A New Voyage ,
A Tech-Driven Venture

2018 Annual Report

Wison Engineering Services Co. Ltd.

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

wison

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Corporate Information

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

633 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

* Appointed on 5 February 2018

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

Principal Banks

China CITIC Bank Corporation Limited
Bank of Communications Co., Ltd.
Bank of China Limited
China Minsheng Banking Corp., Ltd.
East West Bancorp, Inc
Industrial and Commercial Bank of China
Shanghai Pudong Development Bank

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

Financial Summary

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Restated)		(Restated)
Results					
Revenue	**3,256,478**	4,124,790	3,041,877	5,413,531	6,992,113
Gross profit	**498,872**	861,158	931,233	816,880	792,188
Profit before tax	**72,739**	229,124	121,217	311,007	225,857
Income tax	**(12,786)**	(63,405)	(98,822)	(72,491)	(54,903)
Profit for the year	**59,953**	165,719	22,395	238,516	170,954
Attributable to:					
Owners of the parent	**56,301**	138,306	15,179	205,106	143,455
Non-controlling interests	**3,652**	27,413	7,216	33,410	27,499
Earnings per share					
– Basic and diluted	**RMB0.01**	RMB0.03	RMB0.00	RMB0.05	RMB0.04

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Restated)	(Restated)	(Restated)
Assets and liabilities					
Non-current assets	**1,131,114**	1,116,712	1,195,846	1,361,318	1,816,312
Current assets	**4,618,231**	6,496,159	6,524,839	7,764,021	6,881,895
Current liabilities	**3,988,387**	5,229,976	5,532,446	7,014,353	6,928,877
Net current assets/(liabilities)	**629,844**	1,266,183	992,393	749,668	(46,982)
Total assets less current liabilities	**1,760,958**	2,382,895	2,188,239	2,110,986	1,769,330
Non-current liabilities	**11,139**	23,513	30,777	27,726	23,715
Net assets	**1,749,819**	2,359,382	2,157,462	2,083,260	1,745,615
Share capital	**330,299**	329,968	329,809	329,803	329,803
Reserves	**1,419,520**	1,853,056	1,632,560	1,565,580	1,301,345
Non-controlling interests	**–**	176,358	195,093	187,877	114,467
Total equity	**1,749,819**	2,359,382	2,157,462	2,083,260	1,745,615

Business Overview

Business Overview

Overall Review

In 2018, Wison Engineering Services Co. Ltd. (the "Company", together with its subsidiaries, the "Group") brought out the Group's internal philosophy of "A New Voyage, A New Venture" to focus efforts to pursue entrepreneurship. In spite of various external challenges and changes, the Group was dedicated and determined to becoming a leading and renowned energy and chemical technology engineering solutions provider in Mainland China and international markets.

Taking full advantage of the flexibility of the operating mechanism of a private enterprise, the Group fully grasped the opportunity of rising international oil prices and increasing investment sentiment for fixed asset in the industry, and expanded into domestic and overseas markets in line with the international development strategy in all aspects in 2018. Meanwhile, the Group continued to increase strategic investments in refined project management, value creation by digitalization and modularization, and technology research and development to continuously consolidate our core competitive advantages. Leveraging on its technological advantage and outstanding execution ability, the Group achieved fruitful results and speeded up its pace towards to a new stage of development. During the Period under Review, the total new contract value secured by the Group amounted to approximately RMB7,167.5 million (net of estimated value added tax), representing a year-on-year increase of 129.8%. As at 31 December 2018, total backlog value was approximately RMB13,199.1 million (net of estimated value added tax), representing a significant increase compared to the same period in 2017.

Market Environment

The Group's business is closely related to the capital expenditure and operating expenses of the industry and its customers. Therefore, the external changes of the environment such as the macroeconomic conditions, the trends of energy prices such as oil and coal, and technological innovation and advancement will have an impact on the Group's market environment.

In 2018, the world economy sustained moderate growth, but the momentum has slowed down. According to the forecast of the International Monetary Fund, the world GDP growth rate in 2018 was basically the same as that in 2017. Except for the growth rate of a few economies, such as the United States, which continued to rise, the economic growth rate of most of the other economies has declined.

During the period, the order of international energy underwent extensive correction, oil prices fluctuated sharply, the process of light and diversified chemical materials accelerated, and clean energy continued to grow strongly. The development of the global fossil fuels, especially energy utilization, has entered into a stage of in-depth optimization and adjustments.

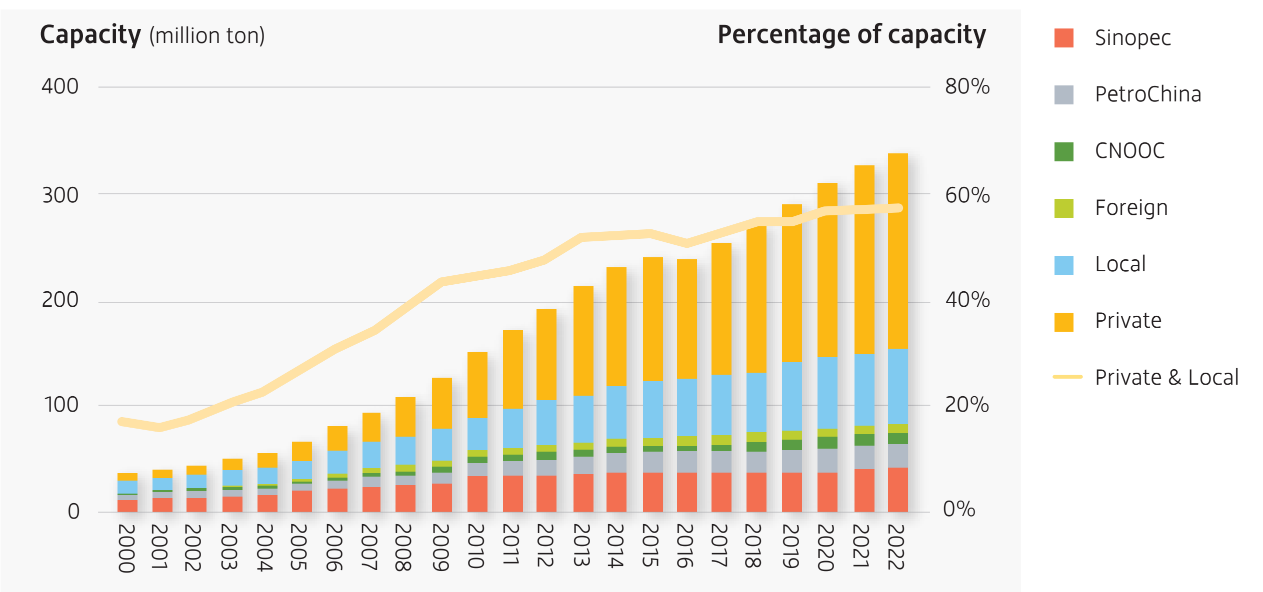
Despite of experiencing a high level of volatility during the period, the recovery momentum of energy prices (represented by international oil prices) has persisted since the lowest peak in 2015. The Group's customers continued to invest in the development of downstream high-value chemical products to improve profitability and flatten out fluctuations of the operating revenue.

Driven by the increased energy efficiency and increased supply of new energy, the application of traditional fossil fuels such as oil and coal are gradually declining. On the other hand, the application of chemical raw materials are gradually increasing. In addition to traditional crude oil and coal, the global supply of low-carbon hydrocarbon fuels such as natural gas, ethane and propane has also greatly enriched the diversified development of sources of chemical raw materials and further reduced the global dependence on crude oil.

In the field of clean energy, the governments have been increasing efforts in the development of clean energy. As emerging new energy has gained popularity in energy market, the growth of gasoline and diesel has shown signs of slowing down. With the enhanced global awareness of energy conservation and environmental protection, the momentum for the rapid growth of clean energy utilization and environmental engineering market will continue.

The Asian market led by Mainland China continued to demonstrate strong demand and vitality. The global energy and chemical market has been shifting to the Asia-Pacific region, leading Mainland China to become the main investment destination for global energy and chemical investment. As the recovery momentum of the energy and chemical industry, which is mainly based on petrochemicals and coal-to-chemicals industry, has persisted since the second half of last year, the growth of investment in energy and chemical industry will sustain. On the other hand, the investment proportion of private enterprises in the energy and chemical industry has increased rapidly and this became the main driving force for industry growth.

Capacity Comparison between SOEs and Private Enterprises



Product: Olefin, PX, BZ, PTA, MEOH, MEG, Caustic, Soda ash

Source: Prepared and edited by Wison Engineering in accordance with the "Development Planning of Petrochemical and Chemical Industry (《石化和化學工業發展規劃》) (2016-2020)" and the "Thirteenth Five-Year Plan" across the petrochemical industry in different regions

In the international market, the energy and chemical industry was in the stage of recovery in general, and capital expenditures were expanding. At the same time, the trends in different regions and markets varied from one another. The Chinese enterprises also actively responded to the "Belt and Road" initiative and efforts were made on deploying the layout of overseas markets, and Mainland China has become an important driving force for the global energy development.

The Middle East market will continue to increase its investment in the downstream chemical market to reduce the reliance on crude oil extraction and export, and to further extend the crude oil industry chain and enhance the value of utilization. This will provide more market opportunities for refining and chemical engineering as well as downstream extension of chemical engineering. In consideration of abundant supply of shale oil and gas, the production cost of petrochemical products has significantly decreased in the United States. Coupled with the implementation of the tax reduction bill, capital was drawn to the United States to invest in basic chemicals. During the period, the Group also participated in the proposal for the FEED (front-end engineering design) and turnkey contracts of several large-scale projects. The economic growth sustained in Southeast Asia, and investment in the energy and chemical industry has also maintained steady growth. The Group will continue to pay attention to refinery and petrochemical, LNG terminal and coal/gas power generation projects. With abundant oil and natural gas resources and close regional ties between Russia and Central Asia, many new business opportunities arise in the petrochemical engineering sector. The African region is rich in resources with large population and broad market prospects, and has great growth potential in the markets of energy infrastructure and engineering work for fertilizers and downstream chemicals.

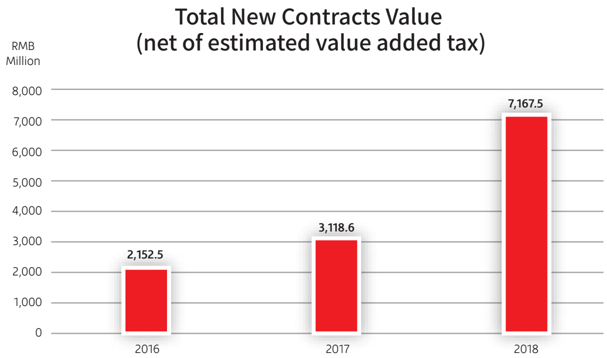
The Group's overseas projects and future business opportunities for overseas expansion are mostly located in the "Belt and Road" regions with abundant resources. However, there is a common problem of poor energy infrastructure and under-utilisation of resources. Chinese engineering companies will play key roles in the "Belt and Road" initiative, especially those companies, such as the Group, which are able to respond quickly to the market and have rich experience in EPC turnkey contracts. These companies can help to improve the infrastructure in the region and better utilization of resources, which will promote the local economic development and the domestic production capacity and enhance the international competitiveness and influence of the manufacturing sector in Mainland China. Meanwhile, in view of the great market demand in Mainland China, the local resources can be further utilized to explore the Chinese market, thereby creating mutual benefits for regions along "Belt and Road".

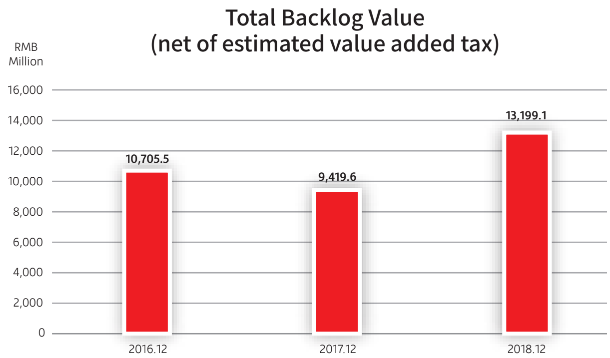
With years of efforts in the international market, the Group's performance in the international market has been widely recognized by the owners and the Group's unique competitive edges in international market are reflected in its price advantage and construction period control. These advantages are essentially derived from the Group's rapid response to the market, strong execution ability, market-oriented operation systems, and flexible and rational employment system. Underpinned by strategic partnerships and extensive international experience, the Group will further develop the international market.

Financial Highlights

For the twelve months ended 31 December 2018 (the "Period under Review"), revenue of the Group amounted to approximately RMB3,256.5 million (for the twelve months ended 31 December 2017: approximately RMB4,124.8 million), representing a year-on-year decrease of 21.1%. The decrease in revenue was mainly because the projects under construction of the Group during the year have reached the late construction phase while new orders obtained by the Group during the year have not entered the peak construction stage, resulting a year-on-year decrease in revenue recognized. The gross profit amounted to approximately RMB498.9 million (for the twelve months ended 31 December 2017: approximately RMB861.2 million), representing a year-on-year decrease of 42.1%. During the period, profit attributable to owners of the parent amounted to approximately RMB56.3 million (for the twelve months ended 31 December 2017: approximately RMB138.3 million), representing a year-on-year decrease of 59.3%. The decrease in profit attributable to owners of the parent was mainly attributable to the decrease in revenue and gross profit of the Company during the Period under Review, and a year-on-year increase in the overall expenses as compared with the previous period.

During the Period under Review, the net cash flow from operating activities, investing activities and financing activities amounted to RMB666.7 million (net cash inflow), RMB71.9 million (net cash inflow) and RMB744.1 million (net cash outflow), respectively.





During the Period under Review, the Group's total new contract value amounted to approximately RMB7,167.5 million (for the twelve months ended 31 December 2017: RMB3,118.6 million) (net of estimated value added tax, same hereinafter), representing a year-on-year increase of 129.8%, of which EPC accounted for 97.0%. For revenue breakdown by operating industries of our clients, petrochemicals business and coal-to-chemicals business accounted for 62.7% and 30.0%, respectively. As at the end of the Period under Review, the total backlog value (net of estimated value added tax, same hereinafter) was approximately RMB13,199.1 million (for the same period in 2017: approximately RMB9,419.6 million), representing an increase of 40.1%.

Business and Operations Review

Domestic Markets:

During the Period under Review, international oil prices were within a reasonable price range. Along with upgrading domestic consumption and increasing environmental protection requirements in Mainland China, the investment in bulk basic chemical raw materials and fine chemicals market remained strong. Fixed assets investment in the domestic chemical industry brought a short boom to the market and several large-scale integration plant projects have been implemented. The Group seized the opportunity amid market recovery to further expand its business in the domestic market and deepened customer development, and it also raised the service and delivery standards for projects. During the Period under Review, the Group recorded new contract of domestic market with a value amounting to approximately RMB3,056.9 million. There were 12 EPC projects under construction, of which 3 EPC projects were completed and delivered at high standard. The Group's performance in domestic market is highly recognized and significant progress has been made in several key domestic projects.

Delivery of unit cracking furnace module for Zhejiang Petrochemical 1,400kta ethylene cracking furnace modules project

Delivery of ethylene cracking furnace modules for Zhejiang Petrochemical: The Group secured the contract from Zhejiang Petrochemical Co., Ltd. (浙江石油化工有限公司) for the delivery of 1,400kta ethylene cracking furnace module project for 40,000kta Refining Chemical Integration Project (Phase I). Capitalizing on its technological and talents advantages, and excellent project management and execution capabilities accumulated over the years, Wison Engineering has completed the integrated modularized delivery as set out in the contract. This project is the largest liquid feedstock cracking furnace in the world, which is modularized designed, fabricated and delivered by integrated shipping, addressing the issues of separated transportation of parts and on-site construction constraints, long construction period of on-site construction, and difficulties in assuring project quality and safety of large scale projects. The successful delivery further consolidates our leading edges in ethylene sector, and gains the trust of global energy and chemical customers for the Group while sets an industry benchmark for the ability to provide solution for integrated module delivery.

Nanjing Chengzhi Project utilized proprietary Methanol-to-Olefin ("MTO") Separation Technology" and "Butene Oxidation and Dehydrogenation Technology": The Group was awarded an EPC contract for engineering management, procurement and construction ("EPC") of a 600kta MTO plant and a 100kta butadiene plant by Nanjing Chengzhi Yongqing Energy Technology Co., Ltd (南京誠志永清能源科技有限公司). The project is an important integral part of coal-to-chemicals integration plant of Nanjing Chengzhi, which is also the second time that Nanjing Chengzhi selected the MTO separation technology independently developed by the Group, together with another proprietary technology of falling film heat exchange and absorption developed by the Group, to ensure high product recovery rate of the ethylene device and further improve economic efficiency. Moreover, the proprietary butene oxidation and dehydrogenation technology developed by the Group, reaching an internationally advanced level, is also applied in the project. This technology provides higher raw material transformation rate and wide selection in product offering. By making full use of C4 fraction, by-product of MTO device, butadiene products are produced to broadly apply to new materials such as rubber and nylon, thereby further enhancing the competitiveness of customers in a complex and volatile market environment. During the Period under Review, the installation of the process pipeline, electricity equipment, meters, and thermal equipment of the project was fully completed, and entered the stage of trial run. The project schedule, quality and safety were highly controlled.

The 600kta MTO plant and the 100kta butadiene plant of Nanjing Chengzhi

Hami project demonstrated the Group's technical and engineering management capabilities in the field of clean coal utilization: The Group was awarded an EPC contract for 2,400kta semi-coke carbon clean utilization project and the newly developed 200kta coal tar intensive processing and utilities project of Hongxing Fourth Development Zone by Hami Tianhe Investment Co. Ltd. (哈密天合投資有限公司). It included the overall design, utility engineering design and detailed design as well as the engineering design, procurement and construction (EPC) of two main devices. "Circulated fluidized bed combustion and graded and cascaded coal conversion and utilization technology" (煤炭雙流化床熱解燃燒分級轉化分質利用技術), one of the major national R&D projects, is utilized for the first time in the project. Local coal is converted into high value-added oil and gas products and semi-coke, which has a broad market in the Northwest region, to carry out the first combined industrial production of gas, semi-coke and tar, thereby substantially reduce water consumption and energy consumption. During the Period under Review, the project has initiated the overall design work of the entire plant. The Group actively responded to the national policy guidelines of "active promotion of graded and cascaded utilization of coal". In the field of coal clean utilization, technical reserve and business layout have been carried out for many years and thus the Group is equipped with strong technique amplification and engineering transformation capability.

Qiwangda project upgraded and transformed the integration technology for high energy-consumption petrochemical industry chain: The Group was awarded an EPC contract for the Reaction Conversion Furnace Zone Upgrading and Revamping Project, which is a critical part of the Raw Material Pretreatment Unit of 500kta Styrene Production Complex by Shandong Qiwangda Petrochemical Ltd. (山東齊旺達石油化工有限公司). The project adopted the complete set of ethylene cracking and olefin separation technology independently developed by the Group. The original by product naphtha is the main raw material. By further processing ethylene and purchased benzene into high value-added styrene products, the Group carries out industry chain integration and promoted high quality development for its customers, achieving balanced development of oil refineries and downstream high-end petrochemical production. The project drives the transformation of Qiwangda, through downstream extension of industry chain and industrial upgrading, so that bottleneck of the development of the traditional refining industry shall be addressed. During the Period under Review, the project has fully commenced the price consultation of process design package and long-term key equipment.

International Markets:

During the Period under Review, the international political situation and the global economic instability have cast uncertainty on the international energy market, causing substantial fluctuations in oil prices and chemical product prices. The global crude oil supply pattern has changed dramatically and tended to be driven by political factors, highlighting the importance of North America and the Middle East in the international energy and chemical market. Changes in the international energy and chemical market imply that the market is full of possibilities, which present both challenges and opportunities for the Group. During the Period under Review, the Group secured new overseas contracts of 14 projects in total with a contract value of approximately RMB4,110.6 million, mainly located in North America and the Middle East.

Wison Engineering awarded the Gold Key Award (金鑰匙獎) for its SABIC project

With nearly a decade of dedicated work, the Group's strategies of internationalized operations and market expansion have been improved. Localized marketing initiatives have been rolled out and project execution teams were formed in different strategic regions. During the Period under Review, the Group has established an international marketing team consisting of nearly 100 talents and set up an efficient and comprehensive cooperation mechanism integrating the functions of international marketing, project quotation and international commerce. By accelerating the global business deployment, the Group has established 11 marketing focus areas and 2 project execution centers across 4 continents, covering the key customers and project opportunities in petrochemical, refining, coal chemical, oil and gas, and power infrastructure industries in over 30 countries and regions. Regarding project execution, the Group has executed multi-dimensional control of cost, schedule and safety by team localization, efficient response to demands, and establishment of advanced project management system in line with international standards, and customer satisfaction has been continuously improved.

The Group executed a contract for "STC-J" project

The Middle East: The Middle East is the most competitive developed market in the global energy and chemical engineering industry, and also the most important areas in the Group's globalization strategy. Exceptional performance of the delivered projects highlighted the Group's outstanding capabilities in project execution, engineering quality and safety management, and resource integration in the Middle East. Since 2012, the Group has delivered 7 projects for SABIC in Saudi Arabia and 1 project for Borouge in the UAE with high standards, building trustful and mutually beneficial relationships with our customers, and setting a premium brand image of Chinese engineering enterprises in the Middle East. The projects would also give a "radiation effect" on the other Middle East regions. The Group has established an outstanding trusted marketing, planning and execution team for its customers in the Middle East, which will help further expand the market in the Middle East.

During the Period under Review, the Group managed to deliver SABIC IBN ZAHR project 52 days ahead of schedule, and the number of days ahead of the contract period is unprecedented for SABIC. The Group's commitment of delivering projects with high quality and high standards has been fulfilled. In addition, an engineering, procurement and construction (EPC) contract with a contract amount of US$150 million was entered into by the Group and SABIC. The project is a major component of the SABIC Technology Center test site and the supporting facility "STC-J" expansion project located in Jubail Industrial City, Saudi Arabia. It is SABIC's largest global investment in technology innovation. Upon completion, STC-J will become the world's largest technology research and development center of SABIC. The trust of the SABIC technology R&D management team in the Group is built on the Group's solid partnership with SABIC over the past decade and our impressive project execution and management experience and advantages in the field of new technology innovation.

During the Period under Review, the Group was awarded an Engineering, Procurement, Construction, Commissioning and Start-Up Works (EPCS) Project for the refinery sulfur recovery (SRU) by the United Arab Emirates Abu Dhabi National Oil Company (ADNOC). This project is an important step for ADNOC's downstream industry chain extension and asset allocation optimization, and also plays a significant role in increasing the value of its assets. The signing of the contract marks the high recognition and trust in the Group by its customers in refining and chemical industry in the Middle East, and further demonstrates the Group's business strategy of "gaining trust with performance" and "marketing with brands".

North America: North America is another major battlefield for the Group's globalization strategy. It is also a key area for the Group to establish an ecosystem of co-existence of competition and cooperation with leading European and American engineering companies. The Group focused on the development of modularized production which plays a strategic role in developing the North American market. High labour cost is one of the main issues in the North American market, and clients tend to be demanding over project schedules and labor costs. The issues of long construction period and great manpower required for on-site construction and the difficulties in quality and safety control encountered by the large-scale project adopting traditional model can be addressed by factory prefabrication, assembly and integrated delivery. This would greatly reduce the cost of manpower and material procurement for North America investment projects, and significantly shorten the project construction cycle and enhance the economic efficiency of the plant. This will set new benchmark for the Chinese companies in the most competitive market in the United States.

The modularized piperack project in Texas, the United States

During the Period under Review, the Group's first modularized LDPE piperack project in Texas, the United States, was on a steady move. All design, procurement, module fabrication and transportation work were completed and have entered the final stage of pipe installation. In addition, the Group was awarded another EPC for modular conversion design, supply, material procurement, on-site construction and installation of a petrochemical project located in Texas, the United States with a contract amount of US$360 million. The project is the largest modular project currently undertaken by the Chinese energy and chemical engineering company in the United States. It fully demonstrated the recognition for the Group's overall process management and execution capabilities in modular design, construction, shipping and delivery. During the Period under Review, the overall progress of the project was nearly half completed. The work of base construction and on-site installation has progressed steadily. As the project schedule and quality were under strict control, there is zero case of accident.

Other regions: In addition to the key markets such as the Middle East and North America, the Group is determined to fully implement the internationalization strategy and will continue to strengthen the strategic investment in global marketing layout. More than ten branches have been established in the countries in the Commonwealth of Independent States, Latin America, Southeast Asia and Africa along "Belt and Road". The above-mentioned countries have great development potential with the advantages of resources, favourable policy orientation and market demand. The successful experience in the Middle East and North America allows us to win several preliminary projects in the other regions mentioned above. Through the integration of various resources of the preliminary consulting services in the value chain, the Group is expected to achieve substantial breakthroughs in these areas.

Technology Research and Development

2018 marks a year of technological innovation and advancement for the Group. By adhering to the objectives of "improving people's livelihood with innovative technology", the Group focused on the forward-leaping development of cutting edge technologies, green design, low-carbon energy-saving chemical technology process, strived to build a core competitiveness driven by technological innovation and cultivated a skilled technical team with an international perspective.

During the Period under Review, the Group has achieved breakthroughs for a number of research and development projects. The project of New Technologies in Efficient Synthesized Production of Important Chemicals with CO2 (which is under the national key research and development plan of "clean and efficient use of coal and new energy-saving technologies" 2018 key special plans), in which the Group has taken an important part, was officially approved by the Ministry of Science and Technology of PRC. The Group was responsible for the research topic and focused on the design, production and research of the kiloton-scale pilot plant for preparing glycol by synthesizing ethylene carbonate and hydrogen with cogeneration of methanol, developing a set of technology, using carbon dioxide as raw materials, of preparing glycol by synthesizing ethylene glycol and hydrogen with cogeneration of methanol. This project was geared towards the international cutting edge technologies and popular research topic of "CO2 capture, utilization and storage (CCUS)", involving the conversion and utilization of carbon dioxide. It is the key research and development direction in the global energy and chemical industry, which is in line with the global low-carbon development strategy. The project also clearly demonstrated the strength and expertise of the Group in undertaking national-level scientific research tasks.

During the year, Wison Engineering's proprietary technology of "Oxidative Dehydrogenation of Butene to Butadiene (ODH) Catalyst" was applied to the downstream supporting facilities of methanol-to-olefins (MTO) product optimization project of Nanjing Chengzhi Clean Energy Co., Ltd. Prior to this, the technology 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. The catalyst was well-recognized by Nanjing Chengzhi, which fully proved that under the current structural adjustment and ever-changing external environment of the energy and chemical industry, the Group's proprietary catalysts still delivered technological advances and economic benefits.

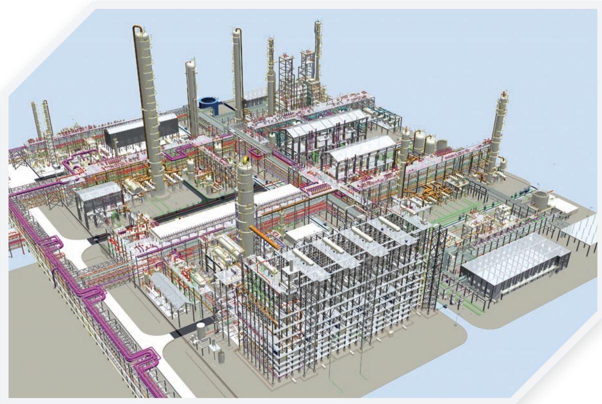
During the year, the pilot plant of the DME-based ethanol technology, developed by the Group, has completed construction and start-up preparation. Marketing initiates will be swiftly rolled out after pilot test and industrial demonstration of process design package contract. It marks a solid step for the Group in coal chemical industry chain expansion and ethylene raw materials diversified development. In view of the fluctuation of international oil prices, the technology of preparing ethylene by using DME and ethanol has been applied to promote the industry chain extension of coal and chemical enterprises into downstream DME products as well as diversify the sources of ethylene raw materials. Capitalizing on the technological advantages of the Group, its coal chemical enterprises will be able to achieve differentiation and effective development by intensifying the downstream extension of the industry chain and industrial upgrading, and by which reducing the dependence of the domestic market on ethylene imports.

During the year, the Group was approved by Shanghai Science and Technology Committee to establish "Shanghai Green Chemical and Energy Conservation Engineering Research Center", leading Wison Engineering to become the only enterprise in energy and chemical sector setting up a private engineering research center focusing on "green chemical process" and "energy conservation". By establishing the research center, Wison Engineering endeavors to achieve technological innovations while practicing "Green Chemical Process", "Low-carbon Footprint", "Energy Conservation" and "High Efficiency" in fields of energy and chemical engineering and carrying forward its development strategy geared towards "improving technological efficiency".

During the Period under Review, the Group was approved by the Ministry of Human Resources and Social Security and the National Post-doctoral Management Committee to establish the first private post-doctoral research center in the domestic energy and chemical industry. The approval of setting up a post-doctoral research center reflected that the engineering technology and innovation capability, technology platform construction and talent training mechanism of Wison Engineering are well recognized by the country and Shanghai city. It will promote the Industry-University-Research cooperation between the Company, research institutes and production units and will also be the driving force in accelerating the efficient conversion of scientific and technological achievements.

Digitalization

During the Period under Review, the Group strengthened R&D and application of digitalization and is committed to building up its technological strength to support the strategic development of the Group. With the development of digitalization, the Group's internal management standard will be upgraded and project execution capability and overall competitiveness will be further strengthened. The Group's 3D platform based on the Cloud computing technology is the first project in the energy and chemical engineering industry. The Cloud remote application of 3D intelligent design software will enable the participants of the project to collaborate efficiently, thus providing customers with quality services, and greatly enhancing the competitiveness of the Group in the domestic and overseas markets. After early stage development, the platform already had the ability to operate all current projects.



The 3D Cloud platform based on the Cloud computing technology

Wison Engineering proactively improved its digital technology through strategic cooperation. During the Period under Review, the Group entered into a strategic partnership with Microsoft. With its leading artificial intelligence, digitalization, Cloud platform technology, in combination with the Group's superior project management capabilities, we carried out cooperation in 3 aspects, including digital engineering, digital factory and talents cultivation in digital transformation. In addition, the Group established the "Jiangsu University — Wison Engineering" Big Data Joint Laboratory with Jiangsu University, a renowned university in China. The laboratory has promoted cooperation between the two parties in the analysis of energy and chemical product prices and the dynamic analysis of costs. The digital transformation has driven the business segments of the Group to work in synergy with each other, and the Group has gradually formulated intelligent working modality and operating model, and continuously improved the safety, quality and efficiency of design, procurement, construction and management. The Group will keep up with the latest development and develop intelligent application scenarios in collaboration with global partners, aiming at seizing development opportunities in the process of industry transformation and development.

Modularization

Modularization is one of the future development directions in energy and chemical engineering industry, which is also the core strategy for the Group's key development. The modular production of the Group has taken shape after several years of development. A dedicated international, cross-functional and multi-disciplinary modular design and execution team with extensive experience in overseas projects was established, comprising of 30 talents who are mostly professionals with experience in design, execution and management of leading projects in the industry. During the Period under Review, the team not only completed the design and delivery of several modular projects in overseas markets and China, but also prepared the modular execution and guidelines on planning and design, with an aim to provide more standardized management process guidelines for future projects of the same type and enhance the overall strength of the modular integration solutions, thereby solidifying the foundation for the Company's modular business development. We are also committed to setting a standard and benchmark in the industry.

The Group completed design, prefabrication and delivery of several modular projects in domestic and overseas markets

The module construction base of Wison Offshore & Marine provides Wison Engineering with the capabilities of module feasibility studies, basic design, detailed design and construction for medium- and large-scale land facility. Other internal professional departments will be responsible for the related works of sea and land transport and lifting design. In this way, the Group has integrated capabilities of module design, construction and delivery. Modular prefabrication, assembly and integrated delivery can effectively overcome the constraints of construction site, significantly shortening construction period and increasing work efficiency. During the Period under Review, the Group has completed Zhejiang Petrochemical 1,400kta ethylene cracking furnace module project, Formosa Plastics modularized LDPE piperack project in the United States and simultaneously drove forward EG2 project in the United States. Modular business has become one of the core competitive strengths of Wison Engineering. With the advantages of technical talents and rich project experience, Wison Engineering has been highly recognized by customers in the global energy and chemical industry, setting an industry benchmark.

Awards and New Qualifications

During the Period under Review, the Group was highly praised by customers and the peers in the industry and was awarded and accredited with numerous awards by the government and the industry. The Group's EPC contracted Shanxi Lu'an 1,800kta Oil & Chemical & Electricity Integrated High Sulfur Coal to Liquid Demonstration Project was awarded "2018 Premium Engineering Prize of China Chemical Industry" in the selection of "Quality Engineering throughout Entire Process" in recognition of its world's largest scale of gasification, high-level technological innovation, excellent engineering quality and extremely high difficulty of project execution.

During the year, the Group was awarded "The BEST EPC Contractor for Overseas Projects" by Internationalization Committee of China National Association of Chemical Construction Enterprises, which represents the high recognition for Wison's excellence performance in the global energy and chemical fields. Moreover, the Group was honorably named as the "Most Innovative Enterprise" on 40 years anniversary of China Reform and Opening up by Shanghai Exploration & Design Trade Association; and was also awarded "China's Technology Innovation Demonstration Enterprise of Petroleum and Chemical Industry 2018" by the science and technology division of China Petroleum and Chemical Industry Federation for its technological innovation capabilities and transformation capability of scientific and technological achievements. In addition to promoting the Company's brand image and core competitiveness, the awards and qualifications are also the recognition and driving force for the Group's dedications in cutting-edge technology research and development over years.

Talent Program

The Group introduces new talents based on the market and customer demand to improve internal management and reinforced its diversified culture. The Group has employed a total of 285 new employees in 2018, thereby laying a solid foundation for the rapid development of Wison Engineering.

During the year, the Group's talent strategy focused on external referral and internal deployment to create a product technology center as a hub of talent pool. After considering the direction of product technology development, a total of 17 high-end technical talents were employed from overseas or China. The product technology center, currently employing 4 chief scientists and 31 experts, has closely collaborated with the design center to provide customers with more competitive technology solutions. At the same time, the Group was committed to optimizing and expanding its international and domestic marketing teams, improving the marketing area layout, achieving full coverage of key areas by marketing team, setting up a qualification and certification system for marketing positions, constantly improving the organizational skills of marketing staff by introduction of external talents and talent cultivation.

Regarding internal structure, the Group has established and optimized a number of internal institutions. During the period, the Group has established a project financing center. Leveraging on the experience in cooperating with numerous financial institutions by the professionals and the Group, comprehensive financing services will be provided to the owners while business development capabilities of Wison Engineering will also be enhanced. The Middle East Operation Center has been created to support regional marketing and project execution in the Middle East; a supporting group integrating procurement, construction, marketing and quotation has been established to strengthen the support of marketing quotation and improve the synergy effect of project execution. The addition of start-up services will expand the scope of services of the Group.

Outlook

Looking forward to 2019, the energy and chemical industry is full of both opportunities and challenges. Increased profitability of the global petrochemical and energy and chemical industries drove an increase in capital investment of the industry. Coupled with the influence of complex external environmental factors such as international crude oil price fluctuations, geopolitical tensions, international trade friction, the global energy and chemical industry was expected to face greater uncertainties. On the other hand, China has accelerated the promotion of green sustainable development by introducing upgrade and optimization policies for energy and chemical products, to drive structural optimization and adjustment of the industry. In addition, the promotion of opening up markets for private and foreign enterprises would also bring new impetus to the industry.

In face of uncertain macro and industry factors, the Group will continue to move forward and strive for excellence in market development, technology research and development, industry extension and talent strategy in order to continuously enhance the competitive edges and profitability of Wison Engineering. Targeting changes in the market and customer needs, the Group will continue to elaborate its own advantages in terms of modularity, digitalization, project management and financing capabilities, intensify efforts in the industry chain extension, increase service coverage and open up overseas markets. The Group strives to increase the total new contract value to RMB40,000 million within 2019 and 2020, and at the same time increase its proportion in overseas market to over 60%.

The Group has entered into a number of new contracts in 2019. As of 25 March 2019, the Group recorded unaudited total new contract value of approximately RMB6,848.2 million (net of estimated value added tax) , representing approximately 95.5% of total new contract value for the full year of 2018.

Consolidating the advantages of domestic market and accelerating globalization

Looking ahead, the petrochemical industry in China will usher in new subjects, new raw materials, new processes and new regulations, and demonstrate a new development pattern. With the adjustment of domestic energy policies and economic development, large private chemical enterprises emerged in the domestic market. Together with the market gradually opening to foreign investment, investment and production of foreign enterprises are encouraged, bringing new growth momentum to the industry. In addition, domestic energy policies are increasingly demanding for sustainable development and green environmental protection, and the demand for new chemical raw materials and new processes is increasing, further promoting the optimization and adjustment of the industry structure. By virtue of its excellent project execution capability, management capability and leading technology research and development capabilities, Wison Engineering has established good reputation and competitive edges in China. The Group will fully grasp the new opportunities in the domestic market, continue to deepen the services for its existing customers, and strengthen the development of new energy and chemical industry customer base, and extend service coverage to the field of environmental protection and energy saving and municipal engineering.

On the other hand, the Group will adhere to building on local market and expanding the core strategy to the international market development. With successful delivery of overseas projects in different regions, the Group has gradually accumulated reputation and creditworthiness in overseas market. In the first half of 2018, the establishment of the Middle East Operation Center in Saudi Arabia, reflecting the determination and confidence of the Group in developing the Middle East market, allows the Group to respond quickly to the demands of the local market and the project execution and management capabilities will be further optimized. In addition, modular production is recognized in

North America, bringing new market opportunities for the Group. As the Group's overseas sales team and investment and financing team become more well-developed, the consolidated investment and financing EPC model of overseas projects assists owners to establish financing platforms. This would greatly increase the chance of securing new projects.

Relying on cutting-edge technology to build a technical engineering service enterprise

By adhering to the corporate objective of "Better Technology, Better Life" to improve people's livelihood with innovative technology, the Group implemented strategic initiatives of "Promoting development and strengthening business with technologies", closely tracked developments and trends in the global energy and chemical industry and focused on global cutting-edge technology development and research in the areas of basic chemicals, green processes, and low-carbon energy conservation. Through technical cooperation ecosystem, the Group aimed at developing a wide range of cooperation based on the principle of "resources and technological complementation" and the concept of mutual benefits. Leveraging on the opportunity of the development of national strategic emerging industry, the Group increased efforts in developing the technologies of new materials with higher value adding and highly dependent on imports as well as the upstream material bottlenecking technology to form an innovative industrial application platform integrating technology research and development, engineering amplification and investment construction. The Group was committed to developing into the leading engineering service enterprise with advanced technologies.

Dual driving force of digitalization and modularization, setting a new benchmark in the industry

The Group will continue to promote the application of digital and modular production, further develop digital application scenarios by leveraging on digital delivery capabilities, and gradually develop digital strategy, digital management and support, digital marketing, digital services and other capabilities, establish a digital system in which operational models and organizations, processes and methods, and digital technologies and platforms work in synergy. By building up Wison Engineering's digital strength, the efficiency and innovation of the Company has been improved and thus leading the Company to become a digitalization leader of the industry.

With the development of digitalization, the Group has made comprehensive preparation for capital, talents and digital infrastructure to proactively respond to the digital transformation of the industry. By leveraging on technologies such as 3D Cloud platform and big data analysis, the Group will gradually build a win-win and shared ecosystem maintained by R&D, manufacturing, design, construction, operation and maintenance and other enterprises of the industry by means of information and physical integration. The Group will make use of its leading digital capabilities to enhance the competitiveness of the Company and execute transformation and leapfrog development. With the continuous wave of new technologies such as the Internet, digitalization and cloud platforms, Wison Engineering will continue to overcome technical barriers in the field of energy engineering, accumulate experience of complete delivery of digital design, and provide customers with more advanced engineering design services. At the same time, it provides a solid foundation for the Group to establish intelligent factory and digital operation and maintenance.

Modularization is another important strategy for the future development of the Group. Modular projects have demonstrated the advantages of high quality, short construction period, low cost and easy management, and are gradually becoming the trend of project design in the Americas, Australia and Africa. With high-quality modular engineering capabilities and its own modular prefabrication base, Wison Engineering has become one of the most competitive modular EPFC technology and service providers in the world. The Group's integrated module solutions have altered the model of planning, organization and construction of traditional complex plants. The Group is committed to providing our global customers with the most economical and competitive solutions by enhanced modular planning, construction, delivery, differentiation and high value-added services.

During the Period under Review, Wison Engineering has tendered more than 10 modular projects in various countries including the Americas, the Middle East, Africa and Southeast Asia. Many projects are expected to be awarded in 2019. The modular projects have broad market prospects and will help the Group to overtake the road in respect of internationalization strategy, achieve leap-forward development and further enhance its influence in the industry.

Establish a business ecosystem, diversifying development through expansion along the industry chain

Looking forward, facing the challenging economic situation and the complex and ever-changing industry structure, the Group has implemented the strategic measures of "full internationalization", "optimized management" and "market competition differentiation". It also proactively responded to the overall requirements of the national green circular economy, relating to the existing strengths and core capability of the Group. In response, the Group embraced changes and has carried out investment and operation of renewable clean energy and environmental protection industry, an effective extension of our core businesses, and has increased the technical research and development of new functional materials and their value chain bottlenecking materials that were highly dependent on foreign imports. Through precise business design, the Group will make horizontal and vertical multi-dimensional expansion along the value industry chain, and achieve strong alliance with industry leaders to pursue strategic expansion of complete cycle including new business development, construction and operation. By building the Group into an integrated energy service and operation company with outstanding core advantages, diversified business risks, strong technical strength and diversified profit sources, the Group will have healthy and sustainable development.

Management Discussion and Analysis

Management Discussion and Analysis

Financial Review

Overall Review

The following table sets forth the Consolidated Statement of Profit or Loss of the Group for the year ended 31 December 2018 and 2017:

	2018 RMB'000	2017 RMB'000
REVENUE	**3,256,478**	4,124,790
Cost of sales	**(2,757,606)**	(3,263,632)
GROSS PROFIT	**498,872**	861,158
Other income and gains	**202,614**	188,794
Selling and marketing expenses	**(107,521)**	(68,889)
Administrative expenses	**(377,737)**	(373,203)
Reversal of impairment losses/(impairment losses) on financial and contract assets	**8,648**	(335)
Other expenses	**(118,537)**	(241,019)
Finance costs	**(33,790)**	(136,160)
Share of profit or loss of an associate	**190**	(1,222)
PROFIT BEFORE TAX	**72,739**	229,124
Income tax	**(12,786)**	(63,405)
PROFIT FOR THE YEAR	**59,953**	165,719
Attributable to:		
Owners of the parent	**56,301**	138,306
Non-controlling interests	**3,652**	27,413
	59,953	165,719

Revenue and Gross Profit

The comprehensive revenue of the Group decreased by 21.1% from RMB4,124.8 million for the year ended 31 December 2017 to RMB3,256.5 million for the year ended 31 December 2018.

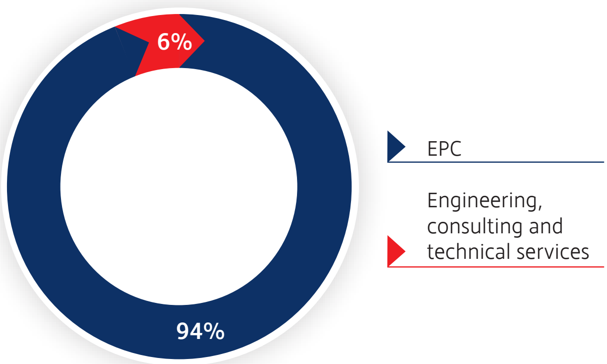
The gross profit of the Group decreased by 42.1% from RMB861.2 million for the year ended 31 December 2017 to RMB498.9 million for the year ended 31 December 2018.

The gross profit margins of the Group for the year ended 31 December 2017 and 2018 were 20.9% and 15.3%, respectively.

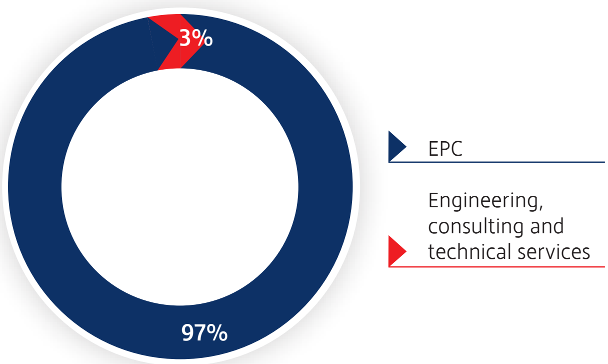
Details of comprehensive revenue and gross profit breakdown by business segments are set out below:

	Segment revenue		Segment gross profit		Segment gross profit margin	
	2018 (RMB'million)	2017 (RMB'million)	**2018 (RMB'million)**	2017 (RMB'million)	**2018 (%)**	2017 (%)
EPC	**3,072.3**	4,009.4	**432.5**	879.5	**14.1%**	21.9%
Engineering, consulting and technical services	**184.2**	115.4	**66.4**	-18.3	**36.0%**	-15.9%
	3,256.5	4,124.8	**498.9**	861.2	**15.3%**	20.9%

2018



2017



Revenue of EPC decreased by 23.4% from RMB4,009.4 million for the year ended 31 December 2017 to RMB3,072.3 million for the year ended 31 December 2018. The decrease in revenue was mainly because new orders obtained by the Group during the year ended 31 December 2018 were still at the preparatory stage and have not entered into the peak construction phase and therefore no significant contribution was made to the result for the year ended 31 December 2018. Moreover, existing projects brought forward from previous years have reached the late construction phase, resulting in decrease in revenue and gross profit recognized.

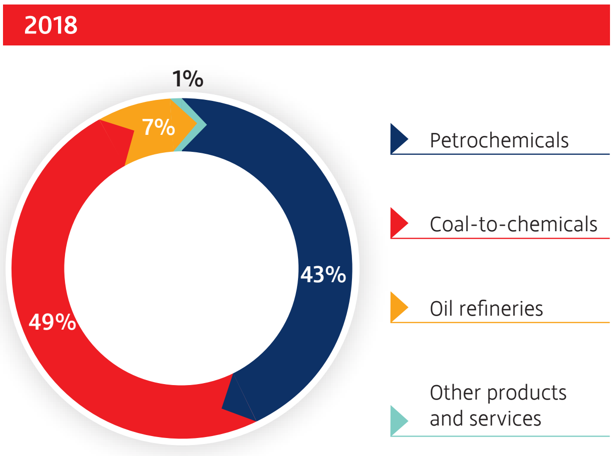
Gross profit margin of EPC decreased from 21.9% for the year ended 31 December 2017 to 14.1% for the year ended 31 December 2018. This was mainly attributable to the completion of those projects of the Group, which carried higher gross profit, in prior years. Moreover, the new orders secured during the year were still at preparation stage and, hence, did not have significant contribution to the gross profit margin.

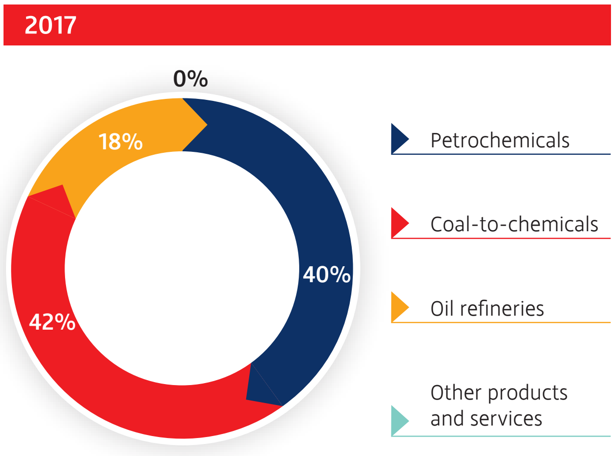
Revenue of Engineering, Consulting and Technical Services increased by 59.6% from RMB115.4 million for the year ended 31 December 2017 to RMB184.2 million for the year ended 31 December 2018.

Gross profit margin of Engineering, Consulting and Technical Services increased from -15.9% for the year ended 31 December 2017 to 36.0% for the year ended 31 December 2018. This was mainly because the estimated contract amount of certain engineering projects, which the Group expects that their successful completion will have a profound impact on the future development of the Group, is lower than the estimated cost and accordingly a one-off foreseeable loss was recognised for the year ended 31 December 2017. In addition, contracts for engineering and consulting projects had a higher gross profit margin during the year.

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

	2018 (RMB'million)	2017 (RMB'million)	**Change**	Change (%)
Petrochemicals	**1,399.7**	1,635.0	**-235.3**	-14.4%
Coal-to-chemicals	**1,587.5**	1,722.1	**-134.6**	-7.8%
Oil refineries	**237.8**	765.5	**-527.7**	-68.9%
Other products and services	**31.5**	2.2	**29.3**	1,331.8%
	3,256.5	4,124.8	**-868.3**	-21.1%





Revenue of petrochemical business segment decreased by 14.4%. This was mainly because the Group's major petrochemical projects in the Middle East have been completed in previous years, while the new petrochemical projects overseas have not yet entered into the principal construction phase, resulting in the decrease in contribution in revenue.

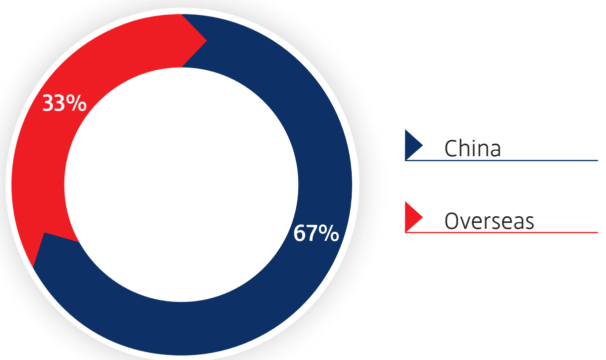
Revenue of coal-to-chemical business segment decreased by 7.8%. The coal-to-chemicals projects of the Group from prior years were successively approaching completion stage and contributed limited revenue. During the year, the revenue of coal-to-chemicals was mainly contributed by the Nanjing MTO Project entered into by the Group in the second half of last year. The project was in smooth progress and made considerable contribution to the revenue of the coal-to-chemicals business segment for the year.

Revenue of oil refinery business segment decreased by 68.9%. The decrease was mainly because the Group's major oil refinery projects have entered the late construction phase, and recognised revenue decreased accordingly.

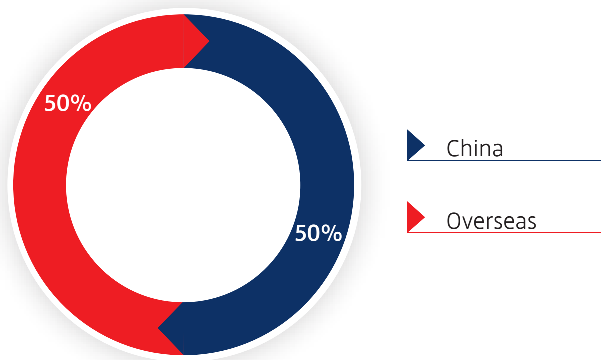
Details of comprehensive revenue breakdown by geographic locations of our clients are set out below:

	Year ended 31 December			
	2018		2017	
	Revenue (RMB'million)	**Percentage of total revenue (%)**	Revenue (RMB'million)	Percentage of total revenue (%)
Mainland China	**2,174.7**	**66.8%**	2,079.6	50.4%
America	**619.0**	**19.0%**	11.2	0.3%
Middle East	**208.7**	**6.4%**	1,268.0	30.7%
Others	**254.1**	**7.8%**	766.0	18.6%
	3,256.5	**100.0%**	4,124.8	100.0%

2018 % of total revenue by geographic locations



2017 % of total revenue by geographic locations



Revenue from overseas projects of the Group accounted for approximately 50% of the total revenue for the year ended 31 December 2017, whereas for the year ended 31 December 2018, revenue from overseas projects took up approximately 33% of the total revenue. The decrease in percentage of revenue from overseas projects for the year was mainly due to the fact that previous petrochemical projects of the Group in the Middle East were successively approaching completion stage since 2017. At the same time, overseas orders secured by the Group during the year have not entered the principal construction phase, which led to the decrease in contribution to the revenue for the year.

Other Income and gains

Other income and gains increased by 7.3% from RMB188.8 million for the year ended 31 December 2017 to RMB202.6 million for the year ended 31 December 2018. Specifically, the Group recognised gain on disposal of a subsidiary of approximately RMB25.6 million for the year ended 31 December 2018. In addition, for the year ended 31 December 2018, interest income decreased by RMB90.8 million, rental income increased by RMB42.0 million, government grants increased by RMB20.9 million and foreign exchange gains increased by RMB11.7 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 increase in government grants was due to the recognition of subsidy for designated equipment of certain project.

Selling and Marketing Expenses

Selling and marketing expenses increased by 56.0% from RMB68.9 million for the year ended 31 December 2017 to RMB107.5 million for the year ended 31 December 2018. 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 1.2% from RMB373.2 million for the year ended 31 December 2017 to RMB377.7 million for the year ended 31 December 2018, which is broadly stable on a year-on-year basis.

Other Expenses

Other expenses decreased by 50.8% from RMB241.0 million for the year ended 31 December 2017 to RMB118.5 million for the year ended 31 December 2018. This was mainly because the Group made provision for impairment of overdue gross amount due from contract customers in the year ended 31 December 2017.

Finance Costs

Finance Costs decreased by 75.2% from RMB136.2 million for the year ended 31 December 2017 to RMB33.8 million for the year ended 31 December 2018, in which interest on bank loans decreased by RMB5.6 million and interest on discounted bills decreased by RMB96.8 million. The decrease in interest on bank loans was primarily due to the decrease in average balance of interest-bearing bank loans for the year ended 31 December 2018 compared with the year ended 31 December 2017. 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.

Income Tax Expenses

Income tax expenses decreased by 79.8% from RMB63.4 million for the year ended 31 December 2017 to RMB12.8 million for the year ended 31 December 2018. This was primarily due to the decrease in assessable income for the year ended 31 December 2018.

Profit for the year

Profit for the year decreased by 63.8% from RMB165.7 million for the year ended 31 December 2017 to RMB60.0 million for the year ended 31 December 2018. Our net profit margin was 4.0% for the year ended 31 December 2017 and decreased to 1.8% for the year ended 31 December 2018. The related decline was mainly because the new orders obtained by the Group during the year ended 31 December 2018 were still at the preparatory stage and therefore no significant contribution was made to the result of the Company for the year ended 31 December 2018. Moreover, existing projects brought forward from previous years have reached the late construction phase, resulting in decrease in net profit for the year ended 31 December 2018.

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. The Group's total trade and bills receivables decreased by approximately 40.6% from RMB2,558.4 million as at 31 December 2017 to RMB1,519.1 million as at 31 December 2018. For details please refer to note 21 to the financial statements.

Financial Resources, Liquidity and Capital Structure

As at 31 December 2018, the Group's cash and bank balances amounted RMB932.1 million, representing approximately 20.2% of the Group's current assets (As at 31 December 2017: RMB916.2 million, representing approximately 14.2% of the Group's current assets).

The major items of Consolidated Statement of Cash Flows of the Group are set out below:

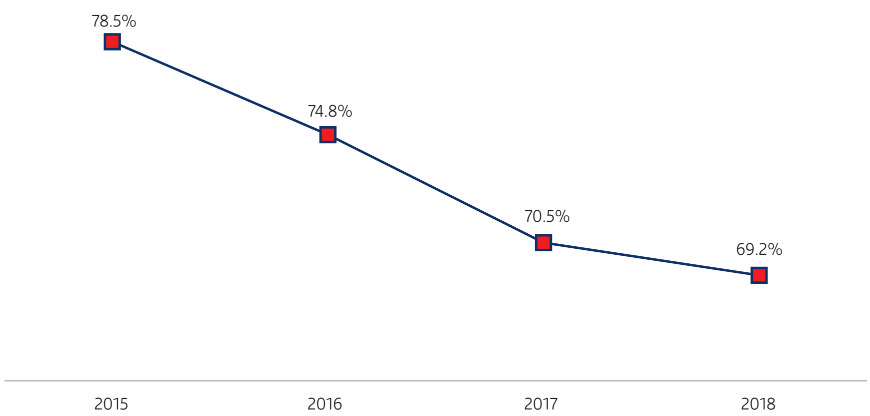
Major items of cash flow	For the year ended 31 December 2018 (RMB'million)	 2017 (RMB'million)
Net cash flows from operating activities	**666.7**	569.3
Net cash flows from investing activities	**71.9**	(8.6)
Net cash flows from financing activities	**(744.1)**	(338.3)

As at 31 December 2018, the Group's pledged and unpledged cash and bank balances included the following amounts:

	As at 31 December	
	2018 (RMB'million)	2017 (RMB'million)
Hong Kong Dollar	**8.0**	5.8
US Dollar	**125.3**	164.1
Renminbi	**956.8**	368.7
Saudi Riyal	**9.3**	1.0
Euro	**2.5**	0.1
Indonesian Rupiah	**16.7**	869.1
Venezuelan Sovereign Bolivar	**2.0**	–
Venezuelan Bolivar	**–**	175.1
UAE Dirham	**0.4**	3.1

The Asset-Liability Ratio of the Group, which was derived by dividing average total liabilities by average total assets, is set out below. The Asset-Liability Ratio of the Group has exhibited a downward trend, which is mainly attributable to the Group's strict control in liability level.

Asset-Liability Ratio



Interest-bearing bank and other borrowings of the Group as at 31 December 2018 and 2017 were set out in the table follow. The short-term bank borrowings of the Group accounted for 100% of the total bank borrowings (2017: 100%).

	As at 31 December	
	2018	2017
	(RMB'million)	(RMB'million)
Current		
Bank loans repayable within one year		
— secured	**245.9**	282.3
Other loans repayable within one year		
— unsecured	**–**	31.0
	245.9	313.3

Bank borrowings were denominated in RMB, USD and Euro at 31 December 2017 and 2018. At 31 December 2018, bank borrowings amounting to RMB62,000,000 (2017: RMB167,943,000) bore interest at fixed rates.

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

Year ended 31 December 2017	3.25% to 5.66%
Year ended 31 December 2018	3.87% to 5.44%

The maturity profile of interest-bearing bank and other borrowings as at 31 December 2018 and 2017, based on contractual undiscounted payments, is as follows:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
			(RMB'million)		
31 December 2018					
Interest-bearing bank and other borrowings	**–**	**188.3**	**62.8**	**–**	**251.1**
31 December 2017					
Interest-bearing bank and other borrowings	–	240.5	74.5	–	315.0

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

Material Acquisitions and Disposals

Reference is made to the voluntary announcement dated 28 December 2017 of the Company. The Company announced in that voluntary announcement that on 28 December 2017, Wison Energy Engineering (Hong Kong) Limited ("Wison Energy (HK)") (an indirect wholly-owned subsidiary of the Company) entered into an equity transfer agreement with 上海輝翮實業發展有限公司 ("Shanghai Huihe"), pursuant to which Wison Energy (HK) has agreed to sell, and Shanghai Huihe has agreed to purchase, the entire equity interest in 揚州盈實新材料有限公司 ("Yangzhou Yingshi") (an indirect wholly-owned subsidiary of the Company, formerly known as 惠生（揚州）化工機械有限公司) at the consideration of RMB86,069,700 in cash ("Equity Disposal Transaction"). The Equity Disposal Transaction was not subject to any conditions and was completed during the year ended 31 December 2018. The effect of the Equity Disposal Transaction to the Group has been reflected in the Group's financial statements for the year ended 31 December 2018.

Reference is made to the announcement dated 6 June 2018 of the Company. The Company announced in the announcement that on 6 June 2018, Ningbo Chuang Huan Investment Management Company Limited (寧波創煥投資管理有限公司) ("Ningbo Chuang Huan", an indirect wholly-owned subsidiary of the Company) and Ningbo Wei Yu Shang Zhi Investment Management Partnership (Limited Partnership) (寧波威宇尚致投資管理合夥企業（有限合夥）) ("Ningbo Wei Yu") entered into the Cooperation Conditions Transfer Agreement, pursuant to which Ningbo Wei Yu agreed to sell and Ningbo Chuang Huan agreed to acquire 25% of total interest of Wison Engineering Ltd. (惠生工程（中國）有限公司) ("Wison Engineering", an indirectly non-wholly-owned subsidiary of the Company) ("Equity Acquisition Transaction") at the total consideration of RMB350 million. The Equity Acquisition Transaction has obtained shareholder's written approval and has been completed during the year ended 31 December 2018. Therefore, the financial statements of the Group for the year ended 31 December 2018 has reflected the effect of the Equity Acquisition Transaction to the Group.

Capital Expenditure

The capital expenditure of the Group amounted to RMB39.2 million for the year ended 31 December 2018 (2017: RMB14.9 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. The Group has formulated and strictly adheres to a currency hedging policy against the foreign currency risk.

Contingent Liabilities

During 2018, a sub-contractor of Wison Engineering filed a claim with the Sichuan Province's Higher People's Court against Wison Engineering for additional payment of construction costs and the interests arising from the overdue payment of construction costs of approximately RMB211,316,000.

During 2018, another sub-contractor of Wison Engineering filed a claim with the Sichuan Province's Higher People's Court against Wison Engineering for additional payment of construction costs and the interests arising from the overdue payment of construction costs of approximately RMB132,322,000.

The aforesaid cases both relate to a construction project of Wison Engineering which was completed in 2014. As of the date of this report, Wison Engineering and the two subcontractors have completed the first pre-trial evidence exchange in court and cross-examination, and yet to be scheduled for trials. The Group is of the opinion that, on the basis of the available evidence and having taken legal advice, the claims above are without merits and the possibility for the Group to be subject to additional payment claims is remote. Accordingly, no provision was made with respect to the aforementioned claims as at 31 December 2018.

Asset Security

As at 31 December 2018, no asset of the Group was pledged as security for bank facilities of the Group.

Human Resources

As at 31 December 2018, the Group had 1,439 employees (31 December 2017: 1,339 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 2018, the total staff cost of the Group (including salaries, bonuses, insurance and share option schemes) amounted to RMB593.0 million (during the year ended 31 December 2017: RMB614.8 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.

Biographies of the Directors and Senior Management

Biographies of the Directors and Senior Management

Executive Directors

Ms. Rong Wei (榮偉), age 43, 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 21 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.

Mr. Zhou Hongliang (周宏亮), age 49, 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 26 years' experience in the petrochemicals industry.

Mr. Li Zhiyong (李志勇), age 47, 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.

Mr. Dong Hua (董華), age 51, 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 30 years' experience in the petrochemicals industry.

Independent Non-Executive Directors

Mr. Lawrence Lee (李磊), age 54, 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 to January 2019. During his career of over 24 years, Mr. Lee also held several senior finance positions, serving 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.

Mr. Tang Shisheng (湯世生), age 62, 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, chairman and director 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 to October 2018. He 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.

Mr. Feng Guohua (馮國華), age 50, joined our Company as an independent non-executive Director on 28 December 2015. Mr. Feng has more than 23 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 51, 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 28 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 51, is a senior vice president of our Group. He is responsible for international business in the Middle East and partial region of Africa. 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 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 is a member of council of Shanghai Association of International Services Trade. Mr. Zheng has 29 years' experience in the petrochemicals industry.

Mr. Li Yansheng (李延生), age 54, 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. Mr. Li was working at Wison Engineering as an assistant to general manager and technical director in 2008. Since 2017, Mr. Li has been working at Wison Engineering as chief engineer and chief scientist. 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. In 2018, he was awarded the "Nomination Award for Meritorious Figure" from Shanghai Exploration & Design Trade Association for echoing 40th anniversary of Reform and Opening up.

Mr. Pang Xiongying (龐雄鷹), age 53, is the chief technology officer of Wison Engineering, mainly responsible for global technology cooperation, global market research and marketing, and in charge of the product technology centre, the technology development centre and the marketing department. Mr. Pang has 29 years of professional experience in energy and chemical industry management, market analysis, business planning, operation, engineering and technology, specializing in corporate strategy and market analysis. Mr. Pang started his career as a R&D researcher with SINOPEC in Research Institute of Petroleum Processing. He also worked as an engineer and business planner for ExxonMobil from December 1995 to March 2003. He joined CMAI Consulting in 2003; became a partner and then established CMAI's China business, which he served as the president from January 2006 to May 2011. After IHS acquired CMAI in May 2011, he served as a vice president, leading Greater China and then later Asia Pacific chemical business. Mr. Pang graduated from South China University of Technology with a bachelor's degree in chemical engineering in 1988. He also obtained a master's degree in chemical engineering from National University of Singapore in 1995 and a master's degree in economics from University of Houston, the United States in 2001. Mr. Pang joined the Group in February 2019.

Mr. Cui Hongxing (崔洪星), age 53, is the senior vice president and chief scientist of Wison Engineering, responsible for assisting in the global development of the Group's international business, and fully in charge of the expansion and growth of international business in emerging markets and regions, such as Africa. Mr. Cui has approximately 31 years of experience in the petrochemical industry. He is familiar with the development trends of domestic and international refining industry, product development directions and technical developments, and has won various technical progress awards. Mr. Cui worked as a deputy chief engineer, general manager of the overseas department and director of the consulting office in Beijing for SINOPEC Luoyang Petrochemical Engineering Co., Ltd. from July 1988 to October 2006 and received training at JGC Corporation at an earlier time. He worked as a senior process specialist for Jacobs Canada Limited from November 2006 to July 2011 and served as a senior technology responsible officer of the chief representative office in Beijing and senior project development manager for Qatar Petroleum International from August 2011 to July 2015. Mr. Cui is a senior expert in refining technology, design management and project development, with achievements covering consulting, planning, technical demonstrations and patent technology selections, engineering designs, project investment demonstrations and opportunity researches for large-scale refining projects, biddings and quotations for domestic and overseas projects, and overseas project development and cultivation. Mr. Cui joined the Group in August 2015 and was appointed as a technical director of the design centre, corporate refining technology director, and deputy general manager of the product technology centre. Mr. Cui graduated from Dalian University of Technology with a master's degree in 1988.

Report of the Directors

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 2018.

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 40 to the financial statements.

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 2018, the aggregate purchases of raw materials attributable to the Group's five largest suppliers accounted for approximately 21.5% of the Group' s total purchases. Our purchases attributable to the single largest supplier accounted for approximately 8.1% of the Group's total purchases for the same period.

For the year ended 31 December 2018, our five largest clients, in aggregate, accounted for approximately 75.5% of our total revenue. Our revenue derived from the single largest client for the same period amounted to approximately 38.0% 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 2018.

Subsidiaries and Associate

Particulars of the Company's subsidiaries and the Group's associate as at 31 December 2018 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 2018 and the Group's financial position as at that date are set out in the financial statements on pages 82 to 196 of this report.

Final Dividend

The board of directors of the Company recommends a final dividend of RMB0.0043 (equivalent to HK$0.0050) per ordinary share for the year ended 31 December 2018. Together with the interim dividend of RMB0.0006 (equivalent to HK$0.0007) per ordinary share, the total dividend for the 2018 financial year amounted to RMB0.0049 (equivalent to HK$0.0057) per ordinary share.

Subject to the passing of the relevant resolution at the annual general meeting, the final dividend will be paid in Hong Kong dollars based on the exchange rate of HK$1.00 to RMB0.85481, being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 20 March 2019. The final dividend will be paid on or around 15 July 2019 to shareholders whose names appear on the Register of Members of the Company on 19 June 2019.

Dividend Policy

Pursuant to the dividend policy adopted by the Company, distributions of dividends are determined at the discretion of the Board. In determining whether any distribution shall be made and the amount of dividends, the Board shall take into account the Company's earnings, cash flow, financial performance, future funding needs, capital, legal restrictions, restrictions under any of the Group's financing agreements and other reserve requirements and any other conditions which the Board deems relevant. Any declaration and payment as well as the amount of dividends will be subject to the Company's constitutional documents and the Companies law of the Cayman Islands.

The Company will evaluate its dividend policy and distributions made in any particular year in light of its financial position, the prevailing economic climate and expectations about the future macroeconomic environment and business performance.

Donations

No donations were made by the Group during the year ended 31 December 2018 (2017: 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 31 and 32 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 2018 are set out in the consolidated statement of changes in equity. Changes to the reserves of the Company during the year ended 31 December 2018 are set out in Note 42 to the financial statements.

Distributable Reserves

As at 31 December 2018, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands comprise the share premium and retained earnings totaling approximately RMB864,877,000.

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)

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. Li Zhiyong, Mr. Dong Hua and Mr. Feng Guohua will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

None of Mr. Li Zhiyong, Mr. Dong Hua and Mr. Feng Guohua 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.

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 2018, 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. Zhou Hongliang	Company	Beneficial owner	6,290,000(L)[2]	0.15%
Mr. Dong Hua	Company	Beneficial owner	5,100,000(L)[3]	0.13%
Mr. Lawrence Lee	Company	Beneficial owner	1,000,000(L)[4]	0.02%
Mr. Tang Shisheng	Company	Beneficial owner	1,000,000(L)[4]	0.02%
Mr. Feng Guohua	Company	Beneficial owner	1,000,000(L)[4]	0.02%

Notes:

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

(2) 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.

(3) 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.

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

Save as disclosed above, as at 31 December 2018, 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 2018, 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 394,013,800, representing approximately 9.68% 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.

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.

All options granted under the Share Option Scheme were granted on 14 November 2017. 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 2018	Exercised during the year	Lapsed during the year	Granted during the year	Reassigned during the year	No. of Shares involved in the options outstanding at 31 December 2018
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[a]	2,500,000
Employees of the Group	1.744	129,950,000	–	(2,500,000)	–	(1,250,000)[a]	126,200,000
Total		134,200,000	–	(2,500,000)	–	–	131,700,000

Note:

(a) A then employee of the Group at the beginning of the year, who became a director of a subsidiary of the Company during the year. Options representing 1,250,000 shares held by the then employee were reclassified from employees of the Group.

No option has been granted under the Share Option Scheme during the year ended 31 December 2018. Save as disclosed above, no option has been cancelled or lapsed during the year ended 31 December 2018.

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 2018, 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 137,197,800 shares, representing approximately 3.37% 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 2018, options to subscribe for an aggregate of 137,197,800 shares representing 3.37% 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.

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 2018	Exercised during the year	Lapsed during the year	Reassigned during the year	No. of Shares involved in the options outstanding at 31 December 2018
The Group						
Directors, chief executive or substantial shareholders of the Company, or their respective associates						
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	5,876,000	–	–	1,344,000[a]	7,220,000
Employees of the Group	0.837	98,233,800	(3,878,400)	(2,059,600)	(584,000)[b][a]	91,711,800
Wison Holding and its subsidiaries						
Liu Haijun[c]	0.837	3,040,000	–	–	–	3,040,000
Employees, executives and officers of Wison Holding or any of its subsidiaries	0.837	30,632,000	(163,600)	(182,400)	(760,000)[b]	29,526,000
Total		143,481,800	(4,042,000)	(2,242,000)	–	137,197,800

Note:

(a) Options representing 1,344,000 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 760,000 Shares were held by certain then employees of Wison Holding or its subsidiaries at the beginning of the year, who were reassigned as employees of the Group during the year.

(c) Mr. Liu Haijun resigned as a director of the Company on 5 February 2018 and became 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 2018, options representing 4,042,000 shares have been exercised by the holders, options to subscribe for an aggregate of 2,242,000 shares have lapsed and no options have been cancelled. The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$1.2953.

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, 72nd and 84th month after the Listing Date.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2018, 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)	75.88%
Wison Holding[2]	Company	Interest in controlled corporation	3,088,782,146(L)	75.88%
Mr. Hua Bangsong[3]	Company	Interest in controlled corporation	3,088,782,146(L)	75.88%
Ms. Huang Xing[4]	Company	Interest of spouse	3,088,782,146(L)	75.88%

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 2018, 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 75.88% 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. Ms. Rong Wei, the Chief Executive Officer and an executive director of the Company, is a director and vice president of Wison Holding.

Wison (China) Holding Company ("**Wison (China) Investment**") is an indirect 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.

Prior to the completion of the acquisition of 25% equity interest in Wison Engineering Ltd. ("**Wison Engineering**") by Ningbo Chuang Huan Investment Management Company Limited (an indirect wholly-owned subsidiary of the Company) ("**Ningbo Chuang Huan**") pursuant to the Cooperation Conditions Transfer Agreement (defined below), Wison Engineering was held as to 75% by Wison Energy Engineering (Hong Kong) Limited (an indirect wholly-owned subsidiary of the Company) and 25% by Ningbo Wei Yu Shang Zhi Investment Management Partnership (Limited Partnership) ("**Ningbo Wei Yu Shang Zhi**"). Ningbo Wei Yu Shang Zhi was therefore a substantial shareholder of Wison Engineering and a connected person of the Company at the subsidiary level under the Listing Rules before completion of the acquisition. Upon completion of the acquisition, Ningbo Wei Yu Shang Zhi has ceased to be a connected person of the Company.

Wison Offshore & Marine (Hong Kong) Limited ("**Wison Offshore & Marine**") is an indirect wholly-owned subsidiary of Wison Holding. Wison Offshore & Marine is therefore an associate of Mr. Hua and a connected person of the Company under the Listing Rules.

Wison Offshore & Marine Limited ("**Wison Marine**") is an indirect wholly-owned subsidiary of Wison Holding. Wison Marine is therefore an associate of Mr. Hua and a connected person of our Company under the Listing Rules.

Wison (Nantong) Heavy Industry Co., Ltd. ("**Wison Nantong**") is indirect 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.

Wison Investment (Hong Kong) Limited ("**Wison Investment (HK)**") is an indirect wholly-owned subsidiary of Wison Holding. Wison Investment (HK) 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. **Pipe and Structural Steel Fabrication Work Contract with Wison Offshore & Marine and Wison Nantong**

   On 11 May 2018, Wison Petrochemicals (NA), LLC (an indirect wholly-owned subsidiary of the Company) ("**Wison Petrochemicals**") and Wison Offshore & Marine and Wison Nantong entered into a subcontract agreement (the "**Pipe and Structural Steel Fabrication Work Contract**"), pursuant to which Wison Petrochemicals engaged Wison Offshore & Marine and Wison Nantong to perform the pipe and structural steel fabrication work for a field erection of low density polyethylene (LDPE) outside battery limits (OSBL) equipment and piping installation project in Texas, United States for which Wison Petrochemicals was contracted by a third-party to perform part of the construction work. The total contract price under the Pipe and Structural Steel Fabrication Work Contract is US$1,850,000.

   The total contract price under the Pipe and Structural Steel Fabrication Work Contract was determined with reference to the scope of work, the costs and expenses which may be required for the performance of the Pipe and Structural Steel Fabrication Work Contract, as well as market rates of similar services, and is inclusive of tax. The contract price may be adjusted based on the eventual work scope and costs and expenses if Wison Petrochemicals requests Wison Offshore & Marine and Wison Nantong to make any change, modification, addition to or deletion from the work scope under the Pipe and Structural Steel Fabrication Work Contract. The total contract price under the Pipe and Structural Steel Fabrication Work Contract shall be payable by Wison Petrochemicals to Wison Offshore & Marine and Wison Nantong by telegram transfer by installments at various stages of the project. For the year ended 31 December 2018, the transaction amount under the Pipe and Structural Steel Fabrication Work Contract was US$1,758,000.

2. **Module, Stick-built Steel Structure and Piping Spool Fabrication Contract with Wison Offshore & Marine**

   On 11 May 2018, Wison Petrochemicals and Wison Offshore & Marine entered into a subcontract agreement (the "**Module, Stick-built Steel Structure and Piping Spool Fabrication Contract**"), pursuant to which Wison Petrochemicals engaged Wison Offshore & Marine to perform the module, stick-built steel structure and piping spool fabrication work for an ethylene glycol plant in Texas, United States for which Wison Petrochemicals has been awarded a general construction contract by a third-party. The total contract price under the Module, Stick-built Steel Structure and Piping Spool Fabrication Contract is US$26,000,000 (of which US$6,500,000 is for the material supply services and US$19,500,000 is for the fabrication and shop drawing services).

The total contract price under the Module, Stick-built Steel Structure and Piping Spool Fabrication Contract was determined with reference to the scope of work, the costs and expenses which may be required for the performance of the Module, Stick-built Steel Structure and Piping Spool Fabrication Contract, as well as market rates of similar services, and is inclusive of tax. The contract price may be adjusted based on the eventual work scope and costs and expenses if Wison Petrochemicals requests Wison Offshore & Marine to make any change, modification, addition to or deletion from the work scope under the Module, Stick-built Steel Structure and Piping Spool Fabrication Contract. The total contract price shall be payable by Wison Petrochemicals to Wison Offshore & Marine by telegram transfer by installments at various stages of the project. For the year ended 31 December 2018, the transaction amount under the Module, Stick-built Steel Structure and Piping Spool Fabrication Contract was nil.

3. **Cooperation Conditions Transfer Agreement with Ningbo Wei Yu Shang Zhi**

On 6 June 2018, Ningbo Chuang Huan and Ningbo Wei Yu Shang Zhi entered into a cooperation conditions transfer agreement (the "**Cooperation Conditions Transfer Agreement**"), pursuant to which Ningbo Chuang Huan agreed to acquire and Ningbo Wei Yu Shang Zhi agreed to sell 25% of the total equity interest of Wison Engineering, at an aggregated consideration of RMB350 million (equivalent to approximately HK$429 million).

The consideration under the Cooperation Conditions Transfer Agreement was determined after arm's length negotiations between Ningbo Chuang Huan and Ningbo Wei Yu Shang Zhi with reference to the consolidated audited financial information and market capitalisation of the Company and its subsidiaries, as well as the net asset value of Wison Engineering. Such consideration should be settled by cash within 180 days from the date of completion of the acquisition or before 31 December 2018 (whichever is the later). The acquisition was completed during the year ended 31 December 2018 and the consideration for the acquisition has been fully settled. Upon completion, Wison Engineering has become an indirect wholly-owned subsidiary of the Company.

Continuing Connected Transactions

For the financial year ended 31 December 2018, 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, an indirect 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.

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 the entire 1st Floor, 1,500 square metres of floor space on 4th Floor, the entire 6th Floor and 7th Floor, Block A, No. 633 Zhongke Road, Pudong New District, Shanghai, PRC. (Note 1)	1 January 2017 to 31 December 2018 (Note 2)	7,584	8,566	1,330
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. 633 Zhongke Road, Pudong New District, Shanghai, PRC. (Note 1)	1 September 2016 to 31 December 2018 (Note 3)	2,500	4,015	726

Note 1: The location at No. 699 Zhongke Road, Pudong New District, Shanghai, PRC is now identified as No. 633 Zhongke Road, Pudong New District, Shanghai, PRC.

Note 2: Pursuant to the further supplemental agreement entered into between Wison Engineering and Wison (China) Investment on 31 July 2018, Wison Engineering (as landlord) and Wison (China) Investment (as tenant) agreed that the subject premises of the lease shall be changed from 7th Floor and Rooms 613, 615 to 621, 6th Floor, Block A, No. 633 Zhongke Road, Pudong New District, Shanghai, PRC to the entire 1st Floor, 1,500 square metres of floor space on 4th Floor, the entire 6th Floor and 7th Floor, Block A, No. 633 Zhongke Road, Pudong New District, Shanghai, PRC, with gross floor area being increased from 2,372 square metres to 7,584 square metres. The monthly rental shall be adjusted from RMB317,452.67 to RMB1,268,740.00. Pursuant to the property management services agreement entered into between Wison Engineering and Wison (China) Investment on the same date, the monthly property management services fee payable by Wison (China) Investment to Wison Engineering shall be adjusted from RMB54,556.00 to RMB189,600.00. Such amendments took effect from 1 August 2018 and expired on 31 December 2018. The monthly electricity fee remained RMB3,000.00.

Note 3: 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. 633 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. 633 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.

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, 2017 and 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) or the New

Wison Complex Property Management Services Agreement (as the case may be) for the year ended 31 December 2017 and 2018 are RMB4,400,000 and RMB9,983,000. The rentals and property management services fees due from Wison (China) Investment for the year ended 31 December 2018 amounted to RMB8,566,000 and RMB1,330,000, respectively. The rental, property management services fees and electricity fee due from Wison Nantong for the year ended 31 December 2018 amounted to RMB4,015,000, RMB690,000 and RMB36,000, respectively.

2. **Service Agreement**

On 7 June 2018, Wison Investment (HK) entered into a service agreement (the "**Service Agreement**") with Wison Petrochemicals, pursuant to which Wison Petrochemicals shall provide consulting, marketing and new business development services in oil and gas and petrochemical fields to Wison Investment (HK) in relation to its current and proposed operations. The Service Agreement has a term of one year from 7 June 2018 and shall automatically be renewed for one year unless the parties terminate the Service Agreement. The fee payable to Wison Petrochemicals is determined based on the amount of time incurred in providing the services and is charged at an hourly rate of US$218.75, plus out-of-pocket expenses. The annual cap for the fees payable to Wison Petrochemicals under the Service Agreement is US$617,000. The fee shall be payable monthly in cash. The aggregate fee payable by Wison Investment (HK) during the year ended 31 December 2018 was US$297,000.

3. **Technical Consulting Services Framework Agreement**

On 26 June 2018, Wison (China) Investment entered into a technical consulting services framework agreement (the "**Technical Consulting Services Framework Agreement**") with Wison Engineering, pursuant to which the parties set forth the principal terms under which Wison Engineering shall provide technical consulting services to Wison (China) Investment for its projects. The Technical Consulting Services Framework Agreement is effective from 1 January 2018 and has a term of three years. The fee payable to Wison Engineering is determined after arm's length negotiation between the parties and is based on the *Notice on issuing the Interim Regulations on Consultancy Fees for Construction Projects at Preliminary Stage* [1999] No. 1283 of the State Planning Commission. The annual cap for the consulting fees payable to Wison Engineering under the Technical Consulting Services Framework Agreement for the years ending 31 December 2018, 2019 and 2020 is RMB30 million. The consulting fees payable to Wison Engineering shall be paid by bank transfer every six months. The aggregate amounts of consulting fees payable by Wison (China) Investment during the year ended 31 December 2018 was RMB3.2 million.

4. **Engineering Construction Services Framework Agreement**

On 3 August 2018, the Company and Wison Marine entered into an engineering construction services framework agreement (the "**Engineering Construction Services Framework Agreement**"), pursuant to which relevant members of the Wison Marine Group (being Wison Marine and its subsidiaries and associates) may, following the principal terms of the Engineering Construction Services Framework Agreement, from time to time enter into separate agreements with relevant members of the Group in relation to the transactions contemplated under the Engineering Construction Services Framework Agreement. Pursuant to the Engineering Construction Services Framework Agreement, Wison Marine Group should provide modularized pre-fabrication and engineering construction services. The Engineering Construction Services Framework Agreement will expire on 31 December 2020 and the contract sums contemplated thereunder will be subject to the annual caps of RMB750,000,000, RMB930,000,000 and RMB930,000,000 in respect of the three years ending 31 December 2018, 2019 and 2020, respectively. The pricing and terms of each particular project contemplated under the Engineering Construction Services Framework Agreement shall be determined in the ordinary and usual course of business on normal commercial terms and on an arm's length basis. The Group selects contractors by the way of tender, and accordingly determines the contract sum for each separate agreement in the tender process. The aggregate contract sums entered into by the Company during the year ended 31 December 2018 was approximately RMB38 million and the aggregate amount payable to Wison Marine Group for the year ended 31 December 2018 was RMB12,062,000.

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 2018 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 2018 are set out in Note 33 to the financial statements. During the year ended 31 December 2018, the related party transactions set out in Notes 33(a)(iii), (a)(iv), (a)(xi), (a)(xii), (a)(xvi), (a)(xviii) and (a)(xix), are regarded as continuing connected transactions of the Group, and the related party transactions set out in Note 33(a)(viii) and (a)(ix) are regarded as connected transactions of the Group, 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 33(a)(x) 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 33(a)(viii) and (a)(ix), are above 5%, while the related party transactions set out in Notes 33(a)(i), (a)(ii), (a)(v), (a)(vii) and (a)(xv) are regarded as exempt continuing connected transactions of the Group under Rule 14A.76(1) of the Listing Rules, the financial assistances provided by Wison (China) Investment set out in Notes 33(a)(vi) and 33(a)(xiii) are exempt financial assistances under Rule 14A.90 of the Listing Rules, and the related party transaction set out in Note 33(a)(xiv) is exempted from circular, independent financial advice and shareholders' approval requirements under Rule 14A.101 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 2018.

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 6 to 7 of this report.

Bank and other Loans

Particulars of bank and other loans of the Group as at 31 December 2018 are set out in Note 28 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.

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 2018.

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, 25 March 2019

Corporate Governance Report

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 2018, 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, experience and diversity of perspectives appropriate for the requirements of the business of the Company.

The biographies of the Directors and senior management are set out on pages 39 to 45 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 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 2018 and 28 December 2018, 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 RMB6.3 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 2018 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 2018.

Each of the Directors attended various trainings in 2018, including the training on regulatory updates for Main Board listed companies, as part of their professional 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 2018, the Board held 10 meetings. A total of 105 proposals were considered at these Board meetings, including proposals for the consideration of the Company's 2017 annual report, 2018 interim report, transaction involving acquisition of 25% equity interests in Wison Engineering Ltd., certain connected transactions and continuing connected transactions and the appointment of an executive Director. 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 2018.

Director	Number of meetings requiring attendance	Number of meetings attended in person
Rong Wei (Note 1)	9	7
Liu Haijun (Note 2)	1	1
Zhou Hongliang	10	10
Li Zhiyong	10	9
Dong Hua	10	7
Lawrence Lee	10	10
Feng Guohua	10	8
Tang Shisheng	10	8

Notes:

1. Ms. Rong Wei was appointed as an executive Director on 5 February 2018.

2. Mr. Liu Haijun resigned from the position of executive Director with effect from 5 February 2018.

In 2018, the Company convened and held two shareholders' general meetings, being the 2017 annual general meeting held on 28 June 2018 and the extraordinary general meeting held on 17 September 2018 for the approval of a connected transaction. Ms. Rong Wei, Mr. Zhou Hongliang, Mr. Li Zhiyong, Mr. Dong Hua, Mr. Lawrence Lee, Mr. Tang Shisheng and Mr. Feng Guohua attended the 2017 annual general meeting and Mr. Li Zhiyong, Mr. Dong Hua, Mr. Lawrence Lee and Mr. Tang Shisheng 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 2018, the Audit Committee held 4 meetings, at which a total of 13 proposals were considered, including proposals for the consideration of the Company's 2017 annual report, 2018 interim report and the appointment of auditors for 2018. The Audit Committee also assessed the risk management and internal control measures and the internal audit function of the Company.

The table below sets out the details of meetings attendance of each member of the Audit Committee during the year ended 31 December 2018.

Director	Number of meetings requiring attendance	Number of meetings attended in person
Lawrence Lee	4	3
Tang Shisheng	4	4
Feng Guohua	4	4

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.

Nomination Process

The Company has adopted a nomination policy (the "**Nomination Policy**"), which sets out the approach to guide the Nomination Committee in relation to the selection, appointment and re-appointment of the directors of the Company.

The Nomination Committee will recommend to the Board for the appointment of a Director in accordance with the following procedures and process as set out in the Nomination Policy:

(i) the Nomination Committee will, taking into consideration the current composition, diversity and size of the Board, develop a list of desirable skills, perspectives and experience at the outset to focus the search effort on suitable candidates;

(ii) the Nomination Committee may consult any source it deems appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, advertisements, recommendations from an independent agency firm and proposals from shareholders of the Company;

(iii) the Nomination Committee may adopt any process it deems appropriate in evaluating the suitability of the candidates, such as interviews, background checks, presentations and third-party reference checks;

(iv) upon considering whether a candidate is suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment;

(v) the Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment and the proposed remuneration package; and

(vi) the Board will have the final authority on determining the selection of nominees.

Board Diversity Policy

The Company has formulated and adopted the board diversity policy (the "**Board Diversity Policy**") for compliance with the Listing Rules and the code provisions concerning the diversity of board members. The Board Diversity Policy sets out the approach adopted by the Board regarding the diversity of Board members.

The Board continuously seeks to enhance its effectiveness and to maintain the highest standards of corporate governance and recognizes diversity at Board level as an essential element in maintaining competitive advantage and sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge, 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.

The Board strives to ensure that it has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategies and in order for the Board to be effective.

Nomination Criteria

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.

For nomination and appointment of Ms. Rong Wei as executive Director of the Company, the criteria and procedures set out above have been applied.

In 2018, the Nomination Committee held 2 meetings, at which a total of 5 proposals were considered, including proposals for re-election of directors and the appointment of Ms. Rong Wei.

The table below sets out the details of meetings attendance of each member of the Nomination Committee during the year ended 31 December 2018.

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 2018, the Remuneration Committee held 2 meetings, at which a total of 2 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 2018.

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

For the year ended 31 December 2018, the number of senior management (excluding directors) whose remuneration fell within the following bands is as follows:

HK$1,500,001 to HK$2,000,000	1
HK$2,000,001 to HK$2,500,000	3

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 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.

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**"). 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 and ad hoc 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. All these measures can 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.

The Company has a clear organizational structure that, to the extent required, delegates the day-to-day responsibility for the formulation and implementation of procedures and monitoring of risk. 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 effectiveness of the relevant systems is confirmed through regular and ad hoc 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 Company has established its internal audit function to carry out independent examination and evaluation on the review process and results, and follow up on the progress of improvement after the examination. The examination and evaluation results, recommendation for improvement and the progress of improvement in terms of risk management are then reported to the Board and the Audit Committee.

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 2018.

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 2018.

For the year ended 31 December 2018, 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	5,500
Audit services provided by other local auditors	973
Non-audit service provided by Ernst & Young Advisory for environmental, social and governance service	300
	6,773

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 76 to 81 of this report. In preparing the financial statements for the year ended 31 December 2018, 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 2018, 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.

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 2018 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.

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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 82 to 196, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, 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 (the "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.

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 input 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. 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.

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables and amounts due from contract customers	
As at 31 December 2018, trade receivables and contract assets of the Group amounted to RMB1,338,735,000 and RMB612,789,000, respectively. As at 31 December 2018, provisions for impairment of RMB116,063,000 and RMB103,964,000 were made for trade receivables and contract assets, respectively. The expected credit losses assessment of trade receivables and contract assets involves management's significant judgement and estimation, such as the existence of disputes, historical payment record, forward–looking factors and any other available information that may impact the estimated expected credit losses. Relevant disclosures are included in notes 4, 21 and 23 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 contract assets, and the Group's granting of credit terms and contract terms relating to billing milestones; and (ii) circularising direct confirmations for the trade receivable balances on a sampling basis. We also evaluated the Group's provisions for trade receivables and contract assets by assessing the cash received subsequent to the year end, the customers' relationship with the Group and their financial background, the existence of disputes, historical payment record, historical credit loss experience and forward–looking factors. We obtained and evaluated the historical observed default rates and forward looking information used by management and assessed the overall provision for impairment. We have also assessed the adequacy of the Group's disclosures in the financial statements.

Other Information included in the Annual Report

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

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

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

Responsibilities of the Directors for the consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with 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 of the Company either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the consolidated Financial Statements

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

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

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

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

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

- 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 Ng Cheung.

Ernst & Young
Certified Public Accountants
Hong Kong
25 March 2019

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	6	**3,256,478**	4,124,790
Cost of sales		**(2,757,606)**	(3,263,632)
GROSS PROFIT		**498,872**	861,158
Other income and gains	6	**202,614**	188,794
Selling and marketing expenses		**(107,521)**	(68,889)
Administrative expenses		**(377,737)**	(373,203)
Reversal of impairment losses/(impairment losses) on financial and contract assets		**8,648**	(335)
Other expenses		**(118,537)**	(241,019)
Finance costs	7	**(33,790)**	(136,160)
Share of profit or loss of an associate		**190**	(1,222)
PROFIT BEFORE TAX	8	**72,739**	229,124
Income tax	10	**(12,786)**	(63,405)
PROFIT FOR THE YEAR		**59,953**	165,719
Attributable to:			
Owners of the parent		**56,301**	138,306
Non-controlling interests		**3,652**	27,413
		59,953	165,719
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
— Basic		**RMB1.38 cents**	RMB3.40 cents
— Diluted		**RMB1.37 cents**	RMB3.38 cents

	2018 RMB'000	2017 RMB'000
PROFIT FOR THE YEAR	**59,953**	165,719
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**8,813**	(33,553)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**8,813**	(33,553)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**8,813**	(33,553)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**68,766**	132,166
Attributable to:		
Owners of the parent	**65,348**	108,186
Non-controlling interests	**3,418**	23,980
	68,766	132,166

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**877,691**	917,334
Investment property	14	**11,747**	12,396
Prepaid land lease payments	15	**149,032**	152,948
Goodwill	16	**15,752**	15,752
Intangible assets	17	**32,101**	4,364
Investment in an associate	18	**1,468**	1,278
Long-term prepayments	22	**7,948**	654
Deferred tax assets	29	**35,375**	11,986
Total non-current assets		**1,131,114**	1,116,712
CURRENT ASSETS			
Inventories	19	**46,804**	24,515
Gross amounts due from contract customers	20	**–**	2,051,469
Trade receivables	21	**1,338,735**	1,356,157
Bills receivable		**180,360**	1,202,274
Contract assets	23	**612,789**	–
Prepayments and other receivables	22	**395,511**	335,671
Due from fellow subsidiaries	33	**168,918**	34,277
Pledged bank balances and time deposits	24	**943,028**	542,269
Cash and bank balances	24	**932,086**	916,153
		4,618,231	6,462,785
Assets of a disposal company classified as held for sale	25	**–**	33,374
Total current assets		**4,618,231**	6,496,159
CURRENT LIABILITIES			
Gross amounts due to contract customers	20	**–**	398,697
Trade and bills payables	26	**2,550,425**	3,516,007
Other payables and accruals	27	**1,007,822**	773,624
Interest-bearing bank and other borrowings	28	**245,934**	313,332
Due to fellow subsidiaries	33	**37,087**	–
Due to an associate	33	**630**	630
Dividends payable		**–**	81,984
Tax payable		**146,489**	139,146
		3,988,387	5,223,420
Liabilities directly associated with assets classified as held for sale	25	**–**	6,556
Total current liabilities		**3,988,387**	5,229,976
NET CURRENT ASSETS		**629,844**	1,266,183
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,760,958**	2,382,895

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	29	**6,444**	18,499
Government grants	30	**4,695**	5,014
Total non-current liabilities		**11,139**	23,513
NET ASSETS		**1,749,819**	2,359,382
EQUITY			
Equity attributable to owners of the parent			
Share capital	31	**330,299**	329,968
Share premium	31	**861,129**	850,993
Other reserves		**558,391**	1,002,063
		1,749,819	2,183,024
Non-controlling interests		**–**	176,358
Total equity		**1,749,819**	2,359,382

Rong Wei
Director

Li Zhiyong
Director

	Attributable to owners of the parent											
	Share capital RMB'000 (note 31)	Share premium RMB'000 (note 31)	Share option reserve* RMB'000 (note 32)	Capital reserve* RMB'000 (note 31)	Redemption reserve* RMB'000	Statutory surplus reserves* RMB'000 (note 31)	Statutory expansion reserve* RMB'000 (note 31)	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 2017	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 reserves	–	–	–	–	–	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**
Effect of adoption of IFRS 9 (note 2.2)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(136,239)**	**(136,239)**	**(15,918)**	**(152,157)**
As at 1 January 2018 (restated)	**329,968**	**850,993**	**265,449**	**84,936**	**1**	**39,437**	**30,620**	**2,994**	**442,387**	**2,046,785**	**160,440**	**2,207,225**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**56,301**	**56,301**	**3,652**	**59,953**
Exchange differences related to foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9,047**	**–**	**9,047**	**(234)**	**8,813**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9,047**	**56,301**	**65,348**	**3,418**	**68,766**
Acquisition of non-controlling interests	**–**	**–**	**–**	**(186,142)**	**–**	**–**	**–**	**–**	**–**	**(186,142)**	**(163,858)**	**(350,000)**
Disposal of a subsidiary	**–**	**–**	**–**	**–**	**(1)**	**(8,819)**	**–**	**–**	**8,820**	**–**	**–**	**–**
Transfer to the statutory reserves	**–**	**–**	**–**	**–**	**–**	**1,970**	**1,970**	**–**	**(3,940)**	**–**	**–**	**–**
Exercise of share options	**331**	**10,136**	**(7,695)**	**–**	**–**	**–**	**–**	**–**	**–**	**2,772**	**–**	**2,772**
Equity-settled share option arrangements (note 8)	**–**	**–**	**60,837**	**–**	**–**	**–**	**–**	**–**	**–**	**60,837**	**–**	**60,837**
Interim dividend	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(239,781)**	**(239,781)**	**–**	**(239,781)**
As at 31 December 2018	**330,299**	**861,129**	**318,591**	**(101,206)**	**–**	**32,588**	**32,590**	**12,041**	**263,787**	**1,749,819**	**–**	**1,749,819**

* These reserve accounts comprised the consolidated other reserves of RMB558,391,000 and RMB1,002,063,000 in the consolidated statement of financial position as at 31 December 2018 and 2017, respectively.

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**72,739**	229,124
Adjustments for:			
Depreciation of property, plant and equipment and investment properties	8,13,14	**47,450**	48,386
Amortisation of intangible assets	8,17	**4,191**	3,201
Amortisation of prepaid land lease payments	8,15	**4,037**	4,158
Reversal of provision for inventories	8,19	**–**	(335)
Recognition of government grants	6,30	**(26,111)**	(5,178)
Share of profit and loss of an associate		**(190)**	1,222
Net foreign exchange losses		**(13,931)**	–
Loss on disposal of items of property, plant and equipment	8	**–**	306
Loss on disposal of items of intangible assets	8	**137**	–
Impairment of trade receivables	21	**74,490**	–
Reversal of Impairment of contract assets	23	**(82,986)**	–
Reversal of Impairment of other receivables	22	**(152)**	–
Gain on disposal of a subsidiary	6,8	**(25,567)**	–
Equity–settled share option expenses	8	**60,837**	26,203
Equity–settled share–based payment expenses	8,31	**–**	84,936
Finance costs	7	**33,790**	136,160
Interest income	6	**(19,693)**	(110,520)
		129,041	417,663
Increase in inventories		**(22,289)**	(3,939)
Decrease/(increase) in trade and bills receivables		**976,371**	(2,109,035)
(Increase)/decrease in prepayments, deposits and other receivables		**(62,564)**	95,773
(Increase)/decrease in long–term prepayments		**(7,290)**	1,813
Decrease in amounts due from contract customers		**–**	1,737,821
Decrease in amounts due to contract customers		**–**	(143,511)
Decrease in contract assets		**1,334,716**	–
Increase in amounts due from fellow subsidiaries		**(134,641)**	(29,900)
Decrease in an amount due from a related company		**–**	256
Increase in amounts due to fellow subsidiaries		**37,087**	–
(Decrease)/increase in trade and bills payables		**(965,582)**	481,569
Decrease in other payables and accruals		**(197,480)**	(334,714)
(Increase)/decrease in pledged bank balances and time deposits		**(400,759)**	564,534
Cash generated from operations		**686,610**	678,330
Interest received		**8,168**	1,364
Interest paid		**(22,265)**	(27,004)
Tax paid		**(5,777)**	(83,434)
Net cash flows from operating activities		**666,736**	569,256

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	**(7,158)**	(14,421)
Proceeds from disposal of items of property, plant and equipment		**–**	1,251
Purchase of other intangible assets	17	**(32,065)**	(517)
Receipt of government grants	30	**25,792**	5,048
Disposal of a subsidiary	35	**85,322**	–
Net cash flows from/(used in) investing activities		**71,891**	(8,639)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of new shares		**2,772**	1,330
Acquisition of non–controlling interests		**(350,000)**	–
New bank loans		**236,682**	446,538
Repayment of bank loans		**(311,764)**	(552,736)
Dividend paid		**(321,765)**	(233,405)
Net cash flows used in financing activities		**(744,075)**	(338,273)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(5,448)**	222,344
Cash and cash equivalents at beginning of year		**916,153**	701,000
Effect of foreign exchange rate changes, net		**21,381**	(7,191)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**932,086**	916,153
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**897,086**	916,153
Unpledged time deposits with original maturity of less than three months when acquired		**35,000**	–
CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF FINANCIAL POSITION	24	**932,086**	916,153
CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF CASH FLOWS		**932,086**	916,153

1. Corporate 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 principally provides 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	Percentage of equity attributable to the Company 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 services
惠生工程(中國)有限公司 (Wison Engineering Limited, "Wison Engineering")*	PRC/Mainland China	RMB510,000,000	–	100**	Provision of engineering, procurement and construction management services
Wison Petrochemicals (NA), LLC*	United States	Nil	–	100	Provision of engineering, procurement and construction management services

1. Corporate Information *(continued)*

Information about subsidiaries *(continued)*

* 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. Before 2 July 2018, Wison Engineering is treated as a subsidiary of the Group because the Company has unilateral control over Wison Engineering with 75% equity interests. The joint venture partner's profit sharing ratios of Wison Engineering were not in proportion to their equity ratios but were 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. During the year, the Group acquired additional 25% of the total equity interest of Wison Engineering from the joint venture partner with a total consideration of RMB350,000,000 and Wison Engineering becomes a wholly owned subsidiary of the Company.

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.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with 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 values 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 2018. 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.

2.1 Basis of Preparation *(Continued)*

Basis of consolidation *(continued)*

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

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

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

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

2.2 Changes in Accounting Policies and Disclosures

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

2.2 Changes in Accounting Policies and Disclosures *(Continued)*

Except for the amendments to IFRS 4 and *Annual Improvements to IFRSs 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 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 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. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

2.2 Changes in Accounting Policies and Disclosures *(Continued)*

(b) ***(Continued)***

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	Note	IAS 39 measurement Category	IAS 39 measurement Amount RMB'000	Re-classification RMB'000	ECL RMB'000	IFRS 9 measurement Amount RMB'000	IFRS 9 measurement Category
Financial assets							
Trade receivables	(i)	L&R[1]	1,356,157	–	–	1,356,157	AC[2]
Bills receivables		L&R	1,202,274	–	–	1,202,274	AC
Financial assets included in prepayments and other receivables		L&R	28,926	–	(317)	28,609	AC
Due from fellow subsidiaries		L&R	34,277	–	–	34,277	AC
Pledged bank balances and time deposits		L&R	542,269	–	–	542,269	AC
Cash and bank balance		L&R	916,153	–	–	916,153	AC
			4,080,056	–	(317)	4,079,739	
Other assets							
Contract assets	(i)		2,051,469	–	(186,950)	1,864,519	
Deferred tax assets			11,986	–	28,090	40,076	
			2,063,455	–	(158,860)	1,904,595	
Total assets			7,612,871	–	(159,177)	7,453,694	
Financial liabilities							
Trade and bills payables		AC	3,516,007	–	–	3,516,007	AC
Financial liabilities included in other payables and accruals	(i)	AC	79,451	–	–	79,451	AC
Interest-bearing bank and other borrowings		AC	313,332	–	–	313,332	AC
Due to an associate		AC	630	–	–	630	AC
Dividends payable		AC	81,984	–	–	81,984	AC
			3,991,404	–	–	3,991,404	
Other liabilities							
Deferred tax liabilities			18,499	–	(7,020)	11,479	
Total liabilities			5,253,489	–	(7,020)	5,246,469	

1 L&R: Loans and receivables

2 AC: Financial assets or financial liabilities at amortised cost

2.2 Changes in Accounting Policies and Disclosures *(Continued)*

(b) ***(Continued)***

Classification and measurement *(Continued)*

Note:

(i) The gross carrying amounts of the trade receivables, contract assets and financial liabilities included in other payables and accruals under the column "IAS 39 measurement — Amount" represent the amounts after adjustments for the adoption of IFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of IFRS 15 are included in note 2.2(c) to the financial statements.

Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9. Further details are disclosed in notes 23 and 22 to the financial statements.

	Impairment allowances under IAS 39 at 31 December 2017 RMB'000	Re-measurement RMB'000	ECL allowances under IFRS 9 at 1 January 2018 RMB'000
Contract assets	676,033	186,950	862,983
Financial assets included in prepayments and other receivables	–	317	317
	676,033	187,267	863,300

Impact on retained profits

The impact of transition to IFRS 9 on retained profits is as follows:

	Retained profits RMB'000
Retained profits	
Balance as at 31 December 2017 under IAS 39	578,626
Recognition of expected credit losses for contract assets under IFRS 9	(186,950)
Recognition of expected credit losses for prepayments and other receivables under IFRS 9	(317)
Deferred tax in relation to the above	35,110
Add: Impact on non-controlling interests	15,918
Balance as at 1 January 2018 under IFRS 9	442,387

2.2 Changes in Accounting Policies and Disclosures *(Continued)*

(c) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 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 disclosures are included in notes 4 and 6 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 3 to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15:

	Notes	**Increase/ (decrease)** RMB'000
Assets		
Gross amounts due from contract customers	(i)	(2,051,469)
Contract assets	(i)	2,051,469
Liabilities		
Gross amounts due to contract customers	(ii)	(398,697)
Other payables and accruals	(ii)	398,697

2.2 Changes in Accounting Policies and Disclosures *(Continued)*

(c) ***(Continued)***

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

Consolidated statement of financial position as at 31 December 2018:

		Amounts prepared under		
			Previous	**Increase/**
		IFRS 15	**IFRS**	**(decrease)**
	Notes	RMB'000	RMB'000	RMB'000
Gross amounts due from contract customers	(i)	–	612,789	(612,789)
Contract assets	(i)	612,789	–	612,789
Gross amounts due to contract customers	(ii)	–	492,758	(492,758)
Other payables and accruals	(ii)	492,758	–	492,758

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 are described below:

(i) Construction services

Before the adoption of IFRS 15, contract costs were recognised as an asset provided it was probable that they would be recovered. Such costs represented an amount due from the customers and were recorded as gross amounts due from contract customers in the statement of financial position before the construction services were billed to customers. Upon the adoption of IFRS 15, a contract asset is recognised when the Group performs by transferring goods or services to customers and the Group's right to consideration is conditional. Accordingly, the Group reclassified RMB2,051,469,000 from gross amounts due from contract customers to contract assets as at 1 January 2018.

As at 31 December 2018, the adoption of IFRS 15 resulted in a decrease in gross amounts due from contract customers of RMB612,789,000 and an increase in contract assets of RMB612,789,000.

2.2 Changes in Accounting Policies and Disclosures *(Continued)*

(c) ***(Continued)***

(ii) Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as other payables and recognised the net amounts of cost incurred plus recognised profits less the sum of progress billings as amounts due to contract customers. Under IFRS 15, the above amounts are classified as contract liabilities which are included in other payables and accruals.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB303,572,000 and RMB398,697,000 from other payables and gross amounts due to contract customers to contract liabilities, respectively, as at 1 January 2018, in relation to the consideration received from customers in advance and the net amounts of cost incurred plus recognised profits less the sum of progress billings as at 1 January 2018, respectively.

As at 31 December 2018, under IFRS 15, RMB246,376,000 and RMB492,758,000 were reclassified from other payables and gross amounts due to contract customers to contract liabilities in relation to the consideration received from customers in advance and the net amounts of cost incurred plus recognised profits less the sum of progress billings, respectively.

(iii) Other adjustments

In addition to the adjustments described above, other items of the primary financial statements such as tax and non-controlling interests were adjusted as necessary. Retained profits were adjusted accordingly.

(d) Amendments to IAS 40 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 have had no impact on the financial position or performance of the Group.

2.2 Changes in Accounting Policies and Disclosures *(Continued)*

(e) IFRIC 22 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. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

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 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements *2015-2017 Cycle*	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
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.

2.3 Issued but not yet Effective International Financial Reporting Standards *(Continued)*

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

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.

2.3 Issued but not yet Effective International Financial Reporting Standards *(Continued)*

IFRS 16 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. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of RMB8,218,000 and lease liabilities of RMB8,218,000 will be recognised at 1 January 2019 with a corresponding adjustment to the opening balance of retained earnings.

2.3 Issued but not yet Effective International Financial Reporting Standards *(Continued)*

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

IFRIC 23 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.

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 is 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*.

Business combinations and goodwill

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

3. Summary of Significant Accounting Policies *(continued)*

Business combinations and goodwill *(continued)*

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

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

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net 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.

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.

3. Summary of Significant Accounting Policies *(continued)*

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.

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 inventories, construction contract assets, financial assets, investment properties and non-current assets/assets of a disposal company 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 the 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

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

Property, plant and equipment, other than construction in progress, 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.

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.

3. Summary of Significant Accounting Policies *(continued)*

Property, plant and equipment and depreciation *(continued)*

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to 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.

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

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.

3. Summary of Significant Accounting Policies *(continued)*

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.

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 licences are subject to amortisation over an estimated useful life of five years.

Licences

Purchased licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

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.

3. Summary of Significant Accounting Policies *(continued)*

Leases *(continued)*

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.

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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.

3. Summary of Significant Accounting Policies *(continued)*

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) *(continued)*

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

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 financial assets depends on their classification 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.

3. Summary of Significant Accounting Policies *(continued)*

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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

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

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

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

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

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

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

3. Summary of Significant Accounting Policies *(continued)*

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) *(continued)*

General approach

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

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

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

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

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

3. Summary of Significant Accounting Policies *(continued)*

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) *(continued)*

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

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 yet 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).

3. Summary of Significant Accounting Policies *(continued)*

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018) *(continued)*

Financial assets carried at amortised cost *(continued)*

The carrying amount of the asset is reduced 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 other expenses in 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.

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

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

3. Summary of Significant Accounting Policies *(continued)*

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) *(continued)*

Subsequent measurement

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

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in 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 (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is 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 (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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.

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.

3. Summary of Significant Accounting Policies *(continued)*

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, and assets similar in nature to cash which are not restricted as to use.

Provisions

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

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

Income tax

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

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

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

3. Summary of Significant Accounting Policies *(continued)*

Income tax *(continued)*

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

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

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries and 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.

3. Summary of Significant Accounting Policies *(continued)*

Income tax *(continued)*

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.

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 (applicable from 1 January 2018)

Revenue from contracts with customers

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

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

3. Summary of Significant Accounting Policies *(continued)*

Revenue recognition (applicable from 1 January 2018) *(continued)*

Revenue from contracts with customers *(continued)*

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

(a) Construction services

Revenue from the provision of construction services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

Claims to customers are amounts that the Group seeks to collect from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract. Claims are accounted for as variable consideration and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group uses the expected value method to estimate the amounts of claims because this method best predicts the amount of variable consideration to which the Group will be entitled.

(b) Provision of design, feasibility research, consulting and technical services

The service revenue from the provision of design, feasibility research, consulting and technical services is recognised over time, using the approach of input method to measure progress towards complete satisfaction of the services, because the Group has enforceable right to payment for performance completed to date. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs to complete the services.

3. Summary of Significant Accounting Policies *(continued)*

Revenue recognition (applicable from 1 January 2018) *(continued)*

Revenue from other sources

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

Other income

Interest income is recognised 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.

Revenue recognition (applicable before 1 January 2018)

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 (applicable before 1 January 2018)" below;

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services (applicable before 1 January 2018)" below;

(c) rental income, on a time proportion basis over the lease terms; and

(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.

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

3. Summary of Significant Accounting Policies *(continued)*

Contract costs (applicable from 1 January 2018)

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Construction contracts (applicable before 1 January 2018)

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.

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.

3. Summary of Significant Accounting Policies *(continued)*

Contracts for services (applicable before 1 January 2018)

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.

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.

3. Summary of Significant Accounting Policies *(continued)*

Other employee retirement benefits *(continued)*

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.

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. Proposed final dividends are disclosed in the notes to the financial statements.

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

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.

3. Summary of Significant Accounting Policies *(continued)*

Foreign currencies *(continued)*

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.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income 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 and branches 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 disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets 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:

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

(i) Determining the method to estimate variable consideration and assessing the constraint for construction services

The Group seeks to collect claims from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract, which give rise to variable consideration. The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for claims in construction services, given there is a wide range of possible outcomes which are subject to negotiations with third parties.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, current negotiations with customers, profitability of the head contracts of the customers and the current economic conditions.

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. 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.

4. Significant Accounting Judgements and Estimates *(continued)*

Judgements *(continued)*

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 sold separately or 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.

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:

Variable considerations for claims to customers

The Group estimates variable considerations for claims to be included in the transaction price for the provision of construction services.

The Group developed a statistical model for estimating expected successful claims. The model used the historical claims data including the historical experiences with the same customer, profitability of the head contracts of the customers and economic conditions to estimate expected successful claims percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical successful claims pattern will impact the expected successful claims percentages estimated by the Group.

The Group updates its assessment of expected successful claims monthly. Estimates of expected successful claims are sensitive to changes in circumstances and the Group's past experience regarding negotiation of claims may not be representative of the actual outcome in the future.

4. Significant Accounting Judgements and Estimates *(continued)*

Estimation uncertainty *(continued)*

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 2018, the carrying value of property, plant and equipment was RMB877,691,000 (2017: RMB917,334,000).

Percentage of completion of construction works

The Group recognises revenue according to the input method, 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.

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.

4. Significant Accounting Judgements and Estimates *(continued)*

Estimation uncertainty *(continued)*

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.

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography and customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward–looking information. For instance, if forecast economic conditions (i.e., the average default rate of the corporate credit debts) are expected to deteriorate over the next year which can lead to an increased number of defaults in the construction service sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward–looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in notes 21 and note 23 to the financial statements, respectively.

4. Significant Accounting Judgements and Estimates *(continued)*

Estimation uncertainty *(continued)*

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 2018 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 2018 was RMB123,565,000 (2017: RMB62,143,000). Further details are contained in note 29 to the financial statements.

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 resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude property, plant and equipment, investment property, prepaid land lease payments, goodwill, intangible assets, an investment in an associate, deferred tax assets, long-term prepayments, amounts due from fellow subsidiaries, prepayments 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, amounts due to fellow subsidiaries, 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.

5. Operating Segment Information *(continued)*

Operating segments

Year ended 31 December 2018	EPC RMB'000	Engineering, consulting and technical services RMB'000	Total RMB'000
Segment revenue (note 6)			
Sales to external customers	**3,072,348**	**184,130**	**3,256,478**
Intersegment sales	**77,760**	**9,323**	**87,083**
Total revenue	**3,150,108**	**193,453**	**3,343,561**
Reconciliation:			
Elimination of intersegment sales			**(87,083)**
Revenue			**3,256,478**
Segment results	**432,491**	**66,381**	**498,872**
Reconciliation:			
Imputed interest income from an EPC contract	**11,529**	**–**	**11,529**
Interest on discounted letters of credit	**(11,529)**	**–**	**(11,529)**
Unallocated income			**191,085**
Unallocated expenses			**(595,147)**
Unallocated finance costs			**(22,261)**
Share of profit or loss of an associate			**190**
Profit before tax			**72,739**
Segment assets	**2,494,643**	**81,864**	**2,576,507**
Reconciliation:			
Elimination of intersegment receivables			**(53,486)**
Corporate and other unallocated assets			**3,226,324**
Total assets			**5,749,345**
Segment liabilities	**3,201,821**	**141,287**	**3,343,108**
Reconciliation:			
Elimination of intersegment payables			**(53,549)**
Corporate and other unallocated liabilities			**709,967**
Total liabilities			**3,999,526**
Other segment information			
Share of profit or loss of an associate			
Unallocated			**190**
Impairment losses reversed in the statement of profit or loss			**8,648**
Depreciation and amortisation			
Unallocated			**55,678**
Investment in an associate			
Unallocated			**1,468**
Capital expenditure*			
Unallocated			**39,223**

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

5. Operating Segment Information *(continued)*

Operating segments *(continued)*

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 letters of credit	(109,156)	–	(109,156)
Unallocated income			79,638
Unallocated expenses			(683,446)
Unallocated finance costs			(27,004)
Share of profit or loss 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 profit or loss 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 intangible assets.

5. Operating Segment Information *(continued)*

Geographical information

Revenue from external customers

	2018	2017
	RMB'000	RMB'000
Mainland China	**2,174,674**	2,079,567
United States of America	**618,976**	11,243
Venezuela	**213,660**	765,953
Saudi Arabia	**180,305**	1,082,429
United Arab Emirates	**28,436**	185,598
Other countries	**40,427**	–
	3,256,478	4,124,790

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:

	2018	2017
Customer A (EPC segment)	**38.2%**	N/A
Customer B (EPC segment)	**13.5%**	N/A
Customer C (EPC segment)	**N/A**	18.6%
Customer D (EPC segment)	**N/A**	17.7%
Customer E (EPC segment)	**N/A**	10.2%
Customer F (EPC segment)	**N/A**	10.2%

6. Revenue, Other Income and Gains

An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers		
Construction contracts	**3,072,348**	4,009,407
Design, feasibility research, consulting and technical services	**184,130**	115,383
Total revenue from contracts with customers	**3,256,478**	4,124,790

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	EPC RMB'000	Engineering, consulting and technical services RMB'000	Total RMB'000
Type of goods or services			
Construction services	3,072,348	–	3,072,348
Design, feasibility research, consulting and technical services	–	184,130	184,130
	3,072,348	184,130	3,256,478
Geographical markets			
Mainland China	2,016,658	158,016	2,174,674
United States of America	610,344	8,632	618,976
Venezuela	213,660	–	213,660
Saudi Arabia	180,305	–	180,305
United Arab Emirates	28,436	–	28,436
Others	22,945	17,482	40,427
	3,072,348	184,130	3,256,478
Timing of revenue recognition			
Services transferred over time	3,072,348	184,130	3,256,478

6. Revenue, Other Income and Gains *(continued)*

Revenue from contracts with customers *(continued)*

(i) Disaggregated revenue information *(Continued)*

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

For the year ended 31 December 2018

Segments	EPC RMB'000	Engineering, consulting and technical services RMB'000	Total RMB'000
Revenue from contracts with customers			
External customers	3,072,348	184,130	3,256,478
Intersegment sales	77,760	9,323	87,083
Intersegment adjustments and eliminations	(77,760)	(9,323)	(87,083)
Total revenue from contracts with customers	3,072,348	184,130	3,256,478

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

	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Construction services	381,042
Design, feasibility research, consulting and technical services	26,516
	407,558

6. Revenue, Other Income and Gains *(continued)*

Revenue from contracts with customers *(continued)*

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Construction services

The performance obligation is satisfied over time as services are rendered and payment is separated in stages upon reaching certain pre-agreed milestones set forth in the agreement which is generally due within 30 days from the date of billing and payment. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

Provision of design, feasibility research, consulting and technical services

The performance obligation is satisfied over time as services are rendered and payment is generally separated in stages upon reaching certain pre-agreed milestones set forth in the agreement and short-term advances are normally required before rendering the services.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	RMB'000
Within one year	3,347,080
More than one year	9,851,975
	13,199,055

The remaining performance obligations expected to be recognised in more than one year relate to construction services that are to be satisfied within five years. All the other remaining performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

6. Revenue, Other Income and Gains *(continued)*

	2018 RMB'000	2017 RMB'000
Other income		
Government grants*	**26,111**	5,178
Interest income	**19,693**	110,520
Rental income	**111,994**	69,966
Others	**7,571**	3,130
	165,369	188,794
Gains		
Gain on disposal of a subsidiary	**25,567**	–
Foreign exchange gains	**11,678**	–
	37,245	–
	202,614	188,794

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

7. Finance Costs

An analysis of finance costs is as follows:

	2018 RMB'000	2017 RMB'000
Interest on bank loans wholly repayable within five years	**15,693**	21,256
Interest on discounted bills and letters of credit	**18,097**	114,904
	33,790	136,160

8. Profit Before Tax

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

	Note	**2018 RMB'000**	2017 RMB'000
Cost of services provided*		**2,757,606**	3,263,632
Depreciation of property, plant and equipment and investment properties	13, 14	**47,450**	48,386
Research and development costs		**101,998**	126,719
Amortisation of prepaid land lease payments	15	**4,037**	4,158
Amortisation of intangible assets	17	**4,191**	3,201
Government grants	30	**(26,111)**	(5,178)
Impairment of financial and contract assets,net			
Impairment of trade receivables, net	21	**74,490**	–
Impairment of contract assets, net	23	**(82,986)**	–
Impairment of other receivables, net	22	**(152)**	–
Gain on disposal of a subsidiary	35	**(25,567)**	–
Reversal of provision for inventories	19	**–**	(335)
Loss on disposal of items of property, plant and equipment		**–**	306
Loss on disposal of items of intangible assets		**137**	–
Minimum lease payments under operating leases		**23,426**	17,903
Auditor's remuneration		**6,473**	4,642
Employee benefit expense (including directors' and chief executive's remuneration) (note 9)			
Wages and salaries		**477,750**	459,954
Retirement benefit scheme contributions		**54,421**	43,701
Equity-settled share option expenses		**60,837**	26,203
Equity-settled share-based payment expenses	32	**–**	84,936
		593,008	614,794
Foreign exchange differences, net		**(11,678)**	46,044

* Amounts of RMB216,468,000 and RMB291,000,000 of employee benefit expenses were included in cost of services provided during the years ended 31 December 2018 and 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 Rules Governing the Listing of Securities on The Stock Exchange, 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:

	2018	2017
	RMB'000	RMB'000
Fees	**606**	627
Other emoluments:		
Salaries and allowances	**6,471**	6,237
Discretionary bonuses	**1,029**	647
Equity-settled share option expenses and equity-settled share-based payment expenses	**1,642**	19,078
Retirement benefit scheme contributions	**204**	184
Total	**9,952**	26,773

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 32 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 ended 31 December 2017, 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 vesting, was determined as at the date of grant and the amount included in the financial statements for the year ended 31 December 2017 was included in the above directors' and chief executive's remuneration disclosures.

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 based payment expenses RMB'000	Retirement benefit scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2018						
Executive directors						
Mr. Liu Haijun (i)	–	297	–	28	8	333
Ms. Rong Wei (ii)	–	1,692	–	–	46	1,738
Mr. Zhou Hongliang	–	1,494	410	270	50	2,224
Mr. Li Zhiyong	–	1,494	419	–	50	1,963
Mr. Dong Hua	–	1,494	200	237	50	1,981
	–	6,471	1,029	535	204	8,239
Independent non–executive directors						
Mr. Lawrence Lee	202	–	–	369	–	571
Mr. Tang Shisheng	202	–	–	369	–	571
Mr. Feng Guohua	202	–	–	369	–	571
	606	–	–	1,107	–	1,713
	606	6,471	1,029	1,642	204	9,952

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 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 (iii)	–	–	–	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

(i) 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.

(ii) Ms. Rong Wei was appointed as an executive director of the Company and the Chief Executive Officer of the Group, with effect from 5 February 2018.

(iii) 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.

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:

	2018	2017
Directors	**3**	3
Non-director and non-chief executive employees	**2**	2
	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 2018 are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and allowances	**2,704**	2,316
Discretionary bonuses	**533**	556
Equity-settled share option expenses and equity-settled share-based payment expenses	**338**	6,346
Retirement benefit scheme contributions	**100**	92
	3,675	9,310

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

	2018	2017
HK$2,000,001 to HK$2,500,000	**2**	–
HK$2,500,001 to HK$3,000,000	**–**	–
HK$4,500,001 to HK$5,000,000	**–**	1
HK$6,000,001 to HK$6,500,000	**–**	1
	2	2

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 32 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.

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.

	2018	2017
	RMB'000	RMB'000
Current		
— Mainland China	**–**	58,109
— Elsewhere	**4,432**	9,293
Deferred (note 29)	**8,354**	(3,997)
Total tax charge for the year	**12,786**	63,405

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, Turkey, Russia, South Africa, Abu Dhabi, United Arab Emirates and Singapore as the Group did not have any assessable income arising in Hong Kong, Indonesia, Turkey, Russia, South Africa, Abu Dhabi, United Arab Emirates and Singapore during the year ended 31 December 2018 (2017: 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 for the "High and New Technology Enterprise" qualification and obtained the certification on 23 October 2017 which will be effective for another three years from 1 January 2017. Accordingly, Wison Engineering was subject to CIT at a rate of 15% for the years ended 31 December 2018 and 2017.

Wison Petrochemicals (NA), LLC is subject to federal income tax at a rate of 21% and state income tax at a rate of 0.75%.

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

10. Income Tax *(continued)*

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

	2018 RMB'000	2017 RMB'000
Profit before tax	**72,739**	229,124
Tax at the statutory tax rates	**11,299**	32,506
Lower tax rate enacted by local authority	**1,579**	19,672
Tax losses not recognised	**10,415**	2,182
Tax losses utilised from previous periods	**(2,742)**	–
Effect of withholding taxes on distributable profits of the subsidiaries in Mainland China	**3,653**	12,089
Additional tax deduction	**(11,291)**	(6,160)
Income not subject to tax	**(1,922)**	–
Expenses not deductible for tax	**1,795**	3,116
Tax charge at the Group's effective rate	**12,786**	63,405

The share of tax attributable to an associate amounting to RMB14,000 (2017: RMB55,000) is included in "Share of profit and loss of an associate" in the consolidated statement of profit or loss.

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 2018, there was no significant unrecognised deferred tax liability (2017: 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.

11. Dividend

	2018 RMB'000	2017 RMB'000
Interim — HK0.07 cent (2017: Nil) per ordinary share	**2,494**	–
One-off — HK6.66 cents (2017: Nil) per ordinary share	**237,287**	–
	239,781	–

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 4,069,112,331 (2017: 4,064,920,116) in issue during the year.

The calculation of the diluted earnings per share amount 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:

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**56,301**	138,306
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**4,069,112,331**	4,064,920,116
Effect of dilution-weighted average number of ordinary shares	**36,810,922**	23,505,780
	4,105,923,253	4,088,425,896

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 2018							
At 31 December 2017 and 1 January 2018:							
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
At 1 January 2018, net of accumulated depreciation	2,580	908,291	787	504	2,106	3,066	917,334
Additions	744	–	5	2,257	2,036	2,116	7,158
Depreciation provided during the year	–	(37,522)	(433)	(1,448)	(2,784)	(4,614)	(46,801)
Transfers	(3,324)	–	–	–	–	3,324	–
At 31 December 2018, net of accumulated depreciation	–	870,769	359	1,313	1,358	3,892	877,691
At 31 December 2018:							
Cost	–	1,062,852	3,932	8,842	27,738	75,031	1,178,395
Accumulated depreciation	–	(192,083)	(3,573)	(7,529)	(26,380)	(71,139)	(300,704)
Net carrying amount	–	870,769	359	1,313	1,358	3,892	877,691

13. Property, Plant and Equipment *(continued)*

	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	–	(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

At 31 December 2018, 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 RMB863,615,000 (2017: RMB899,352,000) which are held under a medium-term lease.

14. Investment Properties

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**12,396**	12,976
Depreciation	**(649)**	(580)
Carrying amount at 31 December	**11,747**	12,396

The fair value of the Group's investment properties was RMB40,401,000 as at 31 December 2018 (2017: RMB39,928,000), 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 36).

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 2018 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	**–**	**–**	**40,401**	**40,401**

	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

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

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	Weighted average 2018	2017
Commercial properties	Income method	Market monthly rental (RMB) (per square metre)	**12.2**	11.7
		Long term vacancy rate	**5%**	5%
		Yield rate	**6.0%**	6.0%

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.

15. Prepaid Land Lease Payments

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**157,106**	163,272
Recognised during the year	**(4,037)**	(4,158)
Transfer to a disposal company classified as held for sale	**–**	(2,008)
Carrying amount at end of the year	**153,069**	157,106
Current portion included in prepayments and other receivables	**(4,037)**	(4,158)
Non-current portion	**149,032**	152,948

16. Goodwill

	2018 RMB'000	2017 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, budgeted gross margin and expected changes to revenue and direct costs during the year. The directors have estimated the discount rate of 15% (2017: 15%) 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% (2017: 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. Management determine the budgeted gross margin based on the gross margin achieved previously and management's expectation on the future trend of the market development. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for 2018 and extrapolates cash flows for the following five years based on an estimated average industry growth rate.

17. Other Intangible Assets

	Software RMB'000	Licences RMB'000	Total RMB'000
31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation	**4,364**	**–**	**4,364**
Additions	**7,205**	**24,860**	**32,065**
Disposal	**(137)**	**–**	**(137)**
Amortisation provided during the year	**(2,534)**	**(1,657)**	**(4,191)**
At 31 December 2018	**8,898**	**23,203**	**32,101**
At 31 December 2018:			
Cost	**58,058**	**24,860**	**82,918**
Accumulated amortisation	**(49,160)**	**(1,657)**	**(50,817)**
Net carrying amount	**8,898**	**23,203**	**32,101**
31 December 2017			
Cost at 1 January 2017, net of accumulated amortisation	7,048	–	7,048
Additions	517	–	517
Disposal	–	–	–
Amortisation provided during the year	(3,201)	–	(3,201)
At 31 December 2017	4,364	–	4,364
At 31 December 2017:			
Cost	51,513	–	51,513
Accumulated amortisation	(47,149)	–	(47,149)
Net carrying amount	4,364	–	4,364

18. Investment in an Associate

	2018 RMB'000	2017 RMB'000
Share of net assets	**1,468**	1,278

Particulars of the associate are as follows:

Name	Registered and paid-up capital	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
河南創思特工程監理諮詢有限公司 (Henan Chuangsite Supervisory Consulting Co., Ltd. ("Henan Chuangsite"))	RMB3,000,000	PRC/Mainland China	30	Supervisory services for construction projects

The Group's equity holding 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:

	2018 RMB'000	2017 RMB'000
Share of the associate's profit/(loss) for the year	**190**	(1,222)
Share of the associate's other comprehensive income/(loss)	**–**	–
Share of the associate's total comprehensive income/(loss)	**190**	(1,222)
Aggregate carrying amount of the Group's investment in the associate	**1,468**	1,278

The Group's other payable balance with the associate is disclosed in note 33.

19. Inventories

	2018 RMB'000	2017 RMB'000
Construction materials, net	**46,804**	24,515

The movements in the provision for inventories are as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	–	5,390
Reversal of provision for the year	–	(335)
Written off	–	(5,055)
At 31 December	–	–

20. Construction Contracts

	2018 RMB'000	2017 RMB'000
Gross amounts due from contract customers	–	2,727,502
Impairment	–	(676,033)
	–	2,051,469
Gross amounts due to contract customers	–	(398,697)
	–	1,652,772

	2018 RMB'000	2017 RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	–	22,874,267
Less: Progress billings	–	(21,221,495)
	–	1,652,772

20. Construction Contracts *(continued)*

As at 31 December 2017, included in the amounts due from contract customers was an amount of RMB863,169,000 which related to the Group's certain EPC projects, and had been identified as overdue in accordance with contract terms. The Group recorded an impairment provision of RMB676,033,000 as of 31 December 2017.

21. Trade Receivables

	2018 RMB'000	2017 RMB'000
Trade receivables	**1,454,798**	1,397,730
Impairment	**(116,063)**	(41,573)
	1,338,735	1,356,157

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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are 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 loss allowance, is as follows:

	2018 RMB'000	2017 RMB'000
Trade receivables:		
Within 1 month	**227,440**	924,364
2 to 12 months	**440,396**	424,201
Over 1 year	**670,899**	7,592
	1,338,735	1,356,157

21. Trade Receivables *(continued)*

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	2018 **RMB'000**	2017 RMB'000
At beginning of year	**41,573**	41,573
Effect of adoption of IFRS 9	**–**	–
At beginning of year (restated)	**41,573**	–
Impairment loss, net (note 8)	**74,490**	–
At end of year	**116,063**	41,573

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns (i.e., by geographical region and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Ageing				
	Less than 1 year	**1 to 2 year**	**2 to 3 year**	**Over 3 years**	**Total**
Expected credit loss rate	**0.12%**	**11.03%**	**47.46%**	**100.00%**	**7.98%**
Gross carrying amount (RMB'000)	**668,612**	**754,007**	**59**	**32,120**	**1,454,798**
Expected credit losses (RMB'000)	**776**	**83,139**	**28**	**32,120**	**116,063**

21. Trade Receivables *(continued)*

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of RMB41,573,000 with a carrying amount before provision of RMB43,573,000.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	926,364
Less than 12 months past due	424,201
Over 1 year past due	5,592
	1,356,157

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 were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances are still considered fully recoverable.

The amounts due from a related company included in the trade receivables are as follows:

	2018 RMB'000	2017 RMB'000
Related company (as defined in note 33) 泰興天馬化工有限公司	**73,575**	64,058

22. Prepayments and Other Receivables

	2018 RMB'000	2017 RMB'000
Current portion of prepaid land lease payments	**4,037**	4,158
Prepayments	**344,333**	303,241
Deposits and other receivables	**55,254**	28,926
Less: Non-current portion of prepayments	**(7,948)**	(654)
	395,676	335,671
Impairment allowance	**(165)**	–
	395,511	335,671

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied for where there are no comparable companies as at 31 December 2018 was 0.42%.

The movements in the loss allowance for impairment of other receivables are as follows:

	2018 RMB'000
At beginning of year	**–**
Effect of adoption of IFRS 9	**317**
At beginning of year (restated)	**317**
Impairment loss, net (note 8)	**(152)**
At end of year	**165**

23. Contract Assets

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Contract assets arising from:			
Construction services	**710,149**	2,727,502	–
Design, feasibility research, consulting and technical services	**6,604**	–	–
	716,753	2,727,502	–
Impairment	**(103,964)**	(862,983)	–
	612,789	1,864,519	–

Contract assets are initially recognised for revenue earned from construction services and design, feasibility research, consulting and technical services as the receipt of consideration is conditional on successful completion of installation of the industrial products and construction, respectively. Included in contract assets for construction services are retention receivables. Upon completion of construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2018 was the result of the increase in the provision of construction services and design, feasibility research, consulting and technical services at the end of the year.

During the year ended 31 December 2018, RMB82,986,000 was reversed of an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 21 to the financial statements.

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is as follows:

	RMB'000
Within one year	332,999
More than one year	279,790
Total contract assets	612,789

23. Contract Assets *(continued)*

The movements in the loss allowance for impairment of contract assets are as follows:

	2018 RMB'000
At beginning of year	**676,033**
Effect of adoption of IFRS 9	**186,950**
At beginning of year (restated)	**862,983**
Written off	**(676,033)**
Impairment loss, net (note 8)*	**(82,986)**
At end of year	**103,964**

* The impairment provision made for the contract assets will be reclassified to trade receivable when amounts are billed to customers.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses on the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on ageing of trade receivables for groupings of various customer segments with similar loss patterns (i.e., by geographical region and customer type). The calculation reflects the probability–weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

	As at 31 December 2018
Expected credit loss rate	**14.50%**
	RMB'000
Gross carrying amount	716,753
Expected credit losses	103,964

24. Cash and Cash Equivalents and Pledged Deposits

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**1,375,186**	1,339,976
Time deposits with original maturity of less than three months	**127,799**	–
Time deposits with original maturity of more than three months	**372,129**	118,446
	1,875,114	1,458,422
Less: Pledged bank balances and time deposits	**(943,028)**	(542,269)
Cash and cash equivalents	**932,086**	916,153

At 31 December 2018, bank balances and time deposits of RMB700,449,000 (2017: RMB296,209,000) were placed as guarantee deposits for performance of certain construction contracts and for the tendering process.

At 31 December 2018, bank balances of RMB2,169,000 (2017: RMB7,037,000) were pledged to a bank as security to obtain a letter of credit facility for the purchase of imported equipment.

At 31 December 2018, bank balances and time deposits of RMB240,410,000 (2017: RMB180,188,000) were pledged as security for bill facilities granted by the banks.

At 31 December 2018, bank balances of nil (2017: RMB58,835,000) were pledged to a bank as security for bank loans (note 28).

At 31 December 2018, the cash and bank balances of the Group denominated in RMB amounted to RMB956,845,000 (2017: RMB368,735,000). 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.

25. Assets of a Disposal Company Classified as Held for Sale/Liabilities Directly Associated with Assets Classified as Held for Sale

On 28 December 2017, the Group entered into a share transfer agreement with a third party, whereby the Group agreed to sell its entire interest in 揚州盈實新材料有限公司 (Yangzhou Yingshi New Material Co. Ltd., ("Yangzhou Yingshi"), formerly known as 惠生(揚州)化工機械有限公司), a wholly owned subsidiary of the Group for a consideration of RMB86,070,000. The assets and liabilities of Yangzhou Yingshi, which was expected to be sold within twelve months, have been classified as a disposal subsidiary held for sale and are presented separately in the consolidated statement of financial position as at 31 December 2017. The disposal, as set out in note 35, was completed in February 2018.

26. 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:

	2018 **RMB'000**	2017 RMB'000
Less than 1 year	**900,923**	2,035,822
1 to 2 years	**1,272,588**	969,286
2 to 3 years	**228,922**	192,315
Over 3 years	**147,992**	318,584
	2,550,425	3,516,007

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

	2018 **RMB'000**	2017 RMB'000
江蘇新華化工機械有限公司 (Jiangsu Xinhua Chemical Engineering Co., Ltd. ("Jiangsu Xinhua"), formerly as Chinese joint venture partner of Wison Engineering)	**–**	1,743

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

27. Other Payables and Accruals

	Notes	2018 RMB'000	2017 RMB'000
Contract liabilities	(a)	**739,134**	–
Accruals		**51,167**	88,197
Advances from customers		**6,084**	–
Other payables	(b)	**211,437**	685,427
		1,007,822	773,624

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Short–term advances received from customers		
Construction services	**715,694**	398,697
Design, feasibility research, consulting and technical services	**23,440**	–
Total contract liabilities	**739,134**	398,697

Contract liabilities include short–term advances received to render construction services and design, feasibility research, consulting and technical services. The increase in contract liabilities in 2018 was mainly due to the increase in short–term advances received from customers in relation to the provision of construction services at the end of the year.

(b) Other payables are unsecured, non–interest–bearing and repayable on demand.

28. Interest-Bearing Bank and Other Borrowings

	2018 RMB'000	2017 RMB'000
Current		
Bank loans repayable within one year — secured	**245,934**	282,332
Other loans within one year — unsecured	**–**	31,000
	245,934	313,332

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

	2018 US$'000	2017 US$'000
US$ denominated	**26,800**	22,250

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

Year ended 31 December 2017	3.25% to 5.66%
Year ended 31 December 2018	3.87% to 5.44%

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

	Note	2018 RMB'000	2017 RMB'000
Bank balances	24	**–**	58,835

During the year ended 31 December 2018, 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 RMB612,000,000 (2017: RMB1,000,000,000). As at 31 December 2018, the loans were drawn down to the extent of RMB245,934,000 (2017: RMB227,332,000) (note 33).

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

29. Deferred Tax

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

Deferred tax assets

	Impairment of financial and contract assets RMB'000	Accruals RMB'000	Total RMB'000
At 1 January 2018	**–**	**11,986**	**11,986**
Effect of adoption of IFRS 9	**28,090**	**–**	**28,090**
At 1 January 2018 (restated)	**28,090**	**11,986**	**40,076**
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	**4**	**(4,705)**	**(4,701)**
At 31 December 2018	**28,094**	**7,281**	**35,375**

	Accruals RMB'000
At 1 January 2017	825
Deferred tax credited to the statement of profit or loss during the year (note 10)	11,161
At 31 December 2017	11,986

29. Deferred Tax *(continued)*

Deferred tax liabilities

	Withholding taxes arising from distributable profits of the PRC subsidiaries RMB'000
At 1 January 2018	**18,499**
Effect of adoption of IFRS 9	**(7,020)**
At 1 January 2018 (restated)	**11,479**
Deferred tax charged to the statement of profit or loss during the year (note 10)	**3,653**
Realised during the year	**(8,688)**
At 31 December 2018	**6,444**
At 1 January 2017	25,633
Deferred tax credited to the statement of profit or loss during the year (note 10)	(7,134)
At 31 December 2017	18,499

The Group has accumulated tax losses arising in Hong Kong of approximately RMB31,719,000 (2017: RMB29,156,000) 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 RMB91,846,000 (2017: RMB29,607,000) 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 as at 31 December 2017 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:

	2018 RMB'000	2017 RMB'000
Tax losses	**123,565**	62,143

29. Deferred Tax *(continued)*

Deferred tax liabilities *(continued)*

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 2018, there was no significant unrecognised deferred tax liability (2017: 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.

30. Government Grants

	2018 **RMB'000**	2017 RMB'000
Carrying amount at beginning of the year	**5,014**	5,144
Received during the year	**25,792**	5,048
Released to profit or loss (note 6)	**(26,111)**	(5,178)
Carrying amount at end of the year	**4,695**	5,014

31. Share Capital and Reserves

(a) Shares

	2018	2017
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	**4,070,608,200**	4,066,566,200

31. Share Capital and Reserves *(continued)*

(a) Shares *(continued)*

	2018 **RMB'000**	2017 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	**330,299**	329,968

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

	Number of shares in issue	Share capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2017	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**
Share options exercised	**4,042,000**	**331**	**10,136**	**10,467**
At 31 December 2018	**4,070,608,200**	**330,299**	**861,129**	**1,191,428**

The subscription rights attaching to 4,042,000 share options were exercised at the subscription price of HK$0.837 per share, resulting in the issue of 4,042,000 shares for a total cash consideration, before expenses, of HK$3,383,000 (equivalent to RMB2,772,000) and a share premium of HK$2,979,000 (equivalent to RMB2,441,000). An amount of RMB7,695,000 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.

31. 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.

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 ended 31 December 2017, 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.

During the year ended 31 December 2018, the Group acquired 25% of the total equity interests of Wison Engineering from Ningbo Wei Yu Shang Zhi Investment Management Partnership (Limited Partnership) ("Ningbo Wei Yu Shang Zhi"). The difference of RMB186,142,000 between the then carrying amount of the non–controlling interests of 25% equity interests in Wison Engineering and the consideration of RMB350,000,000 has been recognised in the capital reserve of the Group.

32. 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, executives 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.

32. Share Option Scheme *(continued)*

Pre-IPO Share Option Scheme *(continued)*

As at 31 December 2018, the maximum number of shares could be issued in respect of the pre-IPO options granted under the Pre-IPO Share Option Scheme was 137,197,800 shares, representing approximately 3.37% 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, 72nd and 84th months 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.

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

	2018		2017	
	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**	**143,482**	0.837	153,672
Forfeited during the year	**0.837**	**(2,242)**	0.837	(8,314)
Exercised during the year	**0.837**	**(4,042)**	0.837	(1,876)
At 31 December	**0.837**	**137,198**	0.837	143,482

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.837 per share (2017: HK$0.837).

32. Share Option Scheme *(continued)*

Pre-IPO 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:

2018

Number of options	Exercise price* HK$ per share	Exercise period
27,439,560	**0.837**	**29/12/2015 – 28/12/2020**
27,439,560	**0.837**	**29/12/2016 – 28/12/2020**
27,439,560	**0.837**	**29/12/2017 – 28/12/2020**
27,439,560	**0.837**	**29/12/2018 – 28/12/2020**
27,439,560	**0.837**	**29/12/2019 – 28/12/2020**
137,197,800		

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		

* 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 RMB376,885,000 (RMB1.9042 each), of which the Group recognised a share option expense of RMB12,200,000 (2017: RMB19,423,000) during the year ended 31 December 2018.

During the year ended 31 December 2018, 2,242,000 (2017: 8,314,400) options were forfeited as the employees have terminated their employment and the vesting conditions have not been satisfied.

32. Share Option Scheme *(continued)*

Pre-IPO Share Option Scheme *(continued)*

The 4,042,000 share options exercised during the year resulted in the issue of 4,042,000 ordinary shares of the Company and new share capital of approximately HK$404,000 (equivalent to approximately RMB331,000) (before issue expenses), as further detailed in note 31 to the financial statements.

At the end of the reporting period, the Company had 137,197,800 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 137,197,800 additional ordinary shares of HK$0.1 each of the Company and additional share capital of approximately HK$13,720,000 (equivalent to approximately RMB12,021,000) and share premium of approximately HK$101,114,000 (equivalent to approximately RMB88,596,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 136,815,400 share options outstanding under Pre-IPO Share Option Scheme, and these share options represented approximately 3.36% of the Company's shares in issue as at that date.

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 grants.

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' meetings. 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.

32. Share Option Scheme *(continued)*

Share Option Scheme *(continued)*

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.

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

	2018		2017	
	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	**1.744**	**134,200**	1.744	134,200
Forfeited during the year	**1.744**	**(2,500)**	1.744	–
Exercised during the year	**1.744**	**–**	1.744	–
At 31 December	**1.744**	**131,700**	1.744	134,200

No Shares were exercised during the years ended 31 December 2018 and 2017.

32. 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:

2018

Number of options	Exercise price* HK$ per share	Exercise period
32,925,000	**1.744**	**14/11/2018 – 13/11/2022**
32,925,000	**1.744**	**14/11/2019 – 13/11/2022**
32,925,000	**1.744**	**14/11/2020 – 13/11/2022**
32,925,000	**1.744**	**14/11/2021 – 13/11/2022**
131,700,000		

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 RMB107,561,000, of which the Group recognised a share option expense of RMB48,637,000 (2017: RMB6,779,000) during the year ended 31 December 2018.

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.

32. 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 and at the date of approval of these financial statements, the Company had 131,700,000 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 131,700,000 additional ordinary shares of HK$0.1 each of the Company and additional share capital of HK$13,170,000 (equivalent to RMB11,540,000) and share premium of HK$216,515,000 (equivalent to RMB189,710,000) (before issue expenses).

33. 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:

	Note	**2018** **RMB'000**	2017 RMB'000
Related companies:			
Purchase of products	(a)(i)	**8,787**	5,008
Rental income	(a)(ii)	**–**	201
Rendering of services	(a)(ii), (a)(xvii)	**39,826**	33
Fellow subsidiaries:			
Rental income	(a)(iii), (a)(iv)	**12,581**	7,876
Rendering of services	(a)(iii), (a)(iv), (a)(xv), (a)(xvi)	**7,276**	1,339
Services received	(a)(ix), (a)(x), (a)(xi)	**134,165**	47,029

33. Related Party Transactions *(continued)*

Name of related parties	Relationship
Ningbo Wei Yu Shang Zhi	Chinese joint venture partner of Wison Engineering effective from 5 June 2018 to 2 July 2018
Jiangsu Xinhua	Fellow subsidiary of Ningbo Wei Yu Shang Zhi and formerly as a Chinese joint venture partner of Wison Engineering before 2 July 2018
上海新華通訊技術有限公司 (Shanghai Xinhua Telecommunication Technology Company Limited ("Xinhua Telecommunication")	Subsidiary of Jiangsu Xinhua
Wison Holding	Wholly owned by Mr. Hua Bangsong (the beneficial controlling shareholder of the Company) and the ultimate holding company of the Company
惠生(南通)重工有限公司 (Wison (Nantong) Heavy Industry Co., Ltd "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
Wison Investment (Hong Kong) Limited ("Wison Investment (HK)")	Indirectly wholly owned by Wison Holding and is a fellow subsidiary of the Company
舟山惠生海洋工程有限公司 (Zhoushan Wison Offshore & Marine Co., Ltd. "Zhoushan Wison")	Indirectly owned by Wison Holding and is a fellow subsidiary of the Company
Wison Offshore & Marine (Hong Kong) Limited ("Wison Offshore Marine")	Indirectly wholly owned by Wison Holding and is a fellow subsidiary of the Company
泰興天馬化工有限公司 (Taixing Tianma Chemical Engineering Co., Ltd. "Taixing Tianma")	Indirectly owned as to 15% by Wison Holding and was a related company from 4 January 2018
上海惠生海洋工程有限公司 (Shanghai Wison Offshore & Marine co., Ltd., "Wison Offshore Marine Shanghai")	Indirectly owned by Wison Holding and is a fellow subsidiary of the Company

33. Related Party Transactions *(continued)*

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 2018 and the year ending 31 December 2019 will not be more than RMB12,000,000. During the six months ended 31 December 2018, the Group's purchases from Jiangsu Xinhua amounted to RMB8,787,000 (2017: RMB5,008,000). The purchases were made by reference to the published prices and conditions offered by Jiangsu Xinhua to its customers. The trade payables relating to Jiangsu Xinhua are set out in note 26.

(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 valid 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 were RMB201,000 and RMB33,000, respectively.

(a)(iii) On 24 August 2016, the Group entered into a lease agreement with Wison Nantong for RMB4,818,000 per annum for a 28-month period commencing from 1 September 2016. On the same date, the Group entered into a property management services agreement with Wison Nantong for RMB792,000 per annum for a 28-month period commencing from 1 September 2016.

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 and the property management services fee has been adjusted proportionally from RMB792,000 per annum to RMB690,000 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 2018 from Wison Nantong amounted to RMB4,015,000 (2017: RMB4,216,000) and RMB690,000 (2017: RMB716,000), respectively.

(a)(iv) On 19 December 2016, 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 RMB3,212,000 per annum for a two-year period commencing from 1 January 2017.

On 19 December 2016, 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 two-year period commencing from 1 January 2017.

33. Related Party Transactions *(continued)*

Notes: (continued)

(a)(iv) (continued)
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 by reference to the size of the increased gross floor area of the subject premises.

On 31 July 2018, the Group entered into further supplemental agreements with Wison (China) Investment to amend certain terms of the previous lease agreement and property management services agreement both dated 16 December 2016 (as amended by supplymental agreements dated 24 March 2017), effective from 1 August 2018. The rental has been adjusted proportionally from RMB3,809,000 per annum to RMB15,225,000 per annum, the property management services fee has been adjusted proportionally from RMB655,000 per annum to RMB2,275,000 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 2018 from Wison (China) Investment amounted to RMB8,566,000 (2017: RMB3,660,000) and RMB1,330,000 (2017: RMB623,000), respectively.

(a)(v) On 12 January 2018 and 28 February 2018, Wison Holding, as licensor, entered into trademark licensing agreements with the Group to grant the rights to use the trademarks by the Group in China and certain territories, such as Hong Kong, Russia, the United States of America, Australia, European Union, Singapore, Turkey, South Africa and Venezuela, respectively, on a perpetual and non–exclusive basis for nil consideration.

(a)(vi) During the year ended 31 December 2018, Wison (China) Investment executed guarantees to certain banks for bank facilities to the Group of RMB612,000,000 (2017: RMB1,000,000,000) at nil consideration. As at 31 December 2018, the loans were drawn down to the extent of RMB245,934,000 (2017: RMB227,332,000) (note 28).

(a)(vii) 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)(viii) On 11 May 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 during the year ended 31 December 2018 was nil (2017: nil).

(a)(ix) 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 third-party project in the PRC at a total contract price of RMB102,860,000, which was later increased to RMB130,000,000. The relevant transaction amount during the year ended 31 December 2018 was RMB71,482,000 (2017: RMB47,029,000).

(a)(x) On 22 August 2017, Wison Petrochemicals (NA), LLC, an indirectly wholly owned subsidiary of the Company, and Wison Nantong entered into a sales and purchases contract, pursuant to which the Group engaged Wison Nantong to supply pipe rack modules and spare parts for its construction project in the Texas, the United States of America, at a total contract price of US$7,376,000. The relevant transaction amount during the year ended 31 December 2018 was US$7,376,000 (equivalent to RMB50,621,000) (2017: Nil) .

33. Related Party Transactions *(continued)*

Notes: (continued)

(a)(xi) On 11 May 2018, Wison Petrochemicals (NA), LLC, Wison Offshore Marine and Wison Nantong entered into the Pipe and Structural Steel Fabrication Work Contract, pursuant to which Wison Petrochemicals (NA), LLC engaged Wison Offshore Marine and Wison Nantong to perform the pipe and structural steel fabrication work for a field erection of low density polyethylene (LDPE) outside battery limits (OSBL) equipment and piping installation project in Texas, the United States of America, at a total contract price of US$1,850,000. The relevant transaction amount during the year ended 31 December 2018 was US$1,758,000 (equivalent to RMB12,062,000).

(a)(xii) On 11 May 2018, Wison Petrochemicals (NA), LLC and Wison Offshore Marine entered into the Module, Stick–built Steel Structure and Piping Spool Fabrication Contract, pursuant to which Wison Petrochemicals (NA), LLC engaged Wison Offshore Marine to perform the module, stick–built steel structure and piping spool fabrication work for an ethylene glycol plant in Texas, the United States of America, at a total contract price of US$26,000,000. The relevant transaction amount during the year ended 31 December 2018 was nil.

(a)(xiii) On 25 May 2018, Wison (China) Investment issued a letter of comfort for which Wison (China) Investment agreed to provide continuing financial support to the Company, from the date of letter of comfort to 31 December 2019 in order to enable the Company to continue its operations in the ordinary course of business and to meet its obligations for nil consideration.

(a)(xiv) On 6 June 2018, the Group and Ningbo Wei Yu Shang Zhi entered into a cooperation conditions transfer agreement, under which Ningbo Wei Yu Shang Zhi would transfer 25% of the total equity interests of Wison Engineering to the Group at a total consideration of RMB350,000,000. The transaction was completed during the year ended 31 December 2018.

(a)(xv) On 7 June 2018, Wison Investment (HK) entered into the Service Agreement with Wison Petrochemicals (NA), LLC, pursuant to which Wison Petrochemicals (NA), LLC shall provide consulting, marketing and new business development services in oil and gas and petrochemical fields to Wison Investment (HK) in relation to its current and proposed operations which has a term of one year from 7 June 2018 and the fee payable to Wison Petrochemicals (NA), LLC is determined based on the amount of time incurred in providing the services and is charged at an hourly rate of US$218.75, plus out–of–pocket expenses. The annual cap for fees payable to Wison Petrochemicals (NA), LLC under the Service Agreement is US$617,000. The relevant transaction amount during the year ended 31 December 2018 was US$297,000 (equivalent to RMB2,056,000).

(a)(xvi) On 26 June 2018, Wison (China) Investment entered into the Technical Consulting Services Framework Agreement with Wison Engineering, pursuant to which Wison Engineering shall provide technical consulting services to Wison (China) Investment for its projects. The Technical Consulting Services Framework Agreement is effective from 1 January 2018 and has a term of three years. The annual cap for consulting fees payable to Wison Engineering under the Technical Consulting Services Framework Agreement is RMB30,000,000. The relevant transaction amount incurred during the year ended 31 December 2018 was RMB3,200,000.

(a)(xvii) On 26 September 2017, Wison Engineering entered into a general engineering procurement construction contract with Taixing Tianma, pursuant to which Taixing Tianma engaged Wison Engineering to undertake the construction of its copolymerization hydrogenated oleoresin project, which has a tentative term from 20 September 2017 to 28 February 2018 with a total consideration of RMB125,420,000, which was later increased to RMB136,792,000. The relevant transaction amount during the year ended 31 December 2018 was RMB39,826,000.

(a)(xviii) On 14 December 2018, Wison Engineering and Wison Offshore Marine Shanghai entered into a lease agreement, pursuant to which the Group leased out office space in its office building to Wison Offshore Marine for RMB5,019,000 per annum for a one–year period commencing from 1 January 2019.

On 14 December 2018, the Group and Wison Offshore Marine Shanghai 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 Offshore Marine for RMB750,000 per annum for a one–year period commencing from 1 January 2019.

33. Related Party Transactions *(continued)*

Notes: (continued)

(a)(xviii) (continued)
On 25 January 2019, the Group entered into supplemental agreements with Wison Offshore Marine Shanghai to amend certain terms of the previous lease agreement and property management services agreement both dated 14 December 2018 effective from 1 February 2019. The rental has been adjusted proportionally from RMB5,019,000 per annum to RMB4,015,000 per annum, the property management services fee has been adjusted proportionally from RMB750,000 per annum to RMB600,000 per annum by reference to the size of the reduced gross floor area of the subject premises.

Neither rental income nor service income from Wison Offshore Marine Shanghai was recognised for the year ended 31 December 2018.

(a)(xix) On 14 December 2018, Wison Engineering 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 RMB15,225,000 per annum for a term of two years commencing from 1 January 2019.

On 14 December 2018, 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 RMB2,275,000 per annum for a term of two years commencing from 1 January 2019.

Neither rental income nor service income from Wison (China) Investment was recognised for the year ended 31 December 2018.

In the opinion of the directors of the Company, the transactions between the Group and Jiangsu Xinhua, Xinhua Telecommunication, Wison Nantong, Wison Holding, Wison (China) Investment, Wison Offshore Marine, Ningbo Wei Yu Shang Zhi, Taixing Tianma, Wison Offshore Marine Shanghai and Wison Investment (HK) were conducted based on mutually agreed terms.

(b) Balances with related parties:

	2018 RMB'000	2017 RMB'000
Due from fellow subsidiaries:		
Wison Nantong	**361**	34,277
Wsion Offshore Marine Shanghai	**180**	–
Wison Offshore Marine*	**168,357**	–
Wison (China) Investment	**20**	–
	168,918	34,277
Due to fellow subsidiaries:		
Wison Nantong	**37,083**	–
Zhoushan Wison	**4**	–
	37,087	–
Due to an associate:		
河南創思特工程監理諮詢有限公司 ("Henan Chuangsite")	**630**	630

* The amount represents the prepayments made to Wison Offshore Marine for the module, stick–built steel structure and piping spool fabrication contract. Further details are disclosed in note 33 (xii).

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

33. Related Party Transactions *(continued)*

Notes: (continued)

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

	2018 RMB'000	2017 RMB'000
Short term employee benefits	**6,348**	5,078
Equity-settled share option expenses and equity-settled share-based payment expenses	**507**	966
Total compensation paid to key management personnel	**6,855**	6,044

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

34. 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:

	2018	2017
Percentage of equity interest held by non-controlling interests	**–**	25%

	2018 RMB'000	2017 RMB'000
Profit for the year allocated to non-controlling interests	**3,652**	27,413
Accumulated balances of non-controlling interests at the reporting dates	**–**	176,358

* During the year ended 31 December 2018, the Group acquired an additional 25% of the equity interests of Wison Engineering from Ningbo Wei Yu Shang Zhi and Wison Engineering has thereafter become a wholly owned subsidiary of the Group.

34. Partly-Owned Subsidiary with Material Non-Controlling Interests *(continued)*

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

	2017 RMB'000
Revenue	3,934,879
Total expenses	(3,660,751)
Profit for the year	274,128
Total comprehensive income for the year	239,797
Current assets	6,323,030
Non-current assets	1,103,383
Current liabilities	(6,445,975)
Non-current liabilities	(5,014)
Net cash flows from operating activities	586,786
Net cash flows used in investing activities	(3,339)
Net cash flows used in financing activities	(415,843)
Net increase in cash and cash equivalents	167,604

35. Disposal of a Subsidiary

In February 2018, the Group disposed of the entire equity interests in Yangzhou Yingshi, which was classified as assets and liabilities held for disposal at 31 December 2017. The disposal was completed on 6 February 2018.

The net assets disposed of in the transaction were as follows:

	RMB'000
Net assets disposed of:	
Property, plant and equipment	31,108
Prepaid land lease payment	1,998
Cash and bank balances	748
Trade receivables	9,746
Prepayments and other receivables	23,286
Trade payables	(23)
Other payables and accruals	(6,360)
	60,503
Gain on disposal of a subsidiary	25,567
	86,070
Satisfied by:	
Cash	85,877

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	RMB'000
Cash consideration	85,877
Other receivables	193
Cash and bank balances disposed of	(748)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	85,322

36. Operating Lease Arrangements

(a) As lessor

The Group leases its properties under operating lease arrangements, with leases negotiated for terms ranging from two to six 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:

	2018 RMB'000	2017 RMB'000
Within one year	**64,996**	53,017
In the second to fifth years, inclusive	**29,657**	36,459
After five years	**10**	24
	94,663	89,500

(b) 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 three 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:

	2018 RMB'000	2017 RMB'000
Within one year	**15,264**	11,068
In the second to fifth years, inclusive	**3,873**	12,420
	19,137	23,488

37. Contingent Liabilities

Pending litigations

During 2018, a sub-contractor of Wison Engineering, has filed a claim with the Sichuan Province's Higher People's Court against Wison Engineering for additional payment of construction costs and the interests arising from the overdue payment of construction costs of approximately RMB211,316,000.

During 2018, another sub-contractor of Wison Engineering, has filed a claim with the Sichuan Province's Higher People's Court against Wison Engineering for additional payment of construction costs and the interests arising from the overdue payment of construction costs of approximately RMB132,322,000.

The aforesaid cases both relate to a construction project of Wison Engineering which was completed in 2014. As of the date of approval of the financial statements, Wison Engineering and the two subcontractors have completed the first pre-trial evidence exchange in court and cross-examination, and yet to be scheduled for trials. The directors of the Company are of the opinion that, on the basis of the available evidence and having taken legal advice, the claims above are without merits and the possibility for the Group to be subject to additional payment claims is remote. Accordingly, no provision was made with respect to the aforementioned claims as at 31 December 2018.

38. Financial Instruments by Category

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

2018

Financial assets

	Financial assets at amortised cost RMB'000
Financial liabilities at amortised cost	
Trade receivables	**1,338,735**
Bills receivable	**180,360**
Financial assets included in prepayments and other receivables (note 22)	**55,254**
Due from fellow subsidiaries	**168,918**
Pledged bank balances and time deposits	**943,028**
Cash and bank balances	**932,086**
	3,618,381

38. Financial Instruments by Category *(continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	**2,550,425**
Financial liabilities included in other payables and accruals (note 27)	**52,768**
Due to a related company	**37,087**
Due to an associate	**630**
Interest-bearing bank and other borrowings	**245,934**
	2,886,844

2017

Financial assets

	Loans and receivables RMB'000
Trade receivables	1,356,157
Bills receivable	1,202,274
Financial assets included in prepayments and other receivables (note 22)	28,926
Due from fellow subsidiaries	34,277
Pledged bank balances and time deposits	542,269
Cash and bank balances	916,153
	4,080,056

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	3,516,007
Financial liabilities included in other payables and accruals (note 27)	79,451
Due to an associate	630
Dividends payable	81,984
Interest-bearing bank and other borrowings	313,332
	3,991,404

38. Financial Instruments by Category *(continued)*

Transfers of Financial Assets

Transferred financial assets that are not derecognised in their entirety

At 31 December 2018, Wison Engineering endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB98,135,000 (2017: RMB568,170,000) 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 2018 to which the suppliers had recourse was RMB98,135,000 (2017: RMB568,170,000) as at 31 December 2018.

Transferred financial assets that are derecognised in their entirety

At 31 December 2018, 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 RMB297,368,000 (2017: RMB252,557,000). The Derecognised Bills had a maturity of six to twelve months at 31 December 2018. 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 2018, 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.

39. 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, amounts due from fellow subsidiaries, trade and bills receivables, financial assets included in prepayments and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing bank and other borrowings, dividends payable, amounts due to fellow subsidiaries 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 chief financial officer. The valuation process and results are discussed with the board of directors twice a year for interim and annual financial reporting.

40. 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, amounts due from fellow subsidiaries, interest-bearing bank and other borrowings, dividends payable, an amount due to a related company and an amount due to an associate. 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.

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:

(a) Interest rate risk

The Group's exposure to risk for changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings set out in note 28. 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.

40. Financial Risk Management Objectives and Policies *(continued)*

(a) Interest rate risk *(continued)*

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 2018		
— US$ denominated loans	**20**	**(368)**
— US$ denominated loans	**(20)**	**368**

	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

(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$, HK$, Euro € ("EUR"), Saudi Riyal ("SAR"), South Afrian Rand ("ZAR") and Arab Emir Dirham ("AED") against RMB.

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

40. Financial Risk Management Objectives and Policies *(continued)*

(b) Foreign currency risk *(continued)*

	Increase/ (decrease) in rate %	Increase/ (decrease) in profit before tax RMB'000
Year ended 31 December 2018		
If the RMB weakens against the US$	**5**	**43,727**
If the RMB strengthens against the US$	**5**	**(43,727)**
If the RMB weakens against the HK$	**5**	**352**
If the RMB strengthens against the HK$	**5**	**(352)**
If the RMB weakens against the EUR	**5**	**978**
If the RMB strengthens against the EUR	**5**	**(978)**
If the RMB weakens against the SAR	**5**	**855**
If the RMB strengthens against the SAR	**5**	**(855)**
If the RMB weakens against the ZAR	**5**	**656**
If the RMB strengthens against the ZAR	**5**	**(656)**
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)

40. Financial Risk Management Objectives and Policies *(continued)*

(c) Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-months Stage 1 RMB'000	ECLs Stage 2 RMB'000	Lifetime ECLs Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Contract assets*	–	–	–	716,753	716,753
Trade receivables*	–	–	–	1,454,798	1,454,798
Bills receivable	180,360	–	–	–	180,360
Financial assets included in prepayments and other receivables					
— Normal**	55,254	–	–	–	55,254
— Doubtful**	–	–	–	–	–
Due from fellow subsidiaries	168,918	–	–	–	168,918
Pledged bank balances and time deposits	943,028	–	–	–	943,028
Cash and bank balances	932,086	–	–	–	932,086
	2,279,646	–	–	2,171,551	4,451,197

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 21 and 23 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

40. Financial Risk Management Objectives and Policies *(continued)*

(c) Credit risk *(continued)*

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which comprise cash and cash balances, pledged bank balances and time deposits, amounts due from fellow subsidiaries, trade receivables, bills receivable and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy customers, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21 to the financial statements.

(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.

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:

	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 2018					
Interest-bearing bank and other borrowings	–	188,305	62,788	–	251,093
Trade and bills payables	–	2,550,425	–	–	2,550,425
Other payables	–	52,768	–	–	52,768
Due to a related company	–	37,087	–	–	37,087
Due to an associate	630	–	–	–	630

40. Financial Risk Management Objectives and Policies *(continued)*

(d) Liquidity risk *(continued)*

	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	–	79,451	–	–	79,451
Due to an associate	630	–	–	–	630
Dividends payable	81,984	–	–	–	81,984

(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 2018 and 2017.

40. Financial Risk Management Objectives and Policies *(continued)*

(e) Capital management *(continued)*

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:

	2018 **RMB'000**	2017 RMB'000
Interest-bearing bank and other borrowings	**245,934**	313,332
Total debt	**245,934**	313,332
Total equity	**1,749,819**	2,359,382
Gearing ratio	**14%**	13%

41. 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 2018	313,332	81,984
Changes from financing cash flows	(75,082)	(321,765)
Dividends declared	–	239,781
Foreign exchange realignment	7,684	–
At 31 December 2018	245,934	–

42. 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:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**1**	1
Total non-current assets	**1**	1
CURRENT ASSETS		
Due from subsidiaries	**909,165**	938,672
Prepayments and other receivables	**825**	910
Dividends receivables	**688,308**	438,609
Cash and cash equivalents	**3,036**	4,399
Total current assets	**1,601,334**	1,382,590
CURRENT LIABILITIES		
Other payables and accruals	**2,625**	3,509
Due to subsidiaries	**7**	30,330
Total current liabilities	**2,632**	33,839
NET CURRENT ASSETS	**1,598,702**	1,348,751
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,598,703**	1,348,752
NET ASSETS	**1,598,703**	1,348,752
EQUITY		
Share capital	**330,299**	329,968
Reserves (Note)	**1,268,404**	1,018,784
TOTAL EQUITY	**1,598,703**	1,348,752

42. 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 2016 and 1 January 2017	242,818	846,250	–	(20,430)	1,068,638
Net loss and total comprehensive loss 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 and 1 January 2018	**265,449**	**850,993**	**84,936**	**(182,594)**	**1,018,784**
Net profit and total comprehensive income for the year	**–**	**–**	**–**	**426,123**	**426,123**
Exercise of share options	**(7,695)**	**10,136**	**–**	**–**	**2,441**
Equity-settled share option arrangements	**60,837**	**–**	**–**	**–**	**60,837**
Interim dividend	**–**	**–**	**–**	**(239,781)**	**(239,781)**
At 31 December 2018	**318,591**	**861,129**	**84,936**	**3,748**	**1,268,404**

The share option reserve represents the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments 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.

43. Events After the Balance Sheet Date

Pursuant to a resolution dated 20 March 2019, the Company proposed a final dividend of RMB0.0043 (equivalent to HK$0.0050) per ordinary share for the year ended 31 December 2018. Such proposal was subject to the approval at the forthcoming general meeting of the Company.

44. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 25 March 2019.