.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's internal controls and financial reporting matters with the management. The Audit Committee has reviewed and discussed the annual results for the year ended 31 December 2017.

AUDITORS

The financial statements have been audited by Ernst & Young who shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for reappointment.

By order of the Board
Rong Wei
Executive Director and Chief Executive Officer

Hong Kong, 28 March 2018

Corporate Governance Report

The Company is committed to achieving high standards of corporate governance by focusing on principles of integrity, accountability, transparency, independence, responsibility and fairness. The Company has developed and implemented sound governance policies and measures. The Board will continue to review and monitor the corporate governance of the Company with reference to the Corporate Governance Code (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

During the year ended 31 December 2017, the Company has complied with the applicable code provisions of the Code.

BOARD OF DIRECTORS

The Board is charged with promoting the success of the Company by directing and supervising its affairs. The Board has general powers for the management and conduct of the Company's business. The day-to-day operations and management are delegated by the Board to the management of the Company, who will implement the strategy and direction as determined by the Board.

The Board of the Company currently consists of seven Directors, namely Ms. Rong Wei (Chief Executive Officer), Mr. Zhou Hongliang, Mr. Li Zhiyong (Chief Financial Officer) and Mr. Dong Hua as executive Directors, Mr. Lawrence Lee, Mr. Tang Shisheng and Mr. Feng Guohua as independent non-executive Directors. There is no financial, business, family or other material relationship among the members of the Board. The Board has a balance of skills and experience appropriate for the requirements of the business of the Company.

The biographies of the Directors and senior management are set out on pages 21 to 26 of this report.

Ms. Rong Wei has entered into a service contract with us for a term of three years commencing from 5 February 2018. Mr. Zhou Hongliang has entered into a service contract with us for a term of three years commencing from 10 September 2016 and shall continue thereafter unless terminated by not less than six months' written notice. Each of Mr. Li Zhiyong and Mr. Dong Hua has entered into a service contract with us for an initial term of three years commencing from 13 January 2017 and shall continue thereafter unless terminated by not less than six months' written notice. Each of Mr. Lawrence

Corporate Governance Report

Lee, Mr. Tang Shisheng and Mr. Feng Guohua, has entered into a letter of appointment with our Company for a term of three years commencing from 30 March 2018, 7 December 2015 and 28 December 2015, respectively unless terminated by three months' written notice or in certain circumstances in accordance with the terms of the relevant letter of appointment. Notwithstanding the above, all Directors, including the independent non-executive Directors, are subject to retirement by rotation at least once every three years in accordance with the Listing Rules and the articles of association of the Company. A retiring director is eligible for re-election.

Under the service contracts, our executive Directors are entitled to aggregate annual salaries of approximately RMB6.1 million, plus a discretionary bonus as determined by the Board and our Remuneration Committee. The basic annual remuneration payable by our Company to our independent non-executive Directors according to their respective letter of appointment is HK$240,000. The remuneration of the Directors is determined with reference to their duties, responsibilities and experience, and to prevailing market conditions. Details of the remuneration of the Directors for 2017 are set out in Note 9 to the financial statements.

The Company has received a written confirmation of independence from each of the independent non-executive Directors, and considers them to be independent.

Directors have access to the services of the Company Secretary to ensure that the Board procedures are followed. The Company Secretary of the Company is Ms. Luk Wai Mei. In compliance with Rule 3.29 of the Listing Rules, Ms. Luk has undertaken not less than 15 hours of relevant professional training during the year ended 31 December 2017.

Each of the Directors attended various trainings in 2017, including the training on regulatory updates for Main Board listed companies, as part of their profession development. The Company will arrange suitable training for all Directors in order to develop and refresh their knowledge and skills as part of their continuous professional development.

In 2017, the Board held 15 meetings. A total of 75 proposals were considered at these Board meetings, including proposals for the consideration of the Company's 2016 annual report, 2017 interim report, transaction involving disposal of Wison (Yangzhou) Chemical Machinery Co., Ltd., certain connected transactions and continuing connected transactions and the appointment of executive Directors. The Board also considered the Company's compliance with the Code generally.

The table below sets out the details of Board meetings attendance of each Director during the year ended 31 December 2017.

Corporate Governance Report

Director	Number of meetings requiring attendance	Number of meetings attended in person
Liu Haijun	15	10
Zhou Hongliang	15	10
Li Zhiyong (Note 1)	14	14
Dong Hua (Note 2)	14	10
Cui Ying (Note 3)	13	7
Lawrence Lee	15	11
Feng Guohua	15	11
Tang Shisheng	15	11

Notes:

1. *Mr. Li Zhiyong was appointed as an executive Director on 13 January 2017.*
2. *Mr. Dong Hua was appointed as an executive Director on 13 January 2017.*
3. *Mr. Cui Ying resigned from the position of non-executive Director with effect from 12 October 2017.*

In 2017, the Company convened and held two shareholders' general meetings, being the 2016 annual general meeting held on 26 June 2017 and the extraordinary general meeting held on 29 September 2017 for the approval of a connected transaction. Mr. Liu Haijun, Mr. Zhou Hongliang, Mr. Li Zhiyong, Mr. Dong Hua, Mr. Cui Ying, Mr. Lawrence Lee, Mr. Tang Shisheng and Mr. Feng Guohua attended the 2016 annual general meeting and Mr. Zhou Hongliang, Mr. Li Zhiyong, Mr. Lawrence Lee, Mr. Tang Shisheng and Mr. Feng Guohua attended the extraordinary general meeting.

BOARD COMMITTEES

The Company has three principal Board committees, the Audit Committee, the Nomination Committee and the Remuneration Committee. Each of the Board committees operates under its terms of reference. The terms of reference of the Board committees are available on the website of the Company and that of the Stock Exchange.

Audit Committee

The Audit Committee has three members. Mr. Lawrence Lee is the chairman of the committee and the other two members are Mr. Feng Guohua and Mr. Tang Shisheng. All members of the Audit Committee are independent non-executive directors.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and risk management and internal control systems of our Group and provide advice and comments to the Board.

In 2017, the Audit Committee held 2 meetings, at which a total of 11 proposals were considered, including proposals for the consideration of the Company's 2016 annual report, 2017 interim report and the appointment of auditors for 2017. The Audit Committee also assessed the risk management and internal control measures and the internal audit function of the Company.

Corporate Governance Report

The table below sets out the details of meetings attendance of each member of the Audit Committee during the year ended 31 December 2017.

Director	Number of meetings requiring attendance	Number of meetings attended in person
Lawrence Lee	2	2
Tang Shisheng	2	2
Feng Guohua	2	2

Nomination Committee

The Nomination Committee has three members. Mr. Tang Shisheng is the chairman of the committee and the other two members are Mr. Feng Guohua and Mr. Lawrence Lee. All members of the Nomination Committee are independent non-executive directors.

The primary duty of the Nomination Committee is to make recommendations to our Board on the appointment of Directors and senior management. The Nomination Committee is also responsible for reviewing and assessing the composition of the Board and the independence of the independent non-executive Directors and making recommendations to the Board on appointment and removal of Directors. In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board. Diversity of the Board will be considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, and length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. For nomination and appointment of Mr. Li Zhiyong and Mr. Dong Hua as executive Directors of the Company, these criteria and procedures have been applied.

In 2017, the Nomination Committee held 2 meetings, at which a total of 5 proposals were considered, including proposals for re-election of directors and the appointments of Mr. Li Zhiyong and Mr. Dong Hua.

Corporate Governance Report

The table below sets out the details of meetings attendance of each member of the Nomination Committee during the year ended 31 December 2017.

Director	Number of meetings requiring attendance	Number of meetings attended in person
Tang Shisheng	2	2
Feng Guohua	2	2
Lawrence Lee	2	2

Remuneration Committee

The Remuneration Committee has three members. Mr. Feng Guohua is the chairman of the committee and the other two members are Mr. Lawrence Lee and Mr. Tang Shisheng. All members of the Remuneration Committee are independent non-executive directors.

The Remuneration Committee has adopted the model code described in code provision B.1.2 (c)(i) of the Code in its terms of reference. The Remuneration Committee considers and recommends to the Board the remuneration and other benefits paid by our Company to our Directors. The remuneration of all Directors is subject to regular monitoring by the remuneration committee to ensure that the levels of their remuneration and compensation are appropriate.

In 2017, the Remuneration Committee held 4 meetings, at which a total of 8 proposals were considered, including proposals for the remuneration of executive Directors of the Company.

The table below sets out the details of meetings attendance of each member of the Remuneration Committee during the year ended 31 December 2017.

Director	Number of meetings requiring attendance	Number of meetings attended in person
Feng Guohua	4	4
Lawrence Lee	4	4
Tang Shisheng	4	4

For the year ended 31 December 2017, the number of senior management (excluding directors) whose remuneration fell within the following bands is as follows:

HK$500,001 to HK$1,000,000	1
HK$3,500,001 to HK$4,000,000	1
HK$4,500,001 to HK$5,000,000	1
HK$6,000,001 to HK$6,500,000	1

Further details of the remuneration of the Directors and the five highest paid employees are set out in note 9 to the financial statements.

Corporate Governance Report

CORPORATE GOVERNANCE FUNCTIONS

Risk Management and Internal control

The Board is responsible for ensuring that the Company establishes good corporate governance practices and procedures. The Board also has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, maintaining sound and effective risk management and internal control systems and reviewing their effectiveness. To this end, the Company has established and maintained the risk management system and internal control system according to the Corporate Risk Management Integrated Framework (《企業風險管理整合框架》) published by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and has an internal audit function to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives.

In accordance with its general goals, the Company identified, organized and analysed the key business-related risks for the purposes of risk management and value creation. Regular risk assessments were conducted and internal control systems were reviewed annually and a refined risk management system was adopted to identify, assess and minimize risks.

Processes used to identify, evaluate and manage significant risks and processes used to review the effectiveness of the risk management and internal control systems and to resolve material internal control defects are mainly carried out in accordance with the Group's various manuals, regulations and procedures, namely the "Risk Management Manual", "Regulations of Initial Risk Management of Engineering Projects" and "Procedures for Implementation of Risk Management of Engineering Projects".

The main features of the risk management and internal control systems of the Company are comprehensive risk management which covers the entire business process of the Company and penetrates full-process control and monitoring.

The management confirms the effectiveness of the relevant systems through regular risk identification, risk assessment and risk response and follow-up work conducted by the management and business departments and each engineering project on an annual basis. The internal audit function of the Company carries out an independent examination and evaluation on the review process and results. Deficiencies and insufficiency of the internal control mechanism and its implementation were identified through self-evaluation of risk and inspection. These initiatives facilitated the enhancement of the risk management system and reasonably ensured the effective operation of the risk management and internal control systems in order to safeguard the legal interest of the investors and protect the Company's assets.

The Board evaluated the sufficiency and effectiveness of risk management and internal control systems and the internal audit function of the Company through the Audit Committee.

In addition, procedures and Rules for information disclosure and report were also formulated and implemented in order to systematically collect and monitor the information disclosure of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 as its code of conduct regarding directors' securities transactions. All directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code during the year ended 31 December 2017.

Corporate Governance Report

EXTERNAL AUDITORS

Ernst & Young are appointed as the external auditors of the Company. The Group also engaged some local auditors as its subsidiaries' statutory auditors.

In addition, Ernst & Young (China) Advisory Limited ("Ernst & Young Advisory", a member firm of Ernst & Young Global Network) has provided other non-audit service to the Group in 2017.

For the year ended 31 December 2017, the external auditors received the following remuneration for audit and non-audit services provided to the Group in respect of the following:

	RMB'000
Audit services provided by Ernst & Young	3,880
Audit services provided by other local auditors	762
Non-audit service provided by Ernst & Young Advisory for environmental, social and governance service	300
	4,942

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of the financial statements which give a true and fair view of the financial position of the Company and its subsidiaries and of the financial performance and cash flow during the reporting period. A statement from the auditors about their reporting responsibilities on the financial statements is set out on pages 52 to 56 of this report. In preparing the financial statements for the year ended 31 December 2017, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

The Board has further reviewed the effectiveness of the risk management and internal control systems of the Group to ensure that sound systems are maintained and operated by the management in compliance with the agreed procedures and standards. The review covered all material controls, including financial, operational and compliance controls and risk management functions. During the year ended 31 December 2017, no material weakness on risk management and internal control measures has been identified. In addition, the Board considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function.

Corporate Governance Report

SHAREHOLDERS

The Company is incorporated in the Cayman Islands. Pursuant to the articles of association of the Company, extraordinary general meetings shall also be convened on the requisition of 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 having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary and deposited at the Company's principal place of business in Hong Kong at Room 5408, 54th Floor, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong, for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Pursuant to the Articles, if a shareholder wishes to propose a person other than a retiring Director for election as a Director at any general meeting (including annual general meeting), the shareholder should lodge a written notice at the registration office or head office of the Company in the period commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, provided that such period shall be at least seven days. Such written notice must be accompanied by a notice signed by the person to be proposed of his willingness to be elected as a Director.

Enquiries may be put to the Board by contacting the Company's Investor Relations Department through email at ir-eng@wison.com or directly by raising the questions at an annual general meeting or extraordinary general meeting.

During the year ended 31 December 2017 and up to the date of this report, there has not been any change in the Company's memorandum and articles of association. The Company's memorandum and articles of association are available on the website of the Company and that of the Stock Exchange.

Independent Auditor's Report

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To the shareholders of Wison Engineering Services Co. Ltd.
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Wison Engineering Services Co. Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 57 to 146, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the 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 financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") 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 International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB"). 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 Company in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Independent Auditor's Report

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition and measurement	
The Group provides engineering, procurement and construction management services. Revenue from construction contract was recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract, which requires significant management estimates. Relevant disclosures are included in notes 4 and 6 to the consolidated financial statements.	We tested the controls of the Group over its process to record contract costs and contract revenues and the calculation of the percentage of completion. We discussed the status of significant projects in progress with management and assessed management's estimates of the total budget of contract costs and forecast costs to complete, taking into account the historical accuracy of such estimates. We checked the related project documents, such as invoices, contracts with subcontractors, variation orders between the Group and subcontractors and the independent surveyor's assessment on the progress of the work performed by the subcontractors for the significant projects.
Recoverability of trade receivables and amounts due from contract customers	
As at 31 December 2017, trade receivables and amounts due from contract customers of the Group amounted to RMB1,356,157,000 and RMB2,051,469,000, respectively. Provisions for impairment of RMB41,573,000 and RMB676,033,000 were made for trade receivables and amounts due from contract customers. When determining whether trade receivables and amounts due from contract customers are recoverable, significant management judgment is involved, taking into account various factors such as the age of the balances, existence of disputes, historical payment patterns and other available information concerning the creditworthiness of the customers. Relevant disclosures are included in notes 4, 20 and 21 to the consolidated financial statements.	Our audit procedures included (i) assessing and testing the Group's processes and controls relating to the monitoring of trade receivables and amounts due from contract customers, and the Group's granting of credit terms and contract terms relating to billing milestones, and (ii) circularizing direct confirmations for the trade receivable balances on a sampling basis. We also evaluated the Group's provisions for trade receivables and amounts due from contract customers by assessing the Group's debtor collection history, the ageing of trade receivable balances and amounts due from contract customers, bank receipts for the payments received subsequent to year end, and the customers' relationship with the Group and their financial background.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Independent Auditor's Report

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

- Conclude on the appropriateness of 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.

Independent Auditor's Report

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lawrence K.W. Lau.

Ernst & Young
Certified Public Accountants
Hong Kong
28 March 2018

Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
REVENUE	6	**4,124,790**	3,041,877
Cost of sales		**(3,263,632)**	(2,110,644)
GROSS PROFIT		**861,158**	931,233
Other income and gains	6	**188,794**	590,017
Selling and marketing expenses		**(68,889)**	(60,616)
Administrative expenses		**(373,203)**	(208,017)
Other expenses		**(241,354)**	(848,635)
Finance costs	7	**(136,160)**	(283,228)
Share of profits or losses of an associate		**(1,222)**	463
PROFIT BEFORE TAX	8	**229,124**	121,217
Income tax	10	**(63,405)**	(98,822)
PROFIT FOR THE YEAR		**165,719**	22,395
Attributable to:			
Owners of the parent		**138,306**	15,179
Non-controlling interests		**27,413**	7,216
		165,719	22,395
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
— Basic		**RMB3.40 cents**	RMB0.37 cents
— Diluted		**RMB3.38 cents**	RMB0.37 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	2017 RMB'000	2016 RMB'000 (Restated)
PROFIT FOR THE YEAR	**165,719**	22,395
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(33,553)**	21,159
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(33,553)**	21,159
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**(33,553)**	21,159
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**132,166**	43,554
Attributable to:		
Owners of the parent	**108,186**	36,338
Non-controlling interests	**23,980**	7,216
	132,166	43,554

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)	2015 RMB'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	13	**917,334**	983,635	1,028,287
Investment properties	14	**12,396**	12,976	13,556
Prepaid land lease payments	15	**152,948**	159,114	163,272
Goodwill	16	**15,752**	15,752	15,752
Other intangible assets	17	**4,364**	7,048	10,372
Investment in an associate	18	**1,278**	2,500	2,037
Long-term prepayments	22	**654**	13,996	128,042
Deferred tax assets	27	**11,986**	825	–
Total non-current assets		**1,116,712**	1,195,846	1,361,318
CURRENT ASSETS				
Inventories	19	**24,515**	20,241	177,581
Gross amounts due from contract customers	20	**2,051,469**	3,789,290	4,033,219
Trade receivables	21	**1,356,157**	145,326	185,603
Bills receivable		**1,202,274**	194,914	84,033
Due from a related company	31	**–**	256	–
Due from fellow subsidiaries	31	**34,277**	4,377	27
Due from the ultimate holding company		**–**	–	87
Prepayments, deposits and other receivables	22	**335,671**	562,632	656,408
Pledged bank balances and time deposits	23	**542,269**	1,106,803	1,257,417
Cash and bank balances	23	**916,153**	701,000	1,253,436
		6,462,785	6,524,839	7,647,811
Assets classified as held for sale		**–**	–	116,210
Assets of a disposal company classified as held for sale	33	**33,374**	–	–
Total current assets		**6,496,159**	6,524,839	7,764,021
CURRENT LIABILITIES				
Gross amounts due to contract customers	20	**398,697**	542,208	1,637,037
Trade and bills payables	24	**3,516,007**	3,034,461	3,335,388
Other payables, advances from customers and accruals	25	**773,624**	1,114,872	1,437,512
Interest-bearing bank and other borrowings	26	**313,332**	426,721	230,049
Due to a related company		**–**	–	78
Due to an associate	31	**630**	630	630
Dividends payable		**81,984**	272,674	272,674
Tax payable		**139,146**	140,880	100,985
		5,223,420	5,532,446	7,014,353
Liabilities directly associated with assets classified as held for sale	33	**6,556**	–	–
Total current liabilities		**5,229,976**	5,532,446	7,014,353
NET CURRENT ASSETS		**1,266,183**	992,393	749,668
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,382,895**	2,188,239	2,110,986

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)	2015 RMB'000 (Restated)
NON-CURRENT LIABILITIES				
Deferred tax liabilities	27	**18,499**	25,633	22,451
Government grants	28	**5,014**	5,144	5,275
Total non-current liabilities		**23,513**	30,777	27,726
NET ASSETS		**2,359,382**	2,157,462	2,083,260
EQUITY				
Equity attributable to owners of the parent				
Share capital	29	**329,968**	329,809	329,803
Share premium	29	**850,993**	846,250	846,077
Other reserves		**1,002,063**	786,310	719,503
		2,183,024	1,962,369	1,895,383
Non-controlling interests		**176,358**	195,093	187,877
Total equity		**2,359,382**	2,157,462	2,083,260

Rong Wei
Director

Li Zhiyong
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Attributable to owners of the parent											
	Share capital RMB'000 (note 29)	Share premium RMB'000 (note 29)	Share option reserve* RMB'000 (note 30)	Capital reserve* RMB'000 (note 29)	Redemption reserve* RMB'000	Statutory surplus reserves* RMB'000 (note 29)	Statutory expansion reserve* RMB'000 (note 29)	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2016 (restated)	329,803	846,077	212,349	–	1	35,514	26,697	11,955	432,987	1,895,383	187,877	2,083,260
Profit for the year (restated)	–	–	–	–	–	–	–	–	15,179	15,179	7,216	22,395
Exchange differences related to foreign operations	–	–	–	–	–	–	–	21,159	–	21,159	–	21,159
Total comprehensive income for the year (restated)	–	–	–	–	–	–	–	21,159	15,179	36,338	7,216	43,554
Exercise of share options	6	173	(131)	–	–	–	–	–	–	48	–	48
Equity-settled share option arrangements (note 8)	–	–	30,600	–	–	–	–	–	–	30,600	–	30,600
As at 31 December 2016 and 1 January 2017 (restated)	**329,809**	**846,250**	**242,818**	**–**	**1**	**35,514**	**26,697**	**33,114**	**448,166**	**1,962,369**	**195,093**	**2,157,462**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**138,306**	**138,306**	**27,413**	**165,719**
Exchange differences related to foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(30,120)**	**–**	**(30,120)**	**(3,433)**	**(33,553)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(30,120)**	**138,306**	**108,186**	**23,980**	**132,166**
Transfer to the statutory reserve	**–**	**–**	**–**	**–**	**–**	**3,923**	**3,923**	**–**	**(7,846)**	**–**	**–**	**–**
Exercise of share options	**159**	**4,743**	**(3,572)**	**–**	**–**	**–**	**–**	**–**	**–**	**1,330**	**–**	**1,330**
Equity-settled share option arrangements (note 8)	**–**	**–**	**26,203**	**–**	**–**	**–**	**–**	**–**	**–**	**26,203**	**–**	**26,203**
Equity-settled share-based payment expenses (note 8)	**–**	**–**	**–**	**84,936**	**–**	**–**	**–**	**–**	**–**	**84,936**	**–**	**84,936**
Dividends declared	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(42,715)**	**(42,715)**
As at 31 December 2017	**329,968**	**850,993**	**265,449**	**84,936**	**1**	**39,437**	**30,620**	**2,994**	**578,626**	**2,183,024**	**176,358**	**2,359,382**

* These reserve accounts comprise the consolidated other reserves of RMB1,002,063,000 and RMB786,310,000 (restated) in the consolidated statement of financial position as at 31 December 2017 and 2016, respectively.

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**229,124**	121,217
Adjustments for:			
Depreciation of property, plant and equipment and investment properties	8,13,14	**48,386**	46,855
Amortisation of other intangible assets	8,17	**3,201**	5,082
Amortisation of prepaid land lease payments	8,15	**4,158**	4,158
(Reversal of provision)/provision for inventories	8,19	**(335)**	2,248
Recognition of government grants	6,28	**(5,178)**	(8,995)
Share of (profits) or losses of an associate		**1,222**	(463)
Loss on disposal of items of property, plant and equipment	8	**306**	973
Gain on disposal of assets classified as held for sale	6	**–**	(220,189)
Equity-settled share option expenses	8	**26,203**	30,600
Equity-settled share-based payment expenses	8,29	**84,936**	–
Impairment for gross amounts due from contract customers	8,20	**–**	676,033
Finance costs	7	**136,160**	283,228
Interest income	6	**(110,520)**	(263,626)
		417,663	677,121
(Increase)/decrease in inventories		**(3,939)**	155,092
(Increase)/decrease in trade and bills receivables		**(2,109,035)**	189,664
Decrease/(increase) in prepayments, deposits and other receivables		**95,773**	(31,177)
Decrease in long-term prepayment		**1,813**	4,890
Decrease/(increase) in amounts due from contract customers		**1,737,821**	(432,104)
Decrease in amounts due to contract customers		**(143,511)**	(1,094,829)
Increase/(decrease) in trade and bills payables		**481,569**	(300,927)
Increase in amounts due from fellow subsidiaries		**(29,900)**	(4,350)
Decrease/(increase) in an amount due from a related company		**256**	(256)
Decrease in an amount due from a holding company		**–**	87
Decrease in an amount due to a related company		**–**	(78)
Decrease in other payables, advances from customers and accruals		**(334,714)**	(322,640)
Decrease in pledged bank balances and time deposits		**564,534**	150,614
		678,330	(1,008,893)
Interest received		**1,364**	3,358
Interest paid		**(27,004)**	(22,960)
Tax paid		**(83,434)**	(56,570)
Net cash flows from/(used in) operating activities		**569,256**	(1,085,065)

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(14,421)**	(3,207)
Proceeds from disposal of items of property, plant and equipment		**1,251**	611
Proceeds from disposal of assets classified as held for sale		**–**	331,399
Purchase of other intangible assets	17	**(517)**	(1,758)
Receipt of government grants for property, plant and equipment	28	**5,048**	8,864
Decrease in unpledged time deposits with original maturity of more than three months		**–**	9,000
Net cash flows (used in)/from investing activities		**(8,639)**	344,909
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of new shares		**1,330**	48
Capital element of finance lease payments		**–**	(49)
New bank loans		**446,538**	456,121
Repayment of bank loans		**(552,736)**	(259,400)
Payment of dividends		**(233,405)**	–
Net cash flows (used in)/from financing activities		**(338,273)**	196,720
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**222,344**	(543,436)
Cash and cash equivalents at beginning of year		**701,000**	1,244,436
Effect of foreign exchange rate changes, net		**(7,191)**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		**916,153**	701,000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**916,153**	688,900
Unpledged time deposits with original maturity of less than three months when acquired		**–**	12,100
CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF FINANCIAL POSITION	23	**916,153**	701,000
CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF CASH FLOWS		**916,153**	701,000

Notes to Financial Statements

Year ended 31 December 2017

1. CORPORATE AND GROUP INFORMATION

The registered office address of the Company is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands.

Wison Engineering Investment Limited ("Wison Investment") is the immediate holding company of the Company. In the opinion of the directors, Wison Group Holding Limited ("Wison Holding") is the ultimate holding company of the Company. Wison Holding and Wison Investment are exempted companies with limited liability incorporated in the British Virgin Islands.

The Group is principally engaged in the provision of project solutions to petrochemical and coal-to-chemicals producers in terms of design, building and commissioning of their production facilities through technology consultancy, engineering, procurement and construction management services in the People's Republic of China ("PRC") and overseas.

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Wison Engineering Technology Limited ("Wison Technology")*	British Virgin Islands ("BVI")	United States dollar ("US$")1	100	–	Investment holding
Wison Energy Engineering (Hong Kong) Limited ("Wison Energy (HK)")*	Hong Kong	HK$401,713,600	–	100	Investment holding/import and export sale of equipment and parts/provision of engineering, procurement and construction management service
惠生工程(中國)有限公司 (Wison Engineering Limited, "Wison Engineering")*	PRC/ Mainland China	RMB510,000,000	–	75**	Provision of engineering, procurement and construction management service**
惠生(揚州)化工機械有限公司 (Wison (Yangzhou) Chemical Machinery Co. Ltd., "Wison Yangzhou")*	PRC/ Mainland China	US$13,000,000	–	100***	Dormant
Wison Petrochemicals (NA), LLC*	United States	Nil	–	100	Provision of engineering, procurement and construction management service

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

** Wison Engineering is a Sino-foreign co-operative enterprise established in the PRC. The principal activities of Wison Engineering are the provision of solutions for renovating existing ethylene cracking furnaces and design and construction of new ethylene cracking furnaces, and the provision of other chemical engineering processing system solutions in Mainland China and overseas. Wison Engineering is treated as a subsidiary because the Company has unilateral control over Wison Engineering. The joint venture partners' profit sharing ratios of Wison Engineering are not in proportion to their equity ratios but are as defined in the joint venture contract and other relevant documents. Pursuant to the joint venture contract, Wison Energy (HK) and the joint venture partner share 90% and 10% of the profits of Wison Engineering, respectively.

*** Wison Yangzhou was a wholly foreign-owned enterprise established in the PRC. Wison Yangzhou was disposed by the Group in February 2018.

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

Notes to Financial Statements

Year ended 31 December 2017

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. Assets classified as held for sale are stated at the lower of their carrying amounts and fair value less costs to sell. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

Notes to Financial Statements

Year ended 31 December 2017

2.2 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made in the financial statements upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The nature and the impact of the amendments are described below:

(a) Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in the financial statements.

(b) Amendments to IAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to IFRS 12 clarify that the disclosure requirements in IFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group's subsidiary classified as a disposal company held for sale as at 31 December 2017 is a wholly-owned subsidiary and so no additional information is required to be disclosed.

Notes to Financial Statements

Year ended 31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contract*[3]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28[1]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to the following standards: — IFRS 3 *Business Combinations*[2] — IFRS 11 *Joint Arrangements*[2] — IAS 12 *Income Taxes*[2] — IAS 23 *Borrowing Costs*[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Notes to Financial Statements

Year ended 31 December 2017

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

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

Notes to Financial Statements

Year ended 31 December 2017

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

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group expects that the provision for impairment will increase upon the initial adoption of the standard.

The Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in IFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. During 2017, the Group has performed a detailed assessment on the impact of the adoption of IFRS 15. The expected changes in accounting policies will not have any significant impact on the Group's consolidated financial statements.

Notes to Financial Statements

Year ended 31 December 2017

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

IFRS 16, issued in January 2016, replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases — Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 34 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB23,488,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short-term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Notes to Financial Statements

Year ended 31 December 2017

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

Amendments to IAS 40, issued in December 2016, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC 22, issued in December 2016, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

IFRIC 23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

Notes to Financial Statements

Year ended 31 December 2017

2.4 CORRECTION OF PRIOR YEAR ERRORS

As set out in notes 20 and 21 to the consolidated financial statements, the Group had amounts due from contract customers of RMB951,169,000 and trade receivables of RMB55,937,000 as at 31 December 2016, respectively, which have been identified as overdue in accordance with contract terms. The Group has previously recorded an impairment provision of RMB643,629,000 for the abovementioned amounts due from contract customers and no provision for the abovementioned trade receivables as at 31 December 2016. The independent auditors expressed a modified opinion on the Group's financial statements for the year ended 31 December 2016 in respect of the impairment provision. In the current year, management has considered and concluded that additional provisions of RMB32,404,000 for amounts due from contract customers and RMB41,573,000 for trade receivables should have been recorded retrospectively as impairment provision for the year ended 31 December 2016 and prior years, respectively.

The impact of the restatement made in respect of the above error is summarised below:

Consolidated statement of profit or loss and consolidated statement of comprehensive income for the year ended 31 December 2016

	As previously reported RMB'000	**Increase/ (decrease)** RMB'000	**As restated** RMB'000
Other expenses	816,231	32,404	848,635
Profit before tax	153,621	(32,404)	121,217
Income tax	100,251	(1,429)	98,822
Profit for the year	53,370	(30,975)	22,395
Profit for the year attributable to owners of the parent	42,914	(27,735)	15,179
Profit for the year attributable to non-controlling interests	10,456	(3,240)	7,216
Total comprehensive income for the year	74,529	(30,975)	43,554
Total comprehensive income for the year attributable to owners of the parent	64,073	(27,735)	36,338
Total comprehensive income for the year attributable to non-controlling interests	10,456	(3,240)	7,216

	RMB	RMB	RMB
Earnings per share	1.06 cents	(0.69) cents	0.37 cents

Notes to Financial Statements

Year ended 31 December 2017

2.4 CORRECTION OF PRIOR YEAR ERRORS (CONTINUED)

Consolidated statement of financial position as at 31 December 2016

	As previously reported RMB'000	**Increase/ (decrease)** RMB'000	**As restated** RMB'000
Gross amounts due from contract customers	3,821,694	(32,404)	3,789,290
Trade receivables	186,899	(41,573)	145,326
Total current assets	6,598,816	(73,977)	6,524,839
Net current assets	1,066,370	(73,977)	992,393
Total assets less current liabilities	2,262,216	(73,977)	2,188,239
Deferred tax liabilities	28,895	(3,262)	25,633
Total non-current liabilities	34,039	(3,262)	30,777
Net assets	2,228,177	(70,715)	2,157,462
Equity attributable to owners of parent	2,025,687	(63,318)	1,962,369
Non-controlling interests	202,490	(7,397)	195,093

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in an associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise 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 Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Notes to Financial Statements

Year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill

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

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

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

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

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

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

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

Notes to Financial Statements

Year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (Continued)

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

Fair value measurement

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

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

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

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

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

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

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

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

Notes to Financial Statements

Year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

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

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

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

Notes to Financial Statements

Year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (Continued)

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets classified held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

Notes to Financial Statements

Year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to depreciate the cost of each item of property, plant and equipment over the following estimated useful lives.

Buildings	20–30 years
Plant and machinery	10 years
Motor vehicles	10 years
Office equipment	5 years
Leasehold improvements	Over the lease terms and 5 years, whichever is shorter

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

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

Investment properties

Investment properties are interests in land and buildings held to earn rental income rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are stated at cost less accumulated depreciation and any impairment losses.

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

Depreciation is calculated on the straight-line basis to depreciate the cost of each item of investment properties over the estimated useful life of 30 years.

Non-current assets classified as held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Notes to Financial Statements

Year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Research and development costs

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Notes to Financial Statements

Year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

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

Subsequent measurement

The subsequent measurement of loans and receivables is as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

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

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

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

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

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

Notes to Financial Statements

Year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced either through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Notes to Financial Statements

Year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and bills payables, other payables, an amount due to a related company, an amount due to an associate, dividends payable, finance lease payables and interest-bearing bank borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

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Year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete and slow-moving items. Cost is determined on the weighted average basis and in case of finished goods, comprises direct materials, direct labour and appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

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

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

Income tax

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

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

Notes to Financial Statements

Year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

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

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

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

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

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

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

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

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

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

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

Notes to Financial Statements

Year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below;

(b) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(c) from the rendering of services, either on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below or in the period when services are rendered;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(e) rental income, on a time proportion basis over the lease terms.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriation of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Notes to Financial Statements

Year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction contracts (Continued)

Revenue from cost plus construction contracts is recognised using the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

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

Notes to Financial Statements

Year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (Continued)

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

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

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

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

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

Other employee retirement benefits

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

Pursuant to the relevant regulations of the PRC government, the companies comprising the Group operating in Mainland China ("PRC group companies") have participated in a local municipal government retirement benefit scheme (the "Scheme"), whereby the PRC group companies are required to contribute a certain percentage of the salaries of their employees to the Scheme to fund their retirement benefits. The only obligation of the Group with respect to the Scheme is to pay the ongoing contributions under the Scheme. Contributions under the Scheme are charged to profit or loss in the period in which they are incurred.

Notes to Financial Statements

Year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

Foreign currencies

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

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

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

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

Notes to Financial Statements

Year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Notes to Financial Statements

Year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

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

Estimated useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations. Management will increase the depreciation charge where useful lives are less than previously estimates, or it will write off or write down technically obsolete assets that have been abandoned.

The carrying value of an item of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. The recoverable amount of an item of property, plant and equipment is calculated as the higher of its fair value less costs to sell and value in use, the calculations of which involve the use of estimates. At 31 December 2017, the carrying value of property, plant and equipment was RMB917,334,000 (2016: RMB983,635,000).

Percentage of completion of construction works

The Group recognises revenue according to the percentage of completion of individual contracts of construction works, which requires estimation to be made by management. The stage of completion is estimated by reference to the actual costs incurred over the total budgeted costs, and the corresponding contract revenue is also estimated by management. Due to the nature of the activity undertaken in construction contracts, the date at which the activity is entered into and the date at which the activity is completed usually fall into different accounting periods. Hence, the Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses. Where the actual contract revenue is less than expected or actual contract costs are more than expected, a foreseeable loss may arise.

Estimation of total budgeted costs and cost to completion for construction contracts

Total budgeted costs for construction contracts comprise (i) direct material costs, (ii) costs of subcontracting and direct labour, and (iii) an appropriation of variable and fixed construction overheads. In estimating the total budgeted costs for construction contracts, management makes reference to information such as (i) current offers from sub-contractors and suppliers, (ii) recent offers agreed with sub-contractors and suppliers, and (iii) professional estimation on construction and material costs.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Notes to Financial Statements

Year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Impairment of trade receivables and amounts due from contract customers

The Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers will deteriorate such that the actual impairment loss might be higher than expected, the Group would be required to revise the basis for making the allowance and its future results would be affected. At 31 December 2017, an impairment of RMB717,606,000 (2016 (restated): RMB717,606,000) was recognised for the trade receivables and amounts due from contract customers. The carrying amount of trade receivables and amounts due from contract customers were RMB1,356,157,000 (2016 (restated): RMB145,326,000) and RMB2,051,469,000 (2016 (restated): RMB3,789,290,000), respectively.

Impairment test of goodwill

The carrying amount of goodwill of the Group arose from the acquisition of 河南省化工設計院 ("Henan Chemical Industry Design Institute") in 2007. The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the asset and the cash-generating unit to which the asset is allocated. Management considers that the goodwill should be allocated to the Group's operating segment (cash-generating unit) as Henan Chemical Industry Design Institute provides design service (integral to these contracts). Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was RMB15,752,000. Details are set out in note 16.

PRC corporate income tax

The Group is subject to corporate income taxes in Mainland China. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realise.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2017 was RMB62,143,000 (2016: RMB58,105,000).

Notes to Financial Statements

Year ended 31 December 2017

5. OPERATING SEGMENT INFORMATION

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

— Engineering, procurement and construction ("EPC"); and

— Engineering, consulting and technical services

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude property, plant and equipment, investment properties, prepaid land lease payments, goodwill, other intangible assets, an investment in an associate, deferred tax assets, an amount due from a related company, amounts due from fellow subsidiaries, deposits and other receivables, assets of a disposal company classified as held for sale, pledged bank balances and time deposits and cash and bank balances as these assets are managed on a group basis.

Segment liabilities exclude other payables and accruals, interest-bearing bank and other borrowings, an amount due to an associate, dividends payable, tax payable, liabilities directly associated with the assets classified as held for sale, government grants and deferred tax liabilities as these liabilities are managed on a group basis.

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

Notes to Financial Statements

Year ended 31 December 2017

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segments

Year ended 31 December 2017	EPC RMB'000	Engineering, consulting and technical services RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	4,009,407	115,383	4,124,790
Intersegment sales	65,150	–	65,150
Total revenue	4,074,557	115,383	4,189,940
Reconciliation:			
Elimination of intersegment sales			(65,150)
Revenue			4,124,790
Segment results	879,513	(18,355)	861,158
Reconciliation:			
Imputed interest income from an EPC contract	109,156	–	109,156
Interest on discounted letter of credit	(109,156)	–	(109,156)
Unallocated income			79,638
Unallocated expenses			(683,446)
Unallocated finance costs			(27,004)
Share of losses of an associate			(1,222)
Profit before tax			229,124
Segment assets	4,945,487	6,716	4,952,203
Reconciliation:			
Elimination of intersegment receivables			(14,547)
Corporate and other unallocated assets			2,675,215
Total assets			7,612,871
Segment liabilities	4,168,427	69,687	4,238,114
Reconciliation:			
Elimination of intersegment payables			(16,347)
Corporate and other unallocated liabilities			1,031,722
Total liabilities			5,253,489
Other segment information			
Share of losses of an associate			
Unallocated			(1,222)
Impairment losses reversed in the statement of profit or loss	–	335	335
Depreciation and amortisation			
Unallocated			55,745
Investment in an associate			
Unallocated			1,278
Capital expenditure*			
Unallocated			16,294

* Capital expenditure consists of additions to property, plant and equipment and other intangible assets.

Notes to Financial Statements

Year ended 31 December 2017

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segments (Continued)

Year ended 31 December 2016	EPC RMB'000 (Restated)	Engineering, consulting and technical services RMB'000 (Restated)	Total RMB'000 (Restated)
Segment revenue			
Sales to external customers	2,975,685	66,192	3,041,877
Intersegment sales	9,672	—	9,672
Total revenue	2,985,357	66,192	3,051,549
Reconciliation:			
Elimination of intersegment sales			(9,672)
Revenue			3,041,877
Segment results	917,705	13,528	931,233
Reconciliation:			
Unallocated income			590,017
Unallocated expenses			(1,117,268)
Share of profit of an associate			463
Finance costs			(283,228)
Profit before tax			121,217
Segment assets	4,616,338	79,331	4,695,669
Reconciliation:			
Elimination of intersegment receivables			(13,436)
Corporate and other unallocated assets			3,038,452
Total assets			7,720,685
Segment liabilities	4,428,317	18,108	4,446,425
Reconciliation:			
Elimination of intersegment payables			(13,491)
Corporate and other unallocated liabilities			1,130,289
Total liabilities			5,563,223
Other segment information			
Share of profit of an associate			
Unallocated			463
Impairment losses recognised in the statement of profit or loss	676,033	2,248	678,281
Depreciation and amortisation			
Unallocated			56,095
Investment in an associate			
Unallocated			2,500
Capital expenditure*			
Unallocated			4,965

* Capital expenditure consists of additions to property, plant and equipment and other intangible assets.

Notes to Financial Statements

Year ended 31 December 2017

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

Revenue from external customers

	2017 RMB'000	2016 RMB'000
Mainland China	**2,079,567**	1,467,478
Saudi Arabia	**1,082,429**	246,310
Venezuela	**765,953**	1,296,525
United Arab Emirates	**185,598**	31,564
The United States	**11,243**	–
	4,124,790	3,041,877

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

As over 90% of the Group's non-current assets are located in Mainland China, no further geographical information of the Group's non-current assets is presented.

Information about major customers

Revenue from major customers which individually amounted to 10% or more of the Group's revenue is set out below:

	2017	2016
Customer A (EPC segment)	**18.6%**	42.6%
Customer B (EPC segment)	**17.7%**	N/A
Customer C (EPC segment)	**10.2%**	N/A
Customer D (EPC segment)	**10.2%**	N/A
Customer E (EPC segment)	**N/A**	26.9%

Notes to Financial Statements

Year ended 31 December 2017

6. REVENUE, OTHER INCOME AND GAINS

Revenue represents an appropriate proportion of contract revenue of construction contracts and the value of services rendered during the year.

An analysis of revenue and other income and gains is as follows:

	2017 RMB'000	2016 RMB'000
Revenue		
Construction contracts	**4,009,407**	2,975,685
Rendering of services	**115,383**	66,192
	4,124,790	3,041,877
Other income		
Government grants*	**5,178**	8,995
Interest income	**110,520**	263,626
Rental income	**69,966**	57,296
Others	**3,130**	5,464
	188,794	335,381
Gains		
Gain on disposal of assets	**–**	220,189
Foreign exchange gains	**–**	34,447
	–	254,636
	188,794	590,017

* Government grants have been received from the local governments as incentives to promote and accelerate development in the respective provinces. There are no unfulfilled conditions or contingencies relating to these grants.

Notes to Financial Statements

Year ended 31 December 2017

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 **RMB'000**	2016 RMB'000
Interest on bank loans wholly repayable within five years	**21,256**	20,824
Interest on discounted bills and letter of credit	**114,904**	262,404
	136,160	283,228

8. PROFIT BEFORE TAX

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

	Notes	**2017** **RMB'000**	2016 RMB'000 (Restated)
Cost of services provided		**3,263,632**	2,110,644
Depreciation	13, 14	**48,386**	46,855
Research and development costs		**126,719**	116,385
Amortisation of prepaid land lease payments	15	**4,158**	4,158
Amortisation of other intangible assets	17	**3,201**	5,082
(Reversal of provision)/provision for inventories		**(335)**	2,248
Impairment for gross amounts due from contract customers	20	**–**	676,033
Loss on disposal of items of property, plant and equipment		**306**	973
Minimum lease payments under operating leases		**17,903**	16,561
Auditor's remuneration		**4,642**	4,628
Employee benefit expense (including directors' and chief executive's remuneration):			
Wages and salaries		**459,954**	524,745
Retirement benefit scheme contributions		**43,701**	62,497
Equity-settled share option expenses		**26,203**	30,600
Equity-settled share-based payment expenses		**84,936**	–
		614,794	617,842
Foreign exchange differences, net		**46,044**	(34,447)

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Year ended 31 December 2017

9. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

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

	2017	2016
	RMB'000	RMB'000
Fees	**627**	615
Other emoluments:		
Salaries and allowances	**6,237**	3,316
Discretionary bonuses	**647**	378
Equity-settled share option expenses and equity-settled share-based payment expenses	**19,078**	1,815
Retirement benefit scheme contributions	**184**	84
Total	**26,773**	6,208

Certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company. Further details of which are set out in note 30 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

During the year, 3 directors were granted share awards of the Company by the controlling shareholder of the Company for their services rendered to the Group. The share awards have been vested immediately upon the acceptance of the share awards and the relevant number of shares has been transferred to the grantees of the share awards at a consideration of HK$1.00. The fair value of share awards, which has been recognised in the statement of profit or loss immediately upon the vest, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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Year ended 31 December 2017

9. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION (CONTINUED)

(a) Executive directors, non-executive director, independent non-executive directors and chief executive

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Equity-settled share option expenses and equity-settled share-based payment expenses RMB'000	Retirement benefit scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2017						
Executive directors						
Mr. Liu Haijun (i)	–	1,758	185	9,016	46	11,005
Mr. Zhou Hongliang	–	1,493	154	5,329	46	7,022
Mr. Li Zhiyong	–	1,493	154	–	46	1,693
Mr. Dong Hua	–	1,493	154	4,065	46	5,758
	–	6,237	647	18,410	184	25,478
Non-executive director						
Mr. Cui Ying (ii)	–	–	–	515	–	515
Independent non-executive directors						
Mr. Lawrence Lee	209	–	–	51	–	260
Mr. Tang Shisheng	209	–	–	51	–	260
Mr. Feng Guohua	209	–	–	51	–	260
	627	–	–	153	–	780
	627	6,237	647	19,078	184	26,773

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Year ended 31 December 2017

9. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION (CONTINUED)

(a) Executive directors, non-executive director, independent non-executive directors and chief executive (Continued)

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Equity-settled share option expenses and equity-settled share-based payment expenses RMB'000	Retirement benefit scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2016						
Executive directors						
Mr. Liu Haijun (i)	–	1,658	189	605	42	2,494
Mr. Zhou Hongliang	–	1,658	189	605	42	2,494
	—	3,316	378	1,210	84	4,988
Non-executive director						
Mr. Cui Ying (ii)	–	–	–	605	–	605
Independent non-executive directors						
Mr. Lawrence Lee	205	–	–	–	–	205
Mr. Tang Shisheng	205	–	–	–	–	205
Mr. Feng Guohua	205	–	–	–	–	205
	615	–	–	–	–	615
	615	3,316	378	1,815	84	6,208

(i) Mr. Liu Haijun was appointed as the chief executive officer of the Group with effect from 30 October 2015.

(ii) Mr. Cui Ying resigned as a non-executive director of the Company with effect from 12 October 2017.

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

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Year ended 31 December 2017

9. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION (CONTINUED)

(b) Five highest paid employees

The number of the five highest paid employees of the Group during the year is analysed as follows:

	2017	2016
Directors	**3**	2
Non-director and non-chief executive employees	**2**	3
	5	5

Details of the remuneration of the directors are set out in (a) above.

Details of the remuneration of the non-director and non-chief executive highest paid employees for the year ended 31 December 2017 are as follows:

	2017 **RMB'000**	2016 RMB'000
Salaries and allowances	**2,316**	4,232
Discretionary bonuses	**556**	566
Equity-settled share option expenses and equity-settled share-based payment expenses	**6,346**	1,286
Retirement benefit scheme contributions	**92**	127
	9,310	6,211

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	2017	2016
HK$2,000,001 to HK$2,500,000	**–**	2
HK$2,500,001 to HK$3,000,000	**–**	1
HK$4,500,001 to HK$5,000,000	**1**	–
HK$6,000,001 to HK$6,500,000	**1**	–
	2	3

In December 2012, share options were granted to two non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

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Year ended 31 December 2017

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate.

	2017	2016
	RMB'000	RMB'000 (Restated)
Current		
— Mainland China	**58,109**	69,942
— Elsewhere	**9,293**	26,523
Deferred	**(3,997)**	2,357
Total tax charge for the year	**63,405**	98,822

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group was not subject to any income tax in the Cayman Islands and British Virgin Islands. The Group was not liable for income tax in Hong Kong, Indonesia, Iraq, Saudi Arabia, United Arab Emirates and the United States of America as the Group did not have any assessable income arising in Hong Kong, Indonesia, Iraq, Saudi Arabia, United Arab Emirates and the United States of America during the year ended 31 December 2017 (2016: Nil).

Wison Engineering was qualified as a "High and New Technology Enterprise" and was entitled to a preferential corporate income tax ("CIT") rate of 15% from 2014 to 2016. In accordance with the requirements of the tax regulations in the PRC, Wison Engineering reapplied "High and New Technology Enterprise" and obtained the certification on 23 October 2017 which will be effective for another three years from 1 January 2017. Therefore, Wison Engineering was subject to CIT at a rate of 15% for the years ended 31 December 2017 and 2016.

Wison Yangzhou was subject to CIT at a rate of 25%.

Income taxes arising in other jurisdictions are calculated at the rates prevailing in the relevant jurisdictions in which the Group operates.

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Year ended 31 December 2017

10. INCOME TAX (CONTINUED)

A reconciliation of income tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the income tax expense at the effective income tax rate for the year as follows:

	2017 **RMB'000**	2016 RMB'000 (Restated)
Profit before tax	**229,124**	121,217
At the statutory income tax rates	**57,281**	30,304
Lower tax rate enacted by local authority	**19,672**	16,222
Effect of different tax rates of branches operating in other jurisdictions	**(25,883)**	(63,753)
Tax losses not recognised	**2,182**	2,297
Effect of withholding taxes on distributable profits of the subsidiaries in Mainland China	**12,089**	3,182
Additional tax deduction	**(6,160)**	(12,634)
Income not subject to tax	**–**	(894)
Expenses not deductible for tax	**4,224**	124,098
Tax charge for the year	**63,405**	98,822

The share of tax attributable to an associate amounting to RMB55,000 (2016: RMB37,000) is included in "Share of profits or losses of an associate" in the consolidated statement of profit or loss.

11. DIVIDENDS

The directors do not declare any dividends for the years ended 31 December 2016 and 2017.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,064,920,116 (2016: 4,064,664,000) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2017 **RMB'000**	2016 RMB'000 (Restated)
Earnings Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**138,306**	15,179
Shares Weighted average number of ordinary shares in issue during the year used in the earnings per share calculation	**4,064,920,116**	4,064,664,000
Effective of dilution-weighted average number of ordinary shares	**23,505,780**	–
	4,088,425,896	4,064,664,000

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13. PROPERTY, PLANT AND EQUIPMENT

	Construction in Progress RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
31 December 2017							
At 31 December 2016 and 1 January 2017:							
Cost	–	1,127,170	3,561	19,419	25,658	74,359	1,250,167
Accumulated depreciation	–	(150,935)	(3,294)	(18,751)	(24,952)	(68,600)	(266,532)
Net carrying amount	–	976,235	267	668	706	5,759	983,635
At 1 January 2017, net of accumulated depreciation	–	976,235	267	668	706	5,759	983,635
Additions	2,580	610	655	1,871	6,520	3,541	15,777
Write-off	–	(1,356)	–	–	–	–	(1,356)
Depreciation provided during the year	–	(37,523)	(135)	(324)	(4,700)	(5,124)	(47,806)
Disposals	–	–	–	(288)	(334)	(935)	(1,557)
Transfer to a disposal company held for sale (note 33)	–	(29,675)	–	(1,423)	(86)	(175)	(31,359)
At 31 December 2017, net of accumulated depreciation	2,580	908,291	787	504	2,106	3,066	917,334
At 31 December 2017:							
Cost	2,580	1,062,852	3,927	6,588	26,778	69,930	1,172,655
Accumulated depreciation	–	(154,561)	(3,140)	(6,084)	(24,672)	(66,864)	(255,321)
Net carrying amount	2,580	908,291	787	504	2,106	3,066	917,334

Notes to Financial Statements

Year ended 31 December 2017

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
31 December 2016						
At 31 December 2015 and 1 January 2016:						
Cost	1,127,170	6,285	22,924	27,161	79,843	1,263,383
Accumulated depreciation	(116,720)	(4,188)	(21,977)	(26,087)	(66,124)	(235,096)
Net carrying amount	1,010,450	2,097	947	1,074	13,719	1,028,287
At 1 January 2016, net of accumulated depreciation	1,010,450	2,097	947	1,074	13,719	1,028,287
Additions	–	–	822	92	2,293	3,207
Depreciation provided during the year	(34,215)	(1,449)	(769)	(152)	(9,690)	(46,275)
Disposals	–	(381)	(332)	(308)	(563)	(1,584)
At 31 December 2016, net of accumulated depreciation	976,235	267	668	706	5,759	983,635
At 31 December 2016:						
Cost	1,127,170	3,561	19,419	25,658	74,359	1,250,167
Accumulated depreciation	(150,935)	(3,294)	(18,751)	(24,952)	(68,600)	(266,532)
Net carrying amount	976,235	267	668	706	5,759	983,635

At 31 December 2017, the Group's buildings are situated in Mainland China and are held under long term leases except for the buildings with a net book value of RMB899,352,000 (2016: RMB933,981,000) which are held under a medium-term lease.

At 31 December 2017, the property, plant and equipment included in a disposal company (note 33) amounted to RMB31,359,000.

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Year ended 31 December 2017

14. INVESTMENT PROPERTIES

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	**12,976**	13,556
Depreciation	**(580)**	(580)
Carrying amount at 31 December	**12,396**	12,976

The fair value of the Group's investment properties was RMB39,928,000 as at 31 December 2017 (2016: RMB39,455,000), based on valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of professionally qualified valuers, on an open market existing use basis. Each year, the Group's management decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The Group's investment properties are situated in Mainland China under a medium-term lease and are leased to a third party under operating leases (note 34).

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2017 using			
Recurring fair value measurement for:	**Quoted prices in active markets (Level 1) RMB'000**	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Commercial properties	**–**	**–**	**39,928**	**39,928**

	Fair value measurement as at 31 December 2016 using			
Recurring fair value measurement for:	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Commercial properties	–	–	39,455	39,455

During the year, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (2016: Nil).

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Year ended 31 December 2017

14. INVESTMENT PROPERTIES (CONTINUED)

Fair value hierarchy (Continued)

Below is a summary of the valuation technique used and the key inputs to the valuation of investment properties:

	Valuation technique	Significant unobservable inputs	Range or weighted average	
			2017	2016
Commercial properties	Income method	Market monthly rental (RMB) (per square meter)	**11.5 to 12**	12 to 12.6
		Long term vacancy rate	**5%**	5%
		Yield rate	**6.0%**	6.5%

Under the income method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase (decrease) in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the long term vacancy rate and the discount rate in isolation would result in a significant decrease (increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate and an opposite change in the long term vacancy rate.

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15. PREPAID LAND LEASE PAYMENTS

	2017 **RMB'000**	2016 RMB'000
Carrying amount at 1 January	**163,272**	167,430
Amortised during the year	**(4,158)**	(4,158)
Transfer to a disposal company classified as held for sale (note 33)	**(2,008)**	–
Carrying amount at end of the year	**157,106**	163,272
Current portion included in prepayments, deposits and other receivables	**(4,158)**	(4,158)
Non-current portion	**152,948**	159,114

16. GOODWILL

	2017 **RMB'000**	2016 RMB'000
Carrying amount at the beginning of the year and at the end of the year	**15,752**	15,752

The carrying amount of goodwill of the Group arose from the acquisition of the business of Henan Chemical Industry Design Institute during 2007.

Goodwill is mainly attributable to the synergies expected to be achieved from integrating Henan Chemical Industry Design Institute into the Group's EPC business.

The recoverable amount of the goodwill is determined from a value in use calculation using a cash flow forecast based on financial budgets. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenue and direct costs during the year. The directors have estimated the discount rate of 15% (2016: 12%) using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Group. The growth rate of 3% (2016: 3%) is based on industry growth forecasts. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for 2017 and extrapolates cash flows for the following five years based on an estimated average industry growth rate. The rate does not exceed the average long-term growth rate for the relevant markets.

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17. OTHER INTANGIBLE ASSETS

	2017 **RMB'000**	2016 RMB'000
Software		
At 1 January		
Cost	**50,996**	49,238
Accumulated amortisation	**(43,948)**	(38,866)
Net carrying amount	**7,048**	10,372
Cost at 1 January, net of accumulated amortisation	**7,048**	10,372
Additions	**517**	1,758
Amortisation provided during the year	**(3,201)**	(5,082)
At the end of the year, net of accumulated amortisation	**4,364**	7,048
At the end of the year		
Cost	**51,513**	50,996
Accumulated amortisation	**(47,149)**	(43,948)
Net carrying amount	**4,364**	7,048

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18. INVESTMENT IN AN ASSOCIATE

	2017 RMB'000	2016 RMB'000
Share of net assets	**1,278**	2,500

Particulars of the associate is as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
河南創思特工程監理咨詢有限公司 (Henan Chuangsite Supervisory Consulting Co., Ltd. ("Henan Chuangsite"))	Ordinary shares	PRC/Mainland China	30	Supervisory services for construction projects

The Group's shareholding in the associate is held through a subsidiary of the Company.

Henan Chuangsite is not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The following table illustrates the financial information of Henan Chuangsite, the Group's associate that is not material:

	2017 RMB'000	2016 RMB'000
Share of the associate's (loss)/profit for the year	**(1,222)**	463
Share of the associate's other comprehensive income	**–**	–
Share of the associate's total comprehensive (loss)/income	**(1,222)**	463
Aggregate carrying amount of the Group's investment in the associate	**1,278**	2,500

19. INVENTORIES

	2017 RMB'000	2016 RMB'000
Construction materials, net	**24,515**	20,241

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19. INVENTORIES (CONTINUED)

The movements in the provision for inventories are as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	**5,390**	3,142
(Reversal of provision)/provision for the year	**(335)**	2,248
Written off	**(5,055)**	–
At 31 December	**–**	5,390

20. CONSTRUCTION CONTRACTS

	2017 RMB'000	2016 RMB'000 (Restated)
Gross amounts due from contract customers	**2,727,502**	4,465,323
Impairment	**(676,033)**	(676,033)
	2,051,469	3,789,290
Gross amounts due to contract customers	**(398,697)**	(542,208)
	1,652,772	3,247,082

	2017 RMB'000	2016 RMB'000 (Restated)
Contract costs incurred plus recognised profits less recognised losses to date	**22,874,267**	35,106,225
Less: Progress billings	**(21,221,495)**	(31,859,143)
	1,652,772	3,247,082

As at 31 December 2017, included in the amounts due from contract customers was an amount of RMB863,169,000 (2016: RMB951,169,000) which related to the Group's certain EPC projects, and has been identified as overdue in accordance with contract terms. The Group has recorded an impairment provision of RMB676,033,000 as of 31 December 2017. The impairment provision as of 31 December 2016 as previously reported was RMB643,629,000 and has been restated to RMB676,033,000 in the current year. The additional provision of RMB32,404,000 has been restated as other expenses for the year ended 31 December 2016.

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21. TRADE RECEIVABLES

	2017 **RMB'000**	2016 RMB'000 (Restated)
Trade receivables	**1,397,730**	186,899
Impairment	**(41,573)**	(41,573)
	1,356,157	145,326

The Group's trading terms with its customers are mainly on credit. Trade receivables are non-interest-bearing and on credit terms of a period of 30 days or the respective retention periods in the contracts. The Group seeks to maintain strict control over its outstanding receivables and minimise credit risk. Overdue balances are reviewed regularly by management.

Trade receivables are unsecured and non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, and net of provision for doubtful debts, is as follows:

	2017 **RMB'000**	2016 RMB'000 (Restated)
Trade receivables:		
Within 1 month	**924,364**	31,328
2 to 12 months	**424,201**	51,895
Over 1 year	**7,592**	62,103
	1,356,157	145,326

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21. TRADE RECEIVABLES (CONTINUED)

The movements in provision for impairment of trade and bills receivables are as follows:

	2017 **RMB'000**	2016 RMB'000 (Restated)
At 1 January	**41,573**	42,338
Amount written off as uncollectible	**–**	(765)
At 31 December	**41,573**	41,573

As at 31 December 2017, included in trade receivables was an amount of RMB41,573,000 (2016: RMB55,937,000) which has been identified as overdue in accordance with contract terms. The Group has recorded an impairment provision of RMB41,573,000 as of 31 December 2017. The impairment provision as of 31 December 2016 for this customer as previously reported was nil and has been restated to RMB41,573,000 in the current year. The restatement has reduced the retained profit as at 1 January 2016 by the same amount.

The individually impaired trade receivables relate to customers that were in default in principal payments and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade receivables that are not considered to be impaired is as follows:

	2017 **RMB'000**	2016 RMB'000 (Restated)
Trade receivables:		
Neither past due nor impaired	**926,364**	33,328
Less than 12 months pass due	**424,201**	51,895
Over 1 year pass due	**5,592**	60,103
	1,356,157	145,326

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Current portion of prepaid land lease payments	**4,158**	4,158
Prepayments	**303,241**	532,462
Deposits	**6,468**	12,257
Other receivables	**22,458**	27,751
	336,325	576,628
Less: Non-current portion of prepayments	**(654)**	(13,996)
	335,671	562,632

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Prepayment for purchase of raw material made to a related company included in the prepayments is as follows:

	2017 RMB'000	2016 RMB'000
江蘇新華化工機械有限公司 (Jiangsu Xinhua Chemical Engineering Co., Ltd. "Jiangsu Xinhua")	**–**	1,368

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23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 RMB'000	2016 RMB'000
Cash and bank balances	**1,339,976**	1,728,058
Time deposits with original maturity of less than three months	**–**	79,745
Time deposits with original maturity of more than three months	**118,446**	–
	1,458,422	1,807,803
Less: Pledged bank balances and time deposits	**(542,269)**	(1,106,803)
Unpledged cash and cash equivalents	**916,153**	701,000

At 31 December 2017, bank balances and time deposits of RMB296,209,000 (2016: RMB1,095,365,000) were placed as guarantee deposits for performance of certain construction contracts and for the tendering process.

At 31 December 2017, bank balances of RMB7,037,000 (2016: RMB11,438,000) were pledged to a bank as security to obtain a letter of credit facility for the purchase of imported equipment.

At 31 December 2017, bank balances and time deposits of RMB180,188,000 (2016: Nil) were pledged as security for bill facilities granted by the banks.

At 31 December 2017, bank balances of RMB58,835,000 (2016: Nil) were pledged to a bank as security for bank loans (note 26).

At 31 December 2017, the cash and bank balances of the Group denominated in RMB amounted to RMB368,735,000 (2016: RMB108,178,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The carrying amounts of cash and cash equivalents and the pledged bank balances and time deposits approximate to their fair values.

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Year ended 31 December 2017

24. TRADE AND BILLS PAYABLES

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

	2017	2016
	RMB'000	RMB'000
Less than 1 year	**2,035,822**	1,392,366
1 to 2 years	**969,286**	1,276,527
2 to 3 years	**192,315**	181,905
Over 3 years	**318,584**	183,663
	3,516,007	3,034,461

The amount due to a related company included in the trade payables is as follows:

	2017	2016
	RMB'000	RMB'000
Jiangsu Xinhua	**1,743**	180

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

25. OTHER PAYABLES, ADVANCES FROM CUSTOMERS AND ACCRUALS

	2017	2016
	RMB'000	RMB'000
Accruals	**88,197**	13,354
Advances from customers	**307,063**	856,265
Other payables	**378,364**	245,253
	773,624	1,114,872

Other payables are unsecured, non-interest-bearing and repayable on demand.

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Year ended 31 December 2017

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2017 **RMB'000**	2016 RMB'000
Current		
Bank loans repayable within one year — secured	**282,332**	426,721
Other loans within one year — unsecured	**31,000**	–
	313,332	426,721

An analysis of foreign currency loans (in original currency) is as follows:

	2017 **US$'000**	2016 US$'000
US$ denominated	**22,250**	25,797
	EUR'000	EUR'000
Euro ("EUR") denominated	**–**	796

The effective interest rates of the Group's bank and other borrowings are as follows:

Year ended 31 December 2016	2.93% to 5.20%
Year ended 31 December 2017	3.25% to 5.66%

Certain of the Group's bank loans are secured by the following assets:

	Note	**2017** **RMB'000**	2016 RMB'000
Bills receivable		**–**	20,000
Bank balances	23	**58,835**	–

Notes to Financial Statements

Year ended 31 December 2017

26. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

During the year ended 31 December 2017, 惠生(中國)投資有限公司 ("Wison (China) Investment"), a fellow subsidiary of the Company, executed guarantees to certain banks for bank facilities granted to the Group of RMB1,000,000,000 (2016: RMB430,000,000). As at 31 December 2017, the loans were drawn down to the extent of RMB227,332,000 (2016: RMB316,954,000)(note 31).

During the year ended 31 December 2016, 惠生(南通)重工有限公司 (Wison (Nantong) Heavy Industry Co., Ltd. ("Wison Nantong") pledged its property, plant, and equipment and land use right and 舟山惠生海洋工程有限公司 (Zhoushan Wison Offshore & Marine Co., Ltd., "Zhoushan Wison"), a fellow subsidiary of the Company, pledged its land use right to execute guarantees for bank facilities of RMB500,000,000 to the Group. As at 31 December 2016, the loans were drawn down to the extent of RMB89,767,000 (note 31).

The carrying amounts of the interest-bearing bank borrowings approximate to their fair values.

27. DEFERRED TAX

The movements in deferred tax assets and deferred tax liabilities during the year are as follows:

Deferred tax assets

	2017 **RMB'000**	2016 RMB'000
At 1 January	**825**	–
Deferred tax credit to the statement of profit or loss during the year (note 10)	**11,161**	825
Gross deferred tax assets at 31 December	**11,986**	825

Deferred tax liabilities

	2017 **RMB'000**	2016 RMB'000 (Restated)
At 1 January	**25,633**	22,451
Deferred tax (credited)/charged to the statement of profit or loss during the year (note 10)	**(7,134)**	3,182
Gross deferred tax liabilities at 31 December	**18,499**	25,633

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Year ended 31 December 2017

27. DEFERRED TAX (CONTINUED)

The Group's deferred tax assets and deferred tax liabilities are attributed to the following items, which are reflected in the statement of financial position:

	2017 **RMB'000**	2016 RMB'000
Deferred tax assets		
Accrual	**11,986**	825

	2017 **RMB'000**	2016 RMB'000 (Restated)
Deferred tax liabilities		
Withholding taxes arising from distributable profits of the PRC subsidiaries	**18,499**	25,633

The Group has accumulated tax losses arising in Hong Kong of approximately RMB29,156,000 (2016: RMB29,046,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has accumulated tax losses arising in Mainland China of approximately RMB29,607,000 (2016: RMB29,059,000) which are available for offsetting against future taxable profits in one to five years. The Group also has accumulated tax losses arising in the United States of approximately RMB3,380,000 (2016: Nil) which are available for offsetting against future taxable profits in one to twenty years.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax assets have not been recognised in respect of the following items:

	2017 **RMB'000**	2016 RMB'000
Deductible temporary differences	**–**	–
Tax losses	**62,143**	58,105
	62,143	58,105

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. At 31 December 2017, there was no significant unrecognised deferred tax liability (2016: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted due to the availability of double taxation relief.

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Year ended 31 December 2017

28. GOVERNMENT GRANTS

	2017 RMB'000	2016 RMB'000
Carrying amount at beginning of the year	**5,144**	5,275
Received during the year	**5,048**	8,864
Released to profit or loss (note 6)	**(5,178)**	(8,995)
Carrying amount at end of the year	**5,014**	5,144

29. SHARE CAPITAL AND RESERVES

(a) Shares

	2017	2016
Number of ordinary shares		
Authorised:		
Ordinary shares of HK$0.1 each	**20,000,000,000**	20,000,000,000
Issued and fully paid:		
Ordinary shares of HK$0.1 each	**4,066,566,200**	4,064,690,400

	2017 RMB'000	2016 RMB'000
Authorised:		
Ordinary shares of HK$0.1 each	**1,622,757**	1,622,757
Issued and fully paid:		
Ordinary shares of HK$0.1 each	**329,968**	329,809

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Year ended 31 December 2017

29. SHARE CAPITAL AND RESERVES (CONTINUED)

(a) Shares (Continued)

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital	Share premium account	Total
		RMB'000	RMB'000	RMB'000
At 1 January 2016	4,064,622,000	329,803	846,077	1,175,880
Share options exercised	68,400	6	173	179
At 31 December 2016	**4,064,690,400**	**329,809**	**846,250**	**1,176,059**
Share options exercised	**1,875,800**	**159**	**4,743**	**4,902**
At 31 December 2017	**4,066,566,200**	**329,968**	**850,993**	**1,180,961**

The subscription rights attaching to 1,875,800 share options were exercised at the subscription price of HK$0.837 per share, resulting in the issue of 1,875,800 shares for a total cash consideration, before expenses, of HK$1,570,000 (equivalent to RMB1,330,000) and a share premium of HK$1,382,000 (equivalent to RMB1,171,000). An amount of RMB3,572,000 was transferred from the share option reserve to share premium account upon the exercise of the share options.

(b) Share premium account

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the constitutional documents and the Companies Law of the Cayman Islands, the share premium is distributable as dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

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Year ended 31 December 2017

29. SHARE CAPITAL AND RESERVES (CONTINUED)

(c) Statutory surplus reserve ("SSR") and expansion reserve

In accordance with the Company Law of the PRC and the articles of association of Wison Engineering, Wison Engineering may make appropriation to its statutory surplus reserve fund and expansion reserve fund as a percentage of its profit after tax. The amount of the appropriation is subject to the approval of the board of directors of Wison Engineering in accordance with the articles of association of Wison Engineering. Subject to certain restrictions set out in the Company Law of the PRC and the articles of association, part of these reserves may be converted to increase the company's registered capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

In accordance with the Company Law of the PRC and the articles of association of Wison Yangzhou, Wison Yangzhou is required to transfer at least 10% of its profit after tax to its statutory surplus reserve fund, until such reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC and the articles of association of Wison Yangzhou, this reserve may be capitalised as the registered capital.

The SSR and the expansion reserve are non-distributable except in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalised as paid-up capital.

(d) Capital reserve

During the year, 3 directors of the Company and 217 employees of the Group were granted share awards in an aggregate of 57,346,800 ordinary shares of the Company by the controlling shareholder of the Company for their services rendered to the Group at a consideration of HK$1.00 which resulted in the deemed contribution of RMB84,936,000 recognised in the capital reserve.

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Year ended 31 December 2017

30. SHARE OPTION SCHEME

Pre-IPO Share Option Scheme

The Company operates a share option scheme prior to the public listing of its shares (the "Pre-IPO Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Pre-IPO Share Option Scheme are the Company's directors, including independent non-executive directors, other employees of the Group, and certain employees, executive and officers of Wison Holding and its subsidiaries. The Pre-IPO Share Option Scheme was conditionally adopted on 30 November 2012 and became effective from 28 December 2012. No further options shall be offered after the listing of the Company but the provisions of the Pre-IPO Share Option Scheme shall in all other respects remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme.

As at 31 December 2017, the maximum number of shares could be issued in respect of the pre-IPO options granted under the Pre-IPO Share Option Scheme was 143,481,800 shares, representing approximately 3.5% of the issued share capital of the Company as at the date of this report. No further options can be granted under the Pre-IPO Share Option Scheme after the listing date of the Company (the "Listing Date").

The offer of a grant of share options may be accepted within 7 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. Pursuant to the Pre-IPO Share Option Scheme, outstanding and unexercised options may be exercisable in tranches during the option period (which shall expire on the last business day of the 96th month after the Listing Date) such that each 20% of such options shall be exercisable at any time on or after the first business day following each of the 36th, 48th, 60th, 72th and 84th month after the Listing Date, respectively.

The exercise price of share options is HK$0.837 per share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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Year ended 31 December 2017

30. SHARE OPTION SCHEME (CONTINUED)

Pre-IPO Share Option Scheme (Continued)

The following share options were outstanding under the Pre-IPO Share Option Scheme during the year:

	2017		2016	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**0.837**	**153,672**	0.837	168,682
Forfeited during the year	**0.837**	**(8,314)**	0.837	(14,942)
Exercised during the year	**0.837**	**(1,876)**	0.837	(68)
At 31 December	**0.837**	**143,482**	0.837	153,672

The weighted average share price at the end of exercise for share options exercised during the year was HK$0.837 per share (2016: HK$0.837).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2017

Number of options	**Exercise price*** HK$ per share	**Exercise period**
28,696,360	0.837	29/12/2015–28/12/2020
28,696,360	0.837	29/12/2016–28/12/2020
28,696,360	0.837	29/12/2017–28/12/2020
28,696,360	0.837	29/12/2018–28/12/2020
28,696,360	0.837	29/12/2019–28/12/2020
143,481,800		

Notes to Financial Statements

Year ended 31 December 2017

30. SHARE OPTION SCHEME (CONTINUED)

Pre-IPO Share Option Scheme (Continued)

2016

Number of options	Exercise price* HK$ per share	Exercise period
30,734,400	0.837	29/12/2015–28/12/2020
30,734,400	0.837	29/12/2016–28/12/2020
30,734,400	0.837	29/12/2017–28/12/2020
30,734,400	0.837	29/12/2018–28/12/2020
30,734,400	0.837	29/12/2019–28/12/2020
153,672,000		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year ended 31 December 2012 was RMB376,883,000 (RMB1.904 each), of which the Group recognised a share option expense of RMB19,423,000 (2016: RMB30,600,000) during the year ended 31 December 2017.

During the year ended 31 December 2017, 8,314,400 of options were forfeited as the employees have terminated their employment and the vesting conditions have not been satisfied. (2016: 14,941,600).

The 1,875,800 share options exercised during the year resulted in the issue of 1,875,800 ordinary shares of the Company and new share capital of HK$188,000 (equivalent to RMB159,000) (before issue expenses). As further detailed in note 29 to the financial statements.

At the end of the reporting period, the Company had 143,481,800 share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 143,481,800 additional ordinary shares of HK$0.1 each of the Company and additional share capital of HK$14,348,000 (equivalent to RMB11,950,000) and share premium of HK$105,746,000 (equivalent to RMB88,076,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 142,763,200 share options outstanding under Pre-IPO Share Option Scheme, and these share options represented approximately 3.5% of the Company's shares in issue as at that date.

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Year ended 31 December 2017

30. SHARE OPTION SCHEME (CONTINUED)

Share Option Scheme

On 30 November 2012, a share option scheme (the "Share Option Scheme") of the Company was approved and adopted by the shareholders of the Company. The Share Option Scheme will remain in force for a period to be notified by the Company's board of directors (the "Board"), such period shall not exceed the period of ten years from the adoption date. Pursuant to the Share Option Scheme, the Board may offer any employee, director, consultant or adviser of the Group (the "Eligible Person") options to subscribe for shares. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company as consideration for the grant.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of our Company shall not exceed 30% of the issued share capital of the Company from time to time. Subject to the above, the Board may grant options under the Share Option Scheme in respect of such number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes in aggregate not exceeding 10% of the issued share capital of the Company as at the date on which dealings in the Company's shares commenced on the main board of the Stock Exchange (the "Scheme Mandate Limit"). Options lapsed in accordance with the Share Option Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit. The Scheme Mandate Limit may be refreshed by obtaining approval of the shareholders of the Company in shareholders' meeting. Unless approved by the shareholders in a general meeting, the total number of shares issued and to be issued upon the exercise of the options granted to each Eligible Person (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the relevant class of securities of the Company in issue.

On 14 November 2017, options involving 134,200,000 shares were granted to three independent non-executive directors of the Company and 114 employees of the Group under the Share Option Scheme entitling the grantees to subscribe for a total of 134,200,000 shares at an exercise price of HK$1.744 per share. Subject to the satisfaction of certain performance targets by the relevant grantees of the options for the year immediately preceding each vesting date, 25% of such options shall be vested and become exercisable on the trading day immediately following each of the 12th, 24th, 36th and 48th month after the date of grant. Vested options shall be exercisable until the expiry of a five-year period from the date of grant, being 13 November 2022.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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Year ended 31 December 2017

30. SHARE OPTION SCHEME (CONTINUED)

Share Option Scheme (Continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2017

Number of options	Exercise price* HK$ per share	Exercise period
33,550,000	1.744	14/11/2018–13/11/2022
33,550,000	1.744	14/11/2019–13/11/2022
33,550,000	1.744	14/11/2020–13/11/2022
33,550,000	1.744	14/11/2021–13/11/2022
134,200,000		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year ended 31 December 2017 was approximately RMB125,090,000, of which the Group recognised a share option expense of RMB6,779,000 during the year ended 31 December 2017.

The fair value of the share options granted during the year was estimated at the date of grant, 14 November 2017, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists out inputs used in the model:

2017

	2017
Dividend yield (%)	0.00
Expected volatility (%)	74.23
Historical volatility (%)	74.23
Risk-free interest rate (%)	1.41
Expected life of options (year)	5
Weighted average share price (RMB per share)	1.87

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

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Year ended 31 December 2017

30. SHARE OPTION SCHEME (CONTINUED)

Share Option Scheme (Continued)

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 134,200,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 134,200,000 additional ordinary shares of HK$0.1 each of the Company and additional share capital of HK$13,420,000 (equivalent to RMB11,178,000) and share premium of HK$220,625,000 (equivalent to RMB183,758,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 134,200,000 share options outstanding under Share Option Scheme, represented approximately 3.3% of the Company's shares in issue as at that date.

31. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

	Notes	**2017** **RMB'000**	2016 RMB'000
Related companies:			
Purchase of products	(a)(i)	**5,008**	2,553
Rental income	(a)(ii)	**201**	730
Rendering of services	(a)(ii)	**33**	132
Fellow subsidiaries:			
Rental income	(a)(iii), (a)(iv)	**7,876**	8,419
Rendering of services	(a)(iii), (a)(iv)	**1,339**	1,496
Services received	(a)(x)	**47,029**	–

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Year ended 31 December 2017

31. RELATED PARTY TRANSACTIONS (CONTINUED)

Name of the related party	Relationship
Jiangsu Xinhua	Chinese joint venture partner of Wison Engineering
上海新華通訊技術有限公司 (Shanghai Xinhua Telecommunication Technology Company Limited ("Xinhua Telecommunication"), formerly known as 上海惠生通訊技術有限公司)	Subsidiary of Jiangsu Xinhua
Wison Holding	Wholly-owned by Mr. Hua Bangsong (the controlling shareholder of the Company) and the ultimate holding company of the Company
Wison Nantong	Indirectly wholly-owned by Wison Holding and is a fellow subsidiary of the Company
Wison (China) Investment	Indirectly wholly-owned by Wison Holding and is a fellow subsidiary of the Company
Zhoushan Wison	Indirectly wholly-owned by Wison Holding and is a fellow subsidiary of the Company

Notes:

(a)(i) The Group and Jiangsu Xinhua entered into a renewed framework agreement effective on 25 April 2017 based on the framework agreement entered into between the Group and Jiangsu Xinhua on 26 March 2014 for a term of three years whereby the Group will purchase anchor, refractory support plunge hook and other ancillary accessories from Jiangsu Xinhua. Under the Renewed Framework Agreement, the annual consideration payable by Wison Engineering to Jiangsu Xinhua for the years ended 31 December 2017 and the years ending 2018 and 2019 will not be more than RMB12,000,000. During the year ended 31 December 2017, the Group's purchases of heat-resistant alloy pipes and other ancillary accessories from Jiangsu Xinhua amounted to RMB5,008,000 (2016: RMB2,553,000). The purchases were made by reference to the published prices and conditions offered by Jiangsu Xinhua to its customers. The prepayments and trade payables relating to Jiangsu Xinhua are set out in notes 22 and 24.

(a)(ii) On 12 December 2013, the Group and Xinhua Telecommunication entered into a lease agreement, pursuant to which the Group leased out office space in its office building to Xinhua Telecommunication for RMB730,000 per annum for a three-year period commencing from 1 January 2014.

On 12 December 2013, the Group and Xinhua Telecommunication entered into a property management services agreement, pursuant to which the Group would provide property management services in relation to the premises leased to Xinhua Telecommunication for RMB132,000 per annum for a three-year period commencing from 1 January 2014.

On 19 December 2016, the Group and Xinhua Telecommunication have renewed the aforementioned lease agreement and property management services agreement. The rental has been increased to RMB803,000 per annum and the property service fee is kept at RMB132,000 per annum. Each of the renewed lease agreement and property management services agreement shall be for a 24-month period commencing from 1 January 2017. On 28 March 2017, the Group and Xinhua Telecommunication entered into a lease termination agreement to terminate the above lease agreement and property management services agreement dated 19 December 2016 from 1 April 2017.

The rental income and service income for the year ended 31 December 2017 from Xinhua Telecommunication amounted to RMB201,000 (2016: RMB730,000) and RMB33,000 (2016: RMB132,000), respectively.

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Year ended 31 December 2017

31. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes: (Continued)

(a)(iii) On 12 December 2013, the Group and Wison Nantong entered into a lease agreement, pursuant to which the Group leased out office space in its office building to Wison Nantong for RMB10,220,000 per annum for a three-year period commencing from 1 January 2014.

On 12 December 2013, the Group and Wison Nantong entered into a property management services agreement, pursuant to which the Group would provide property management services in relation to the premises leased to Wison Nantong for RMB1,848,000 per annum, for a three-year period commencing from 1 January 2014.

On 27 August 2015, the Group entered into a supplemental agreement with Wison Nantong to amend certain terms of the previous lease agreement and property management services agreement dated 12 December 2013 which was effective from 1 September 2015. The rental has been adjusted proportionally from RMB10,220,000 per annum to RMB5,840,000 per annum and the property management services fee has been adjusted proportionally from RMB1,848,000 per annum to RMB1,056,000 per annum by reference to the size of the reduced gross floor area of the subject premises.

On 24 August 2016, the Group entered into a new lease agreement with Wison Nantong for RMB4,818,000 per annum for a 28-month period commencing from 1 September 2016 by reference to the size of the reduced gross floor area of the subject premises. The lease agreement dated 12 December 2013 and the supplemental agreement dated 27 August 2015 have been terminated accordingly. On the same date, the Group entered into a new property management services agreement with Wison Nantong for RMB792,000 per annum for a 28-month period commencing from 1 September 2016 by reference to the size of the reduced gross floor area of the subject premises. The property management agreement dated 12 December 2013 and the supplemental agreement dated 27 August 2015 have been terminated accordingly.

On 24 March 2017, the Group entered into supplemental agreements with Wison Nantong to amend certain terms of the previous lease agreement and property management services agreement both dated 24 August 2016, effective from 1 April 2017. The rental has been adjusted proportionally from RMB4,818,000 per annum to RMB4,015,000 per annum, the property management services fee has been adjusted proportionally from RMB792,000 per annum to RMB690,000 per annum and the electricity fee has been adjusted to RMB36,000 per annum by reference to the size of the reduced gross floor area of the subject premises.

The rental income and services income for the year ended 31 December 2017 from Wison Nantong amounted to RMB4,216,000 (2016: RMB5,499,000) and RMB716,000 (2016: RMB968,000), respectively.

(a)(iv) On 12 December 2013, the Group and Wison (China) Investment entered into a lease agreement, pursuant to which the Group leased out office space in its office building to Wison (China) Investment for RMB2,920,000 per annum for a three-year period commencing from 1 January 2014.

On 12 December 2013, the Group and Wison (China) Investment entered into a property management services agreement, pursuant to which the Group would provide property management services in relation to the premises leased to Wison (China) Investment for RMB528,000 per annum, for a three-year period commencing from 1 January 2014.

On 19 December 2016, the Group and Wison (China) Investment entered into a new lease agreement, pursuant to which the Group leased out office space in its office building to Wison (China) Investment for RMB3,212,000 per annum for a two-year period commencing from 1 January 2017. On the same date, the Group and Wison (China) Investment entered into a new property management services agreement, pursuant to which the Group would provide property management services in relation to the premises leased to Wison (China) Investment for RMB528,000 per annum for a two-year period commencing from 1 January 2017.

On 24 March 2017, the Group entered into supplemental agreements with Wison (China) Investment to amend certain terms of the previous lease agreement and property management services agreement both dated 19 December 2016 , effective from 1 April 2017. The rental has been adjusted proportionally from RMB3,212,000 per annum to RMB3,809,000 per annum, the property management services fee has been adjusted proportionally from RMB528,000 per annum to RMB655,000 per annum and the electricity fee has been adjusted to RMB36,000 per annum, by reference to the size of the increased gross floor area of the subject premises.

The rental income and service income for the year ended 31 December 2017 from Wison (China) Investment amounted to RMB3,660,000 (2016: RMB2,920,000) and RMB623,000 (2016: RMB528,000), respectively.

Notes to Financial Statements

Year ended 31 December 2017

31. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes: (Continued)

(a)(v) Wison Holding, as licensor, entered into three trademark licensing agreements with the Group to grant the rights to use the trademarks on a perpetual and non-exclusive basis for nil consideration during the years ended 31 December 2016 and 2017.

(a)(vi) During the year ended 31 December 2017, Wison (China) Investment executed guarantees to certain banks for bank facilities to the Group of RMB1,000,000,000 (2016: RMB430,000,000) at nil consideration. As at 31 December 2017, the loans were drawn down to the extent of RMB227,332,000 (2016: RMB316,954,000) (note 26).

(a)(vii) During the year ended 31 December 2016, Wison Nantong pledged its property, plant, and equipment and land use right and Zhoushan Wison pledged its land use right to execute guarantees for bank facilities of RMB500,000,000 to the Group. As at 31 December 2016, the loans were drawn down to the extent of RMB89,767,000 (note 26).

(a)(viii) On 30 November 2012, Wison Holding and the Company entered into a domain name licence agreement (the "Domain Name Licence Agreement") in respect of the right to use the domain name "wison-engineering.com" registered under the name of Wison Holding (the "Domain Name"). Pursuant to the Domain Name Licence Agreement, Wison Holding has agreed to grant the Company, and the Company has accepted, a royalty-free licence to use the Domain Name on an exclusive basis at nil consideration. The Domain Name Licence Agreement is for a perpetual term and may be terminated in certain circumstances, such as if Wison Holding ceases to be a shareholder of the Company.

(a)(ix) On May 11, 2017, Wison Engineering and Wison Nantong entered into a processing and assembling contract, pursuant to which Wison Engineering engaged Wison Nantong to process and assemble the piping prefabrication parts in the PRC for a project of the Group at the contract price of RMB13,500,000. The relevant transaction amount incurred during the year ended 31 December 2017 was nil.

(a)(x) On 13 June 2017, Wison Engineering and Wison Nantong entered into the prefabrication and supply contract, pursuant to which the Group engaged Wison Nantong to design the structure, procure paint materials, prefabricate and assemble certain chemical equipment modules for a project of the Group in the PRC at a total contract price of RMB102,860,000. The relevant transaction amount incurred during the year ended 31 December 2017 amounted to RMB47,029,000.

(a)(xi) On 22 August 2017, Wison Petrochemicals (NA), LLC and Wison Nantong entered into the piperack module fabrication contract, pursuant to which the Group engaged Wison Nantong to supply piperack modules for its construction project in Texas, the United States of America, at a total contract price of US$7,375,772. The relevant transaction amount incurred during the year ended 31 December 2017 was nil.

(a)(xii) On 26 June 2017, Wison (China) Investment has issued a letter of comfort for which Wison (China) Investment agreed to provide continuing financial support to the Company for a period of at least 18 months from 1 July 2017 in order to enable the Company to continue its operations in the ordinary course of business and to meet its obligations for nil consideration.

In the opinion of the directors of the Company, the transactions between the Group and Jiangsu Xinhua, Xinhua Telecommunication, Wison Nantong, Wison Holding, Zhoushan Wison and Wison (China) Investment, were conducted based on mutually agreed terms.

Notes to Financial Statements

Year ended 31 December 2017

31. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes: (Continued)

(b) Balances with related parties:

	2017 RMB'000	2016 RMB'000
Due from a related company:		
Xinhua Telecommunication	–	256
Due from fellow subsidiaries:		
Wison Nantong	**34,277**	3,355
Wison (China) Investment	–	1,022
	34,277	4,377
Due to an associate:		
Henan Chuangsite	**630**	630

The balances with the ultimate holding company, fellow subsidiaries, an associate and related companies are unsecured, interest-free and repayable on demand. The carrying amounts of the balances with the related parties approximate to their fair values.

(c) Compensation of key management personnel of the Group:

	2017 RMB'000	2016 RMB'000
Short term employee benefits	**5,078**	16,742
Equity-settled share option expenses and equity-settled share-based payment expenses	**7,853**	5,463
Total compensation paid to key management personnel	**12,931**	22,205

Further details of directors' and chief executive's emoluments are included in note 9 to the financial statements.

Notes to Financial Statements

Year ended 31 December 2017

32. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

Wison Engineering:

	2017	2016
Percentage of equity interest held by non-controlling interests	**25%**	25%

	2017 **RMB'000**	2016 RMB'000 (Restated)
Profit for the year allocated to non-controlling interests	**27,413**	7,216
Accumulated balances of non-controlling interests at the reporting dates	**176,358**	195,093

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

	2017 **RMB'000**	2016 RMB'000 (Restated)
Revenue	**3,934,879**	3,004,067
Total expenses	**(3,660,751)**	(2,931,909)
Profit for the year	**274,128**	72,158
Total comprehensive income for the year	**239,797**	94,367
Current assets	**6,323,030**	6,433,720
Non-current assets	**1,103,383**	1,147,019
Current liabilities	**(6,445,975)**	(6,412,808)
Non-current liabilities	**(5,014)**	(5,144)
Net cash flows from/(used in) operating activities	**586,786**	(1,055,428)
Net cash flows (used in)/from investing activities	**(3,339)**	335,403
Net cash flows (used in)/from in financing activities	**(415,843)**	185,918
Net increase/(decrease) in cash and cash equivalents	**167,604**	(534,107)

Notes to Financial Statements

Year ended 31 December 2017

33. A DISPOSAL COMPANY CLASSIFIED AS HELD FOR SALE

On 28 December 2017, Wison Energy (HK) entered into a share transfer agreement with a third party to dispose of its 100% share of Wison Yangzhou for a consideration of RMB86,070,000. The share transfer is completed subsequently on 6 February 2018. As at 31 December 2017, Wison Yangzhou was classified as a disposal company held for sale. The major classes of assets and liabilities of Wison Yangzhou classified as held for sale as at 31 December are as follows:

	2017 RMB'000	2016 RMB'000
Assets		
Property, plant and equipment	**31,359**	–
Prepaid land lease payments	**2,008**	–
Other receivables	**7**	–
Assets classified as held for sale	**33,374**	–
Liabilities		
Trade payables	**22**	–
Other payables and accruals	**6,534**	–
Liabilities directly associated with the assets classified as held for sale	**6,556**	–
Net assets directly associated with the disposal company	**26,818**	–

34. OPERATING LEASE ARRANGEMENTS

As lessor

The Group leases its properties under operating lease arrangements, with leases negotiated for terms ranging from two to ten years.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	**53,017**	42,016
In the second to fifth years, inclusive	**36,459**	48,851
After five years	**24**	49
	89,500	90,916

Notes to Financial Statements

Year ended 31 December 2017

34. OPERATING LEASE ARRANGEMENTS (CONTINUED)

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	11,068	8,172
In the second to fifth years, inclusive	12,420	2,288
	23,488	10,460

35. CONTINGENT LIABILITIES

On 20 November 2008, Wison Technology entered into an agreement with Wison Energy (HK) to transfer its entire 75% equity interest in Wison Engineering to Wison Energy (HK). This equity transfer was approved by the Shanghai Commerce Bureau on 25 December 2008 and was registered with the Shanghai Administration for Industry and Commerce on 29 December 2008. On 14 May 2010, Wison Technology entered into a supplementary agreement with Wison Energy (HK), pursuant to which Wison Technology and Wison Energy (HK) agreed that the purchase price would be settled in full via the issuance of one share in Wison Energy (HK) to Wison Technology.

On 20 November 2008, Wison Technology entered into an agreement with Wison Energy (HK) to transfer its entire 100% equity interest in Wison Yangzhou to Wison Energy (HK). This equity transfer was approved by the Yangzhou Foreign Trade and Economic Cooperation Bureau on 3 December 2008 and was registered with the Jiangsu Administration for Industry and Commerce on 17 December 2008. On 14 May 2010, Wison Technology entered into a supplementary agreement with Wison Energy (HK), pursuant to which Wison Technology and Wison Energy (HK) agreed that the purchase price would be settled in full via the issuance of one share in Wison Energy (HK) to Wison Technology.

According to the PRC tax rules, Wison Technology is subject to PRC income tax on such equity transfers and will be exempted from the PRC income tax if these equity transfers fulfil the criteria as laid down in Article 5 of the Ministry of Finance/State Administration of Taxation Circular of Caishui [2009] No. 59 titled "Circular on Certain Issues Regarding Corporate Income Tax Treatments for Business Reorganisation of Enterprises" (關於企業重組業務企業所得稅處理若干問題的通知) (hereinafter referred to as "Circular No. 59") and the equity transfers qualified for the special tax treatment as stipulated in Circular No. 59. Pursuant to the State Administration of Taxation Circular of Guoshuihan [2009] No. 698 titled "Circular on Strengthening the Corporate Income Tax Administration on Non-Resident Enterprise's Gain on Equity Transfer" (關於加強非居民企業股權轉讓所得企業所得稅管理的通知), the qualification of the special tax restructuring treatment of a non-resident enterprise needs to be assessed and recognised by the provincial tax authority.

Notes to Financial Statements

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35. CONTINGENT LIABILITIES (CONTINUED)

In 2010, the Group submitted its application for the above equity transfer transactions to qualify for the special tax treatment under Circular No. 59 to the relevant tax bureau. To the date of approval of these financial statements, the relevant tax bureau has not reverted on this application. In December 2011, the Group computed the tax liability in relation to the transfer of equity interests in Wison Engineering based on the relevant PRC tax regulations and submitted a payment of RMB10.4 million to the relevant tax bureau. In prior years, the Group assessed and computed the tax liability in relation to the transfer of equity interests in Wison Yangzhou based on the relevant PRC tax regulations and made a provision of RMB4.4 million accordingly which has been considered by the Company's directors to be adequate. Such provision remained unsettled as at 31 December 2017. In the opinion of the directors of the Company, the PRC tax authorities may not accept the Group's application and the Group may fail to obtain the preferential tax treatment under Circular No.59. and this could result in additional tax to be paid.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the reporting period are as follows:

31 December 2017

Financial assets

	2017 **RMB'000**	2016 RMB'000 (Restated)
Loans and receivables		
Trade receivables	**1,356,157**	145,326
Bills receivable	**1,202,274**	194,914
Financial assets included in prepayments, deposits and other receivables (note 22)	**28,926**	40,008
Due from fellow subsidiaries	**34,277**	4,377
Due from a related company	**–**	256
Pledged bank balances and time deposits	**542,269**	1,106,803
Cash and bank balances	**916,153**	701,000
	4,080,056	2,192,684

Notes to Financial Statements

Year ended 31 December 2017

36. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial liabilities

	2017 RMB'000	2016 RMB'000
Financial liabilities at amortised cost		
Trade and bills payables	**3,516,007**	3,034,461
Financial liabilities included in other payables, advances from customers and accruals (note 25)	**79,451**	90,498
Due to an associate	**630**	630
Dividends payable	**81,984**	272,674
Interest-bearing bank borrowings	**313,332**	426,721
	3,991,404	3,824,984

Transferred financial assets that are not derecognised in their entirety

At 31 December 2017, Wison Engineering endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB568,170,000 (2016: RMB2,600,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year ended 31 December 2017 to which the suppliers have recourse was RMB568,170,000 (2016: RMB2,600,000) as at 31 December 2017.

Transferred financial assets that are derecognised in their entirety

At 31 December 2017, Wison Engineering endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB252,557,000 (2016: RMB193,600,000). The Derecognised Bills had a maturity of six to twelve months at 31 December 2017. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2017, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

Notes to Financial Statements

Year ended 31 December 2017

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash balances, pledged bank balances and time deposits, an amount due from a related company, amounts due from fellow subsidiaries, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables, advances from customers and accruals, interest-bearing bank borrowings, dividends payable and an amount due to an associate approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the board of directors of the Company. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the board of directors. The valuation process and results are discussed with the board of directors twice a year for interim and annual financial reporting.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments consist mainly of cash and bank balances, pledged bank balances and time deposits, an amount due from related companies, amounts due from fellow subsidiaries, an amount due to an associate and interest-bearing bank and other borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables, trade and bills payables and other payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments should be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces conservative strategies on its risk management. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

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Year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Interest rate risk

The Group's exposure to risk for changes in market interest rates relates primarily to the Group's bank and other borrowings set out in note 26. The Group does not use derivative financial instruments to hedge interest rate risk. The Group manages its interest cost using a mix of variable rate bank and other borrowings.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax RMB'000**
Year ended 31 December 2017		
— US$ denominated loans	**20**	**(291)**
— US$ denominated loans	**(20)**	**291**

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
Year ended 31 December 2016		
— RMB denominated loans	20	(484)
— RMB denominated loans	(20)	484
— US$ denominated loans	20	(358)
— US$ denominated loans	(20)	358
— EUR denominated loans	20	(12)
— EUR denominated loans	(20)	12

Notes to Financial Statements

Year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Foreign currency risk

As a result of the foreign currency bank balances and bank borrowings, the Group's statement of financial position can be affected significantly by movements in the exchange rates of US$, HK$, Arab Emir Dirham ("AED"), Venezuelan Bolivar ("VEF") and Saudi Riyal ("SAR") against RMB.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rates of US$/HK$/SAR/VEF against RMB, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of US$/HK$/SAR/VEF/AED).

	Increase/ (decrease) in rate %	Increase/ (decrease) in profit before tax RMB'000
Year ended 31 December 2017		
If the RMB weakens against the US$	5	54,555
If the RMB strengthens against the US$	5	(54,555)
If the RMB weakens against the HK$	5	246
If the RMB strengthens against the HK$	5	(246)
If the RMB weakens against the AED	5	275
If the RMB strengthens against the AED	5	(275)
Year ended 31 December 2016		
If the RMB weakens against the US$	5	75,672
If the RMB strengthens against the US$	5	(75,672)
If the RMB weakens against the SAR	5	1,419
If the RMB strengthens against the SAR	5	(1,419)
If the RMB weakens against the HK$	5	242
If the RMB strengthens against the HK$	5	(242)
If the RMB weakens against the VEF	5	13
If the RMB strengthens against the VEF	5	(13)

Notes to Financial Statements

Year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Credit risk

The Group's bank balances are maintained mainly with state-owned banks in Mainland China.

The carrying amounts of the trade and bills receivables, other receivables, an amount due from a related company and amounts due from fellow subsidiaries included in the financial statements represent the Group's maximum exposure to credit risk in relation to the Group's financial assets. No other financial assets carry a significant exposure to credit risk.

The credit risk of the Group's financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amount of their instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. The Group has a concentrate of credit risk on the trade receivables which due from few major customers. The Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment loss are made for irrecoverable amounts, if any. Management considers the credit risk exposure is limited.

The Group performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers.

(d) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings, trade and bills payables, other payables and accruals, dividends payable and an amount due to an associate. Cash flows are closely monitored on an ongoing basis.

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Year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on contractual undiscounted payments, is as follows:

Group

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
31 December 2017					
Interest-bearing bank and other borrowings	**–**	**240,493**	**74,544**	**–**	**315,037**
Trade and bills payables	**–**	**3,516,007**	**–**	**–**	**3,516,007**
Other payables and accruals	**–**	**79,451**	**–**	**–**	**79,451**
Due to an associate	**630**	**–**	**–**	**–**	**630**
Dividends payable	**81,984**	**–**	**–**	**–**	**81,984**

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
31 December 2016					
Interest-bearing bank and other borrowings	–	209,875	222,078	–	431,953
Trade and bills payables	–	3,034,461	–	–	3,034,461
Other payables and accruals	–	90,498	–	–	90,498
Due to an associate	630	–	–	–	630
Dividends payable	272,674	–	–	–	272,674

Notes to Financial Statements

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(e) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to equity holders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

The Group monitors capital using a gearing ratio, which is total debt divided by total equity. Total debt includes interest-bearing bank and other borrowings. The gearing ratios as at the end of the reporting periods were as follows:

	2017 **RMB'000**	2016 RMB'000 (Restated)
Interest-bearing bank and other borrowings	**313,332**	426,721
Total debt	**313,332**	426,721
Total equity	**2,359,382**	2,157,462
Gearing ratio	**13%**	20%

39. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interests-bearing Bank and other borrowing **RMB'000**	**Dividends payable** **RMB'000**
At 1 January 2017	**426,721**	**272,674**
Changes from financing cash flows	**(106,198)**	**(233,405)**
Dividends declared to non-controlling interest	**–**	**42,715**
Foreign exchange movement	**(7,191)**	**–**
At 31 December 2017	**313,332**	**81,984**

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40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 **RMB'000**	2016 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**1**	1
Total non-current assets	**1**	1
CURRENT ASSETS		
Due from subsidiaries	**938,672**	962,828
Other receivables and prepayments	**910**	746
Dividends receivables	**438,609**	696,609
Cash and cash equivalents	**4,399**	5,211
Total current assets	**1,382,590**	1,665,394
CURRENT LIABILITIES		
Other payables and accruals	**3,509**	3,432
Due to subsidiaries	**30,330**	30,110
Dividends payable	**–**	233,406
Total current liabilities	**33,839**	266,948
NET CURRENT ASSETS	**1,348,751**	1,398,446
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,348,752**	1,398,447
NET ASSETS	**1,348,752**	1,398,447
EQUITY		
Share capital	**329,968**	329,809
Reserves (Note)	**1,018,784**	1,068,638
TOTAL EQUITY	**1,348,752**	1,398,447

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Year ended 31 December 2017

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share option reserve RMB'000	Share premium RMB'000	Capital reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 31 December 2015 and 1 January 2016	212,349	846,077	–	3,632	1,062,058
Net loss and total comprehensive expense for the year	–	–	–	(24,062)	(24,062)
Exercise of share options	(131)	173	–	–	42
Equity-settled share option arrangements	30,600	–	–	–	30,600
At 31 December 2016 and 1 January 2017	**242,818**	**846,250**	**–**	**(20,430)**	**1,068,638**
Net loss and total comprehensive expense for the year	**–**	**–**	**–**	**(162,164)**	**(162,164)**
Exercise of share options	**(3,572)**	**4,743**	**–**	**–**	**1,171**
Deemed contribution from the controlling shareholder	**–**	**–**	**84,936**	**–**	**84,936**
Equity-settled share option arrangements	**26,203**	**–**	**–**	**–**	**26,203**
At 31 December 2017	**265,449**	**850,993**	**84,936**	**(182,594)**	**1,018,784**

The share option reserve represents the fair value of share options granted which are yet not be exercised, as further explained in the accounting policy for share based payment in note 3 to the financial statements. The amount will either be transferred to the share premium amount when related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018.