Wison Engineering
Builds a Better World


# Annual Report 2019

# Wison Engineering Services Co. Ltd.

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

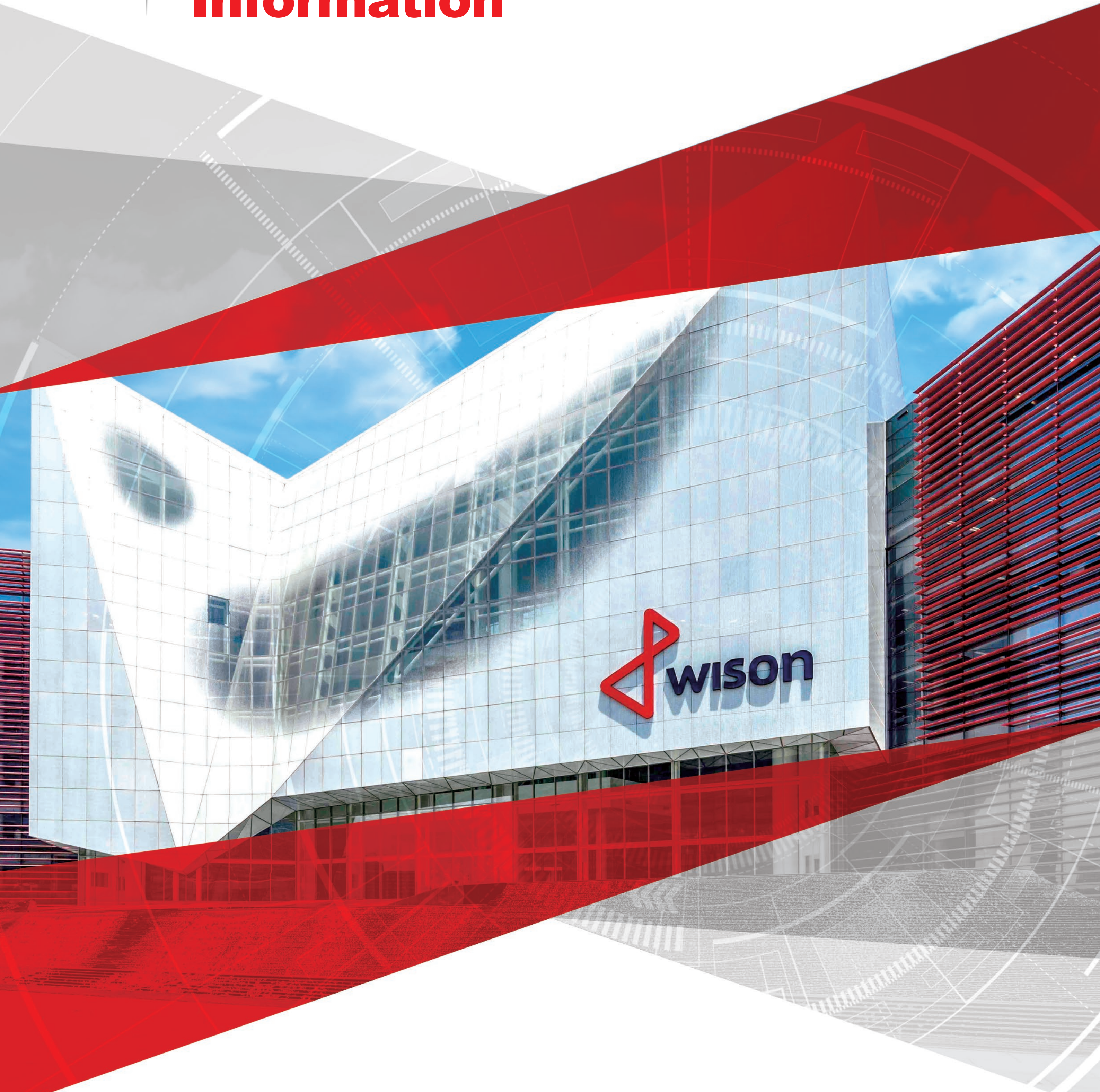
wison

# WISON ENGINEERING

CHINA'S LEADING PROVIDER OF
ENERGY & CHEMICAL EPC SERVICES
AND TECHNOLOGY INTEGRATED SOLUTIONS

# CONTENTS

# Corporate Information



# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

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

### Non-executive Director

Mr. Liu Hongjun

### 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

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

# Corporate Information

## HONG KONG SHARE REGISTRAR

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

## COMPANY SECRETARY

Ms. Luk Wai Mei

## AUTHORISED REPRESENTATIVES

Mr. Li Zhiyong
Ms. Luk Wai Mei

## AUDITORS

Ernst & Young

## PRINCIPAL BANKS

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

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
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 | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | | (Restated) | |
| **Results** | | | | | |
| Revenue | **4,367,271** | 3,256,478 | 4,124,790 | 3,041,877 | 5,413,531 |
| Gross profit | **408,227** | 498,872 | 861,158 | 931,233 | 816,880 |
| Profit before tax | **89,775** | 72,739 | 229,124 | 121,217 | 311,007 |
| Income tax | **(39,217)** | (12,786) | (63,405) | (98,822) | (72,491) |
| Profit for the year | **50,558** | 59,953 | 165,719 | 22,395 | 238,516 |
| Attributable to: | | | | | |
| Owners of the parent | **50,609** | 56,301 | 138,306 | 15,179 | 205,106 |
| Non-controlling interests | **(51)** | 3,652 | 27,413 | 7,216 | 33,410 |
| Earnings per share | | | | | |
| – Basic and diluted | **RMB0.01** | RMB0.01 | RMB0.03 | RMB0.00 | RMB0.05 |

# Financial Summary

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | | (Restated) | (Restated) |
| **Assets and liabilities** | | | | | |
| Non-current assets | **1,432,965** | 1,131,114 | 1,116,712 | 1,195,846 | 1,361,318 |
| Current assets | **4,287,999** | 4,618,231 | 6,496,159 | 6,524,839 | 7,764,021 |
| Current liabilities | **3,456,486** | 3,988,387 | 5,229,976 | 5,532,446 | 7,014,353 |
| Net current assets | **831,513** | 629,844 | 1,266,183 | 992,393 | 749,668 |
| Total assets less current liabilities | **2,264,478** | 1,760,958 | 2,382,895 | 2,188,239 | 2,110,986 |
| Non-current liabilities | **460,851** | 11,139 | 23,513 | 30,777 | 27,726 |
| Net assets | **1,803,627** | 1,749,819 | 2,359,382 | 2,157,462 | 2,083,260 |
| Share capital | **330,578** | 330,299 | 329,968 | 329,809 | 329,803 |
| Reserves | **1,473,100** | 1,419,520 | 1,853,056 | 1,632,560 | 1,565,580 |
| Non-controlling interests | **(51)** | – | 176,358 | 195,093 | 187,877 |
| Total equity | **1,803,627** | 1,749,819 | 2,359,382 | 2,157,462 | 2,083,260 |

# Business Overview

# Business Overview

## REVIEW OF 2019 ANNUAL RESULT AND OUTLOOK

### I BUSINESS OVERVIEW

In 2019, Wison Engineering Services Co. Ltd. ("Wison Engineering" or the "Company", together with its subsidiaries, the "Group") continued to uphold the strategy of "A New Voyage, A New Venture". Taking full advantage of flexible operating mechanism of a private enterprise, the Group proactively responded to the challenges and changes in the market and the industry. Meanwhile, the Group continued to increase strategic investments in refined project management, value creation by digitalization and modularization, technology research and development and industry chain extension to consolidate its core competitive edges continuously with a view to being committed to the philosophy of "technology-oriented development" and facilitating the Group to become leading and renowned energy and chemical technology engineering solutions provider in Mainland China and international markets.

For the twelve months ended 31 December 2019 (the "Period under Review"), the global economy and energy and chemical market was deeply affected by the geopolitics and global trading relationships. With sluggish global economic growth and slowdown of crude oil demand, the overall international chemical market dropped and the domestic chemical market became a key pillar for the expansion of global production capacity. During the Period under Review, total new contract secured by the Group amounted to approximately RMB12,776.6 million (net of estimated value added tax), representing a substantial year-on-year increase of 78.3%. As at 31 December 2019, the Group's total backlog value was approximately RMB21,868.0 million (net of estimated value added tax), representing an increase of 65.7% compared to the total backlog value as of 31 December 2018. At the beginning of 2020, some of the construction and cooperation models for certain individual projects of the Group may be modified due to project owners' requirement and changes in the projects. The Group is currently negotiating with project owners and relevant downstream sub-contractors in respect of such modifications. In view of the proposed changes to the model, the Company's scope of responsibilities and obligations will change accordingly. As of the date of this announcement, the Group has neither completed the negotiations regarding the aforementioned matters, nor officially signed any relevant agreements. However, in light of the impact arising from the proposed changes to the model, the Group, for the sake of prudence, has updated the total new contract value and total backlog value with reference to these proposed changes.

# Business Overview

## Market Environment

In 2019, global economy growth slid to the lowest level since the 2008 financial crisis and global oil demand growth also registered a record low since 2011. During the period, the United States benefited from shale gas development to increase oil supply; on the other hand, production cuts by Organization of the Petroleum Exporting Countries and its alliances ("OPEC+"), the US sanctions against two major oil exporters, Iran and Venezuela, international oil supply basically remained the same as the corresponding period in the previous year. In 2019, international oil prices declined due to effect of relatively broad supply and demand fundamentals. Average future prices of Brent crude oil amounted to US$64.2/barrel, representing a year-on-year decrease of 10.5%.

**International market decline with significant difference in regional advantage**

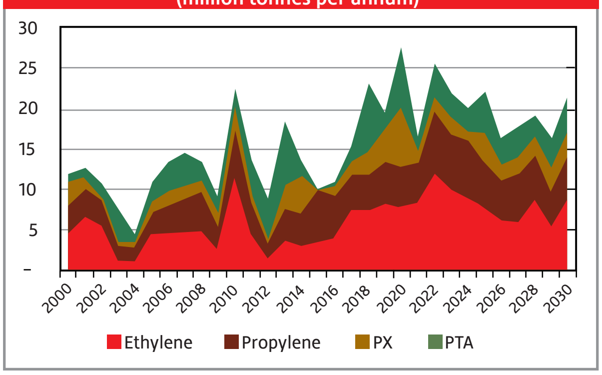
During the Period under Review, affected by the uncertainties of the macro economy, the sentiment of global energy and chemical industry declined but regional difference is significant. Asian market remains the major growth momentum of the global chemical market, with emerging economies represented by China and India still leading the global economic growth. In particular, China, with the world's largest energy and chemical terminal consumer market, basic chemicals and downstream chemicals sectors still have a large self-supply shortage and medium to long term demand growth maintained at relatively high level. On the other hand, the United States and the Middle East enjoyed relatively clearer regional cost advantages attributable to energy resources with relatively lower prices.

In 2019, the Group paid close attention to the changes in the core international markets with a focus on the opportunities for energy and chemical infrastructure projects such as refinery, petrochemical, LNG and power generation in different regions. With its competitive advantages such as acute market insight, extensive experience in overseas project management and execution, capability to respond swiftly and flexible operation mechanism, Wison Engineering continued to establish its presence in key international regions and markets. During the period, the US chemical industry has benefitted from shale gas development. With abundant reserve and low cost, the shale gas development has attracted a large amount of new investments into the US, driving the increase in the exports of major shale gas-related chemicals. With rich oil and gas resources, the Middle East continued to maintain its core position in the international energy market and further develop the chemical industry chain. What is more, Saudi Arabia launched "2030 Vision Plan (2030年願景計劃)" to increase investment in the downstream chemical market and improve the value-in-use of crude oil and expand international operation in order to reduce the reliance on crude oil mining and export, thus generating market opportunities for the construction, capacity expansion and transformation and technological upgrade of the refinery and chemical engineering.

# Business Overview

At the same time, the Group proactively responded to China's "Belt and Road" initiative and further established presence in regional markets including, among others, Southeast Asia, Africa and Commonwealth of Independent States. As emerging markets in the regions along the "Belt and Road" initiative possess immense growth potential, Wison Engineering will help improve the infrastructure in the regions along the aforesaid initiative, deepening the resource utilization, promoting the development of local living standard and economy, fueling the export of domestic manufacturing capacity and improving the competitive edge and influence of Made-in-China in international market, so as to achieve mutual benefits.

The petrochemical new production capacity in global market (million tonnes per annum)




Source: Wison Research

**Acceleration of domestic market reform to further open up industries**

For domestic market, 2019 marked the beginning of "Seven-year Action Plan (七年行動計劃)" for strengthening domestic oil and gas exploration and development. Domestic upstream capital expenditures are expected to increase significantly; the production volume of both domestic crude oil and natural gas rebounded and investment and production capacity expansion have substantially exceeded the industrial average. During the period, benefited from supportive policies, several major domestic private refinery-petrochemical integration projects have been successively completed and put into operation or have started material preparation. This has accelerated the exit pace of domestic medium and small-sized refineries with lagged production capacity, bringing a positive impact on the restructuring of planning refineries as well as industrial structure optimization. On the other hand, in June 2019, the National Development and Reform Commission (NDRC) and the Ministry of Commerce issued the Special Administrative Measures for Foreign Investment Access (Negative List) (2019 Edition), which substantially relaxes foreign investment in areas such as oil and gas exploration and development and urban gas. This, coupled with a combination of a series of implemented supportive policies of lifting the crude oil import restrictions on private enterprises, expenditure and tax reduction and mixed ownership, further encouraged foreign and private capital to enter domestic oil and gas field.

# Business Overview

Driven by the supportive policies, enterprises engaged in non-traditional chemical industries are attracted to be well-positioned to become a new force in the domestic energy and chemical industry. Diversified customers contributed to increasingly diverse customer demand for technologies and services, ranging from initial consultation, park planning, product chain planning and process planning to design, purchase, construction management, equipment startup and operating services and financing. Therefore, an engineering company must be capable of providing integrated comprehensive service solutions upon the request from different customers, which is a new challenge and also a new opportunity for an energy and chemical engineering company.

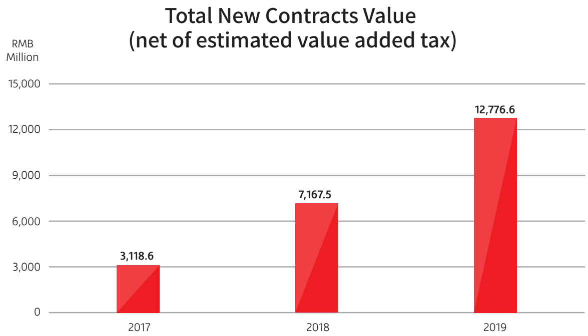
On the other hand, due to a series of industrial safety accidents such as an accident occurring in Xiangshui Park, Yancheng in the first half of 2019, Chinese government at various levels and parks have tightened safety production and supervision and repeated the review of chemical projects under production and under construction and tightened the review on new investment projects phase by phase. Therefore, the growth of capital expenditure of the chemical industry slid. Nevertheless, with more stringent safety supervision and monitoring, enterprises with hidden production risks and disorderly management have gradually been controlled, thereby actively promoting quality industrial development.

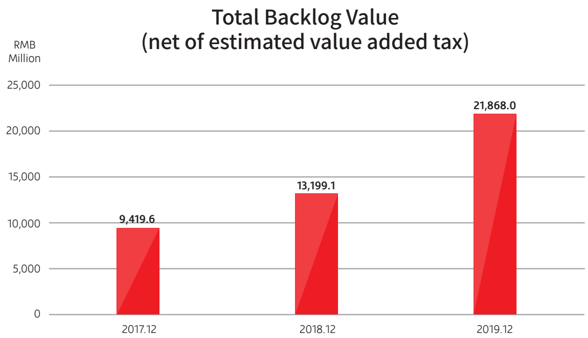
Overall, compared with international markets endowed with resources such as the United States and the Middle East, the petrochemical industry in China has the clear advantage in, among others, project investment costs, production efficiency, new product application and near terminal consumption. And the reform and opening up of energy market in China has continuously been attracting various capital into the market and has gradually formed the triangular balance of power among SOEs, private enterprises and foreign enterprises as well as development of diversified industrial chains such as petrochemical and coal-to-chemicals, thereby comprehensively enhancing market influence. But at the same time, numerous core technologies and products still need to be imported to China, notably in the downstream of the refined chemical and new materials with huge development potential.

## II FINANCIAL HIGHLIGHTS

During the Period under Review, revenue of the Group amounted to approximately RMB4,367.3 million (for the twelve months ended 31 December 2018: approximately RMB3,256.5 million), representing a year-on-year increase of 34.1%. The increase in revenue was mainly attributable to the increase in revenue recognized during the Period under Review as a result of the satisfactory progress achieved by the Group's key projects, and that the overseas petrochemical projects in America and Middle East have entered into the peak construction stage. The gross profit amounted to approximately RMB408.2 million (for the twelve months ended 31 December 2018: approximately RMB498.9 million), representing a year-on-year decrease of 18.2%. During the Period under Review, profit attributable to owners of the parent amounted to approximately RMB50.6 million (for the twelve months ended 31 December 2018: approximately RMB56.3 million), representing a year-on-year decrease of 10.1%. The decrease in profit attributable to owners of the parent was mainly attributable to the decrease in gross profit margin of the Group's petrochemical EPC projects due to intensified market competition and increasing raw material costs, as well as the increase in the income tax costs of overseas regions.

# Business Overview




During the Period under Review, the Group's total new contract value amounted to approximately RMB12,776.6 million (for the twelve months ended 31 December 2018: RMB7,167.5 million) (net of estimated value added tax, same hereinafter), representing a year-on-year increase of 78.3%, of which EPC accounted for 97.6%. For revenue breakdown by operating industries of our clients, petrochemicals business, oil refinery business and coal-to-chemicals business accounted for 27.0%, 49.3% and 10.1%, respectively. During the Period under Review, the total backlog value (net of estimated value added tax, same hereinafter) was approximately RMB21,868.0 million, representing an increase of 65.7% as compared to the backlog value as of 31 December 2018.

## III BUSINESS AND OPERATIONS REVIEW

### (1) International Markets

During the Period under Review, the international political situation and the global economic uncertainties have affected global crude oil supply pattern, causing disorder in the global petrochemical supply chain and substantial fluctuations in oil prices and chemical product prices. During the period, the Group secured 10 new international projects, mainly from two core markets, namely the United States and the Middle East. In addition, Wison Engineering actively explored markets of emerging areas and further established its presence in Russia and Commonwealth of Independent States, Southeast Asia and Africa, and is expected to make substantial project breakthroughs in emerging markets in 2020.

**The Middle East:**

The Middle East is the hub of the global energy, and also the core area in the Group's globalization strategy. During the Period under Review, due to the geopolitical tension within the region and the restrictions in the oil output cut agreement, the growth of oil exporting economies in the Middle East slowed down. In response to market changes, countries in the Middle East shifted their development focus to downstream petrochemical industry and became more active in gas field development, LNG and investment in major petrochemical projects, generating new opportunities for engineering companies.

# Business Overview


The Group has successfully established a premium brand image and reputation in the Middle East

With nearly ten years of presence in the Middle East market and with its outstanding capabilities in project execution, engineering quality, safety management, and resource integration in the Middle East, Wison Engineering has delivered many projects in the Middle East and has therefore established a premium brand image and reputation. Apart from conducting EPC projects of Saudi Aramco and Abu Dhabi National Oil Company (ADNOC), the Group also actively promoted localized sustainable development strategy. The Group has established operating centers in the Middle East equipped with outstanding local teams responding to the needs of local owners. Operating centers in the Middle East have accumulated several on-site EPC projects of Saudi Basic Industries Corporation (SABIC) and actively explored project tracking opportunities in markets such as Qatar and Kuwait. It is expected that there will be a number of project tendering opportunities with a scale of over US$300 million.

During the Period under Review, the Group officially collaborated with Kellogg Brown & Root (KBR) and jointly obtained the EPC contract for Saudi Aramco Total Refining and Petrochemical Company (SATORP)'s Refinery Debottlenecking Project in Jubail, Saudi Arabia. The project is expected to increase the refinery's production capacity by 15% once delivered in August 2020, which may become a typical case of "value creation by integrating technology with engineering". SATORP is a joint venture between Saudi Aramco and Total. The project enables the Group to deepen its cooperation with KBR in global energy sector as well as achieving the first breakthrough of the Company in conducting EPC projects for Saudi Aramco.

**North America:**

North America is another major market for the Group's globalization strategy. In view of issues such as high labour cost and delay in engineering progress in North American market, the Group developed modularized EPC delivery services which, through modularized factory prefabrication, assembly and integrated delivery, has reduced the cost of construction for North America investment projects and significantly shortened the construction cycle and thus enhancing the economic efficiency of the project. The modularized EPC service products have raised the competitiveness of the Group in the United States market and have set a new industry benchmark for the Chinese engineering enterprises. With Wison Engineering's continuously increasing market influence in North America, the Group is expected to achieve new breakthroughs in new projects in North America in 2020.

The modularized EPC service and products have raised the competitiveness of the Group in the U.S. market

# Business Overview

During the Period under Review, the Group has completed approximately 80% of the construction project in the petrochemical EPC project in Texas, the United States and is expected to be the largest general contractor contract separately undertaken in the United States by a Chinese petrochemical EPC engineering company. The project involved 11,000 tonnes of modules and approximately 80% of precise fabrication of separate components was carried out in China. For the first time, the Group utilized the self-propelled deck barge to carry out trans-ocean transportation of modules, which again proves the Group's capability in managing design, procurement, construction and transportation for the modular EPC project throughout the whole process and has provided strong assurance for the control of project costs, quality and progress.

During the Period under Review, the Group has been awarded a polypropylene Front End Engineering Design (FEED) project in Louisiana, the United States, which is Wison Engineering's first FEED project in the United States as well as the first project where module planning on process plants started from the front end design of the project. The Group adhered to the innovative approach to optimize the system layout with local elements and due consideration has been given to the allocation of transportation and construction machinery and manpower, thereby incorporating advanced and economical module concept into its designs, and hence offering owners solutions with optimal "quality, progress and cost". Currently the project has completed the key stage review and construction feasibility studies. The front end engineering design work was well recognized by the owner, laying a foundation for signing the next phase of EPC projects.

In November 2019, the Group has been awarded a polypropylene EPF contract in Texas, the United States, which comprised the design, procurement and fabrication of process framework modules as well as the installation of equipment within the module. This is Wison Engineering's another EPF project for major module fabrication following its accumulation of various modules in North America, with project difficulty and complexity significantly increased. In addition, in July 2019, the Group delivered the support of modularized design, procurement, manufacturing, transportation and construction for utility engineering plants located in Texas, breaking the Group's record of shortest module delivery time.

**Other regions:**

In addition to the key regions 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, Southeast Asia and Africa as well as those along the "Belt and Road" initiative. During the period, the Group secured its first front-end design contract in relation to the MTO Project in Russia, which had set the stage for further expansion of natural gas chemical EPC projects in the Russian market. In addition, the Group has also secured feasibility study contracts in respect of MTO projects and oil refining projects in both Southeast Asia and Africa, and is expected to pursue subsequent design and EPC contracts in 2020.

# Business Overview

## (2) Domestic Markets

During the Period under Review, the Group has been continuously improving project execution and management quality by fully leveraging market opportunities. Wison Engineering not only maintained its edges in traditional fields such as ethylene and coal-to-chemicals, but also proactively explored emerging fields, which led to breakthroughs in aspects such as light hydrocarbon downstream of PDH, PTA and oil refineries. During the Period under Review, the Group secured a total of 65 new domestic projects, with an aggregate contract value of approximately RMB12.09 billion. These new projects, mainly located in Shandong, Zhejiang, Fujian, Guangdong and other regions, involve various types of engineering works, such as refinery-petrochemical integration, ethylene, coal-to-chemicals, PTA and PDH. The Group's performance in domestic market is highly recognized and significant progress has been made in several key domestic projects.

Zhejiang Petrochemical 2# ethylene plant project undertaken by the Group was awarded the title of Exemplary Civilized Construction Site

**Ethylene plant project for Zhejiang Petrochemical highlighted its capabilities of project execution and globalized procurement:** On 28 May 2019, the Group entered into a general contractor contract with Zhejiang Petrochemical Co., Ltd. (浙江石油化工有限公司) ("Zhejiang Petrochemical") for 2# 1,400kta ethylene plant. By fully leveraging its modularized design, manufacturing experience and globalized procurement ability as well as project management experiences, the Group, as the general contractor for the 2# ethylene plant, focused on the procurement and supply of long-cycle equipment and materials in 2019, and hence procured project materials of more than 53,000 tonnes, fulfilling its construction needs at project sites. During the period, the installation and civil engineering works of underground pipeline networks and lifting of propylene column under such project were basically completed while the modularized construction and installation for 9 cracking furnaces were also underway as scheduled. The ethylene plant project is one of the main projects under the 40,000kta integrated refining and petrochemical project developed by Zhejiang Petrochemical, in which the Group places high importance on project safety and civilized construction management and garners wide recognition from owners and peers in the industry. The 2# ethylene plant project was awarded the title of "2019 Exemplary Civilized Construction Site of Zhejiang Petrochemical Phase II Project" (2019年度浙江石化二期文明施工樣板工地); and the foundation work of 2# ethylene cracking furnaces was also distinguished by the owners as a model project, both of which fully demonstrated Wison Engineering's remarkable capabilities in general contracting and management of chemical plant projects.

# Business Overview

**Nanjing Chengzhi Yongqing MTO plant of the MTO Project has started successfully:** The MTO plant of the 600kta MTO project by Nanjing Chengzhi Yongqing Energy Technology Co., Ltd (南京誠志永清能源科技有限公司) ("Nanjing Chengzhi Yongqing") licensed by the Group under EPC completed its delivery on 8 May 2019 and has started successfully on 28 June 2019 to produce on-spec ethylene and propene products. The MTO plant technology continues to utilize integrated technologies which combine Honeywell UOP's MTO reaction technology and the Group's olefin separation technology-"Pre-cutting + Oil Absorption". The by-product C4 fraction's butadiene production though Oxidation and Dehydrogenation marks the first time that the Group applied a combined technology of MTO and butadiene, which is currently the best application for MTO. The successful delivery has again proved the Group's comprehensive strength in MTO projects and it also marks a key milestone for the Group in the expansion of MTO market.

The Group applied a combined technology of MTO and butadiene for Nanjing Chengzhi Yongqing MTO Project for the first time

**Nanjing Chengzhi Yongqing's butene oxidation and dehydrogenation to 100kta butadiene plant has started up successfully, showcasing the advantage of catalyst and leading technology:** The 100kta butene oxidation and dehydrogenation to butadiene plant by Nanjing Chengzhi Yongqing licensed by the Group under EPC adopts the Group's self-developed butene oxidation and dehydrogenation catalyst and related technology. The industrial application shows that the efficiency of the Group's self-developed catalyzed butadiene has reached a new high and the utility engineering consumption is significantly lower than that of similar plants. The reliable plant operates stably and its technological indicators outperform similar domestic and overseas catalysts. Its processes possess clear technological advantages. The outcome of the plant operation indicates that the Group's oxidation and dehydrogenation to butadiene catalyst continues its leading position among similar catalysts, which has fully evidenced the Group's consistent research and development capabilities in terms of catalyst and hence generating stable economic effectiveness for the Group.

# Business Overview

**Fujian ShenYuan's Coal-to-Hydrogen and Synthetic Ammonia Project set a new benchmark for safe environmental protection:** the Group has entered into an EPC contract with Fujian ShenYuan New Materials Co., Ltd (福建申遠新材料有限公司) ("Fujian ShenYuan") for the construction of 75,000 $Nm^3/h$ coal-to-hydrogen plant and 300 kta synthetic ammonia plant, with a contract sum of approximately RMB1.4 billion. The Group is responsible for engineering management, basic design and detailed design of the project, supply of equipment and materials, construction and construction management as well as instructing the commissioning and start-up. During the period, the Group commenced on-site surveys of the project and inspection on unit models, cumulatively purchased 81.25% of long-cycle equipment and received all materials for first-level ground pipes, laying a key foundation for subsequent works. The Coal-to-Hydrogen and Synthetic Ammonia Project, which is a key part of the second phase of the 400 kta integrated polyamide project of Fujian ShenYuan, will achieve integration of upstream and downstream in the world's largest production base of caprolactam as well as increase in production capacity after completion of construction, thereby becoming a new industrial benchmark that is safe, reliable, energy-saving and environmentally-friendly and also marking another breakthrough of the Group in new material application as well as a significant strategic presence for the Group to deepen its expansion in South China market.

**Wison Taizhou New Materials Project has achieved preliminary breakthroughs:** On 12 March 2019, the Group entered into an EPC contract with Wison (Taizhou) New Material Technology Co., Ltd. (惠生(泰州)新材料科技有限公司) ("Wison Taizhou") regarding a high performance polyamide project. Capitalizing on its technological engineering conversion design, manufacturing and project management experience as well as globalized procurement ability, the Group is responsible for technological engineering conversion, engineering design, equipment and material procurement of the project, project construction services as well as assisting Wison Taizhou in commissioning, start-up and performance assessment. Even though on-site construction is currently at the stage of foundation work, significant breakthroughs can be seen in the technological engineering conversion and engineering design. As of the end of 2019, technological conversion and engineering design of 2 sets of process plants and 21 construction drawings of secondary construction works of utilities projects were completed, which marked the Group's triumph over technological design hurdles. The remaining construction drawings will also be completed in the near future, laying a solid foundation for project construction.

**Zhenjiang Evonik Wynca Fumed Silica Project has achieved a new breakthrough in terms of foreign-funded project in the domestic market:** The Group entered into an EPCM service contract with Evonik Wynca (Zhenjiang) Silicon Material Co., Ltd. (贏創新安(鎮江)硅材料有限公司) ("Evonik Wynca") for the Evonik Wynca Fumed Silica Project. The project was the Group's first foreign-funded EPCM service project in the domestic market of the new material industry. Evonik Group is a global leading specialized chemical enterprise while the project is a large scale fine chemical project invested by Evonik Group in the PRC, which has received great attention. Leveraging its competitive edges in integrated project management, such as front end engineering design (FEED), detailed design, procurement capability and construction management, the Group will provide high-quality solutions for this project. The project demonstrated the excellent comprehensive

# Business Overview

management service capability of the Group and received recognition from international enterprises, which marked a new breakthrough of the Group in exploring service scope.

## (3) Technology Research and Development

2019 marked a new round of deepening innovation and development for enterprises. By continuing to adhere to the objectives of "improving people's livelihood with innovative technology", the Group focused on and seized the world's ground-breaking, cutting edge technologies and moved forward by upholding the philosophy of being green, low-carbon and energy-saving, thereby promoting corporate development with technology as the driving force. During the Period under Review, remarkable new intellectual property rights achievements have been made by the Group with 26 new patents, 18 new licensed patents and 6 new software copyright registrations. The Group's intellectual property management system has successfully passed the certification by a third party. It has also completed the project inspection and acceptance for "2017 Recognized Shanghai Patent Pilot Demonstration Unit (2017年認定的上海市專利試點示範單位)" of Shanghai Intellectual Property Administration and passed the appraisal for "Shanghai Municipal Enterprise Technology Centre (上海市企業技術中心)" of Shanghai Economic and Information Technology Commission (上海市經濟信息化委員會).

Following the establishment of post-doctoral research center upon approval from the Ministry of Human Resources and Social Security of the PRC in 2018, the Group formulated strategies from a high starting point and implemented measures with high standards. During the Period under Review, the Group entered into an agreement with East China University of Science and Technology, pursuant to which both parties worked closely together in aspects such as introduction of post-doctoral talents, teambuilding, co-development of production and learning, establishment of systems, etc.. During the year, the Group has successfully introduced post-doctoral talents to station at the research center and conduct research on various topics.

During the Period under Review, by continuing to lay out and deepen the strategy for low-carbon development of global energy, the Group proactively promoted the implementation of the sub-topic of "new technology of glycol by synthesizing ethylene carbonate and hydrogen with cogeneration of methanol" under the national key research and development plan of "new technology for efficient CO2 synthesis of chemicals". The research and development, engineering design, and government filing and approval processes of the project have progressed steadily on schedule. The interim examination on the project and research conducted by the Hi-Tech Centre of the Ministry of Science and Technology was also completed in September 2019. Furthermore, in collaboration with its working partners, the Group has completed the interim test for its self-developed DME-based ethanol technology and successfully developed qualified absolute ethanol products. On this basis, the Group actively commenced the development of technology packages at a commercial scale and accelerated the application and implementation of industrial demonstration, with a view to facilitating its coal-to-chemicals enterprises to improve its corporate risk resistance capability as well as achieve differentiated and efficient development through industrial upgrade.

# Business Overview

The Group has focused on the world's ground-breaking, cutting edge technologies and actively deployed the strategy for low-carbon energy development

During the Period under Review, Nanjing Chengzhi Yongqing Energy's MTO plant of the 600kta MTO project with technology licensed by the Group started up successfully in the first trial run and produced polymer grade ethylene and propene products; while Liaocheng Meiwu New Materials's MTO plant of the 300kta with technology licensed by and engineering design provided by the Group started up successfully in the first trial run and produced polymer grade ethylene and propene products. Up to now, 6 MTO plants deploying Wison Engineering's MTO separation technology started up successfully and commenced operation in the PRC, which has again highlighted the Group's comprehensive strength in terms of MTO technology research and development, engineering and market expansion. Nanjing Chengzhi Yongqing Energy's 100kta butene oxidation and dehydrogenation to butadiene plant of the project with technology licensed by the Group started up successfully, which was the second technology license by the Group with respect to its self-developed butene oxidation and dehydrogenation catalyst and related technology.

During the Period under Review, the Group entered into a contract for the licensing of patent technology and design of related technology packages with Yangmei Group Zibo Qilu First Fertilizer Company Limited (陽煤集團淄博齊魯第一化肥有限公司) in respect of the acid gas removal unit of the technical transformation project of the 45000Nm$^3$/h syngas plant. The technology, which is self-developed by the Group, will be used to provide qualified clean syngas for downstream butanol plant by removing the acid gas in upstream syngas. This technical transformation has once again highlighted the Group's leading edges in the new coal-to-chemicals industry in terms of application of self-developed and environmentally-friendly technology.

### (4) Digitalization

Wison Engineering recognized remote office work, digitalization and intelligence as the future development directions in the energy and chemical engineering industry. During the Period under Review, the Group earnestly implemented the "enhancing the digitalization capacity of Wison and supporting the One-Core and Two-Wing strategy" to promote digital transformation. By enhancing digital capability involved in "client-oriented" EPC, project management and other processes, the Group gradually developed "Intelligent Factory" through conducting "Smart Project". Simultaneously, the Group enhanced operating efficiency and effectiveness of the Company by constantly improving its digital system with a focus on building up Wison Engineering's digital strength, and continuously carrying out the reform of its organization, operation models, procedures and methods, as well as systems and platforms with an emphasis on its vision, culture, talents and incentives. Wison Engineering's industry-leading digital capability and system are capable of meeting the service demand for digitalization from domestic and overseas project owners.

# Business Overview

In terms of Smart Project, the Group digitalized its design processes, especially processes such as cross-disciplinary transmission of condition and data, transmission of modified data and consistency check for cross-disciplinary data etc., which were replaced by computer procedures and hence realised automatic completion. During the period, Wison Engineering has improved its contents and depth of automatic completion system, which has been successfully verified in a million-ton ethylene design project. In addition, Wison Engineering improved digitalization in all three processes of procurement, construction and project management, as well as strengthened the data transmission and linkage between various systems, and hence achieved refined and real time digital management for strategic planning and cost management of projects.

In terms of Intelligent Factory, by establishing an intelligent factory for project owners through digital delivery. EPC projects, such as SABIC and TAKREER projects in the Middle East, and the Yantai Wanhua ethylene design project undertaken by Wison Engineering in recent years have all achieved digital delivery. In 2019, Wison Engineering established a joint laboratory of intelligent factory with Honeywell, with a view to pursuing the integration of digitalization and intelligence into the entire life cycle, from process and technology research, engineering design, procurement, construction, start-up, operation and maintenance up to decommissioning, of its factories by coupling Wison's edges in process research and EPC project management with Honeywell's strength in process research, and operation and maintenance of engineering works. During the period, the Group completed the compilation of, among other things, the "Overall Plan for Intelligent Factory" and "Requirements of Intelligent Factory and Digital Delivery", and was preparing for building real-time optimization (RTO) and Digital Twin.

### (5) Modularization

Modular prefabrication, assembly and integrated delivery can effectively overcome the constraints of construction site, significantly shorten construction period and improve work efficiency, which is conducive to the Group's expansion into overseas markets and is also one of the Group's core strategies. For the regions with high construction costs, resource shortage and higher construction risks, modularized construction of large-scale petrochemical plants is a highly effective solution. The Group has established a dedicated international, cross-functional and multi-disciplinary modular design and execution team with industry leading experience in planning, design, execution and management of the module system for the entire plant. During the Period under Review, with sustainable improvement in capabilities of planning and design of process modules, and refined construction, Wison Engineering was either in the process of, or has completed the design and delivery of several modular projects in overseas markets and China. The Group also prepared and optimized the modular execution and guideline system on modular design, with an aim to enhancing the overall strength of the modular integrated solutions, thereby solidifying the foundation for the Company's modular business, at the same time striving to set a benchmark in the industry.

# Business Overview

The Group has integrated capabilities of module design, construction and delivery

Meanwhile, the Group was equipped with the capabilities of module feasibility studies, basic design, detailed design and construction for medium-and large-scale land facility. Combining with its sea and land transport and lifting design, the Group has integrated capabilities of module design, construction and delivery, thereby establishing its leading competitiveness in both the domestic and international energy and chemical engineering market. During the Period under Review, three projects in the United States are among the completed and delivered modular projects of the Group.

## (6) Awards and New Qualifications

During the Period under Review, in view of its quality and efficient services, the Group garnered recognition from its customers, the peers in the industry, regulatory authorities and the capital market, and received a total of 4 national awards and 12 provincial awards. These multiple honors, as a distinct manifestation of the Company's outstanding philosophy of "Prioritizing Quality, Creating Excellence" (質量為先，鑄就精品), are not only recognition for the competence and influence of the Wison Engineering brand, but also an acknowledgement for the contribution of every team and employee of Wison Engineering.

With respect to national awards, the "Weibei Coal Chemical Industrial Park Project" of the Company, consisting of 1,800kt methanol and 700kt polyolefin, was awarded the 2018-2019 National Quality Project Gold Award (國家優質工程金質獎). The "Shandong Yangmei Hengtong Chemical Co., Ltd. Project", comprising of feedstock conversion of 300kta polyvinyl chloride, the Hydrogen Peroxide to Propylene Oxide (HPPO) process with a capacity of 200kta and the Methanol-to-Olefin (MTO) plant with a capacity of 300kta, and the "Xinjiang Xin Lian Xin Chemical Energy Co., Ltd. Project", involving coal-based production of 280kta ammonia, 480kta urea, 100kta melamine and 150kta compound fertilizer, respectively won the National Quality Project Award (國家優質工程獎). Besides, the "Comprehensive Utilization Project of Yan'an Coal Oil and Gas Resources" of the Company, involving ACO cracking modules, received the 2019 Chemical Industry Quality Engineering Award (2019年度化學工業優質工程獎), the highest honor, from the China National Association of Chemical Construction Enterprises.

Likewise, the Group secured an impressive award haul from the assessments for the Provincial Distinct Award of Engineering Consulting (省級優秀工程諮詢成果獎) and received a record high of two top awards, three secondary awards, and five third awards in total. Specifically, Wison has once again won the 2019 Provincial Excellent Survey and Design Innovation Award (年度省級優秀勘察設計創新獎特等獎) with its collaboration project with Shanxi Lu'an Naco Carbon One Chemical Co., Ltd., which consisted of 40kta synthetic base stocks and 20kta environmental-friendly solvent oils. This project marks the world's first industrial plant producing the by-product of high viscosity poly-$\alpha$-olefin (PAO) using $\alpha$-olefin extracted from coal-to-liquids, which possesses the characteristics of low energy consumption, high reliability and long-term safety and stability.

During the Period under review, Wison Engineering won recognition from the capital market with its remarkable operating result and business layout. The Group was successively honored with the "Listed Company Awards of Excellence 2019" issued by the Hong Kong Economic Journal, as well as the "Most Valuable Medium-and-Small-Cap Stock Award" and the "Best Investor Relations Award" in the "2019 Golden Hong Kong Stocks" award contest held by Zhitong Finance.

### (7) Talent Program

During the Period under Review, targeting the rapid development of its business, the Group continued to introduce new talents based on market and customer demand to improve internal management, thereby achieving a quick response to customers' needs and satisfying the demand of human resources for new project orders. Aligning with the Group's strategy of creating a product technology center as a hub of talent pool and achieving breakthroughs in product technological development, the Group was successfully approved by the Ministry of Human Resources and Social Security of the PRC to establish the corporate post-doctoral center of the Group, which provides a greater platform for attracting more high-end technical talents. During the period, the Group employed a total of 368 new employees, and recruited 81 graduates through campus recruitment, of which master and doctoral graduates accounted for over 80% of the total recruitment.

In 2019, Wison Engineering completed significant organization restructuring and optimization. Adhering to the philosophy of "Business-oriented and Project-focused (以業務為導向、以項目為中心)", the Group conducted organization restructuring based on the transformation in the petrochemical engineering industry and the strategic needs for the development of the Company, and established five major systems, namely a technology system, a marketing system, an execution system, a control system and a resource system. Different systems, each with its respective duties, not only performed its professional function, but also offered mutual support, thereby enhancing synergy and work efficiency of the Company. The new systems optimized the allocation of talents and resources without compromising either its focus or flexibility, and realized a highly flexible and responsive authorization procedure with an efficient, simple and convenient flattened matrix structure.

The Group attached great importance to talent cultivation and improved its team building on an ongoing basis. During the Period under Review, Wison Engineering provided comprehensive trainings to employees at different levels, including leadership training for middle level employees, project trader training and other specific talent cultivation programs. To enhance all-round capabilities and qualifications of its employees, the Group offered trainings to a total of approximately 3,450 employees, with a total training hours of approximately 33,200 hours. Simultaneously, high-calibre project managers, professional managers and talents with experience in project management and execution were encouraged to stay abreast of the progress at the front line of projects, so as to realize an efficient implementation of projects. Meanwhile, the Group also encouraged technology experts and marketing research teams to engage in marketing campaigns both at home and abroad, in order to strengthen resource synergy and allocation, and hence establishing a management system for worldwide major customers.

# Business Overview

Besides, the Group further improved its incentive mechanism based on the new organization structure comprising five systems. Persisting on the principle of prioritizing orders and projects, the Group offered more flexible, efficient and punctual incentives with reference to the tracking and management of different operation indicators, including sales revenue, profit and milestone of each project. The incentive mechanism was formulated based on the performance of each department and individual, with material incentives, spiritual incentives, as well as long-term and short-term incentives effectively incorporated and due consideration given to the demand for localized management and personalized development. Wison Engineering motivated its employees to take initiatives in their work and fully demonstrate their enthusiasm and ambition, with a view to closely connecting their personal growths with corporate development and improving the performance of both the individual and the Company.

## IV OUTLOOK

Looking forward to 2020, affected by the tense trading relationship, geopolitical conflicts and a major public health incident, global economy will witness a discernible slowdown. Owing to the generally weakened demand in the downstream market, the global oil and chemical engineering industry will encounter pressure in terms of demand and profitability. On the supply side of crude oil, the continuous increase in oil production in the U.S. will heighten the pressure on oil price. In addition, the reduction in crude oil production in the Organization of the Petroleum Exporting Countries and its allies, coupled with current developments in sanctioned countries including Iran and Venezuela, will also directly sway the supply and price movements of crude oil. From February to early March 2020, influenced by the outbreak of epidemic, the breakdown of the crude oil production reduction agreement and a turbulent financial market, crude oil price sharply declined to its lowest level since 2016. On the other hand, it is widely expected that after the epidemic gradually becomes stable, the global and domestic economies will recover step by step, and the crude oil prices will restore to a rational level accordingly. As a result of the manifold uncertainties at play, it is anticipated that international oil price will remain volatile in 2020.

In terms of chemical engineering, shrinking of production and profitability will be expected in the first half of 2020 due to the decreased demand of downstream products. If the epidemic is effectively contained globally, a resumption in growth of the industry can be anticipated in the second half of the year. In the long run, against the complex backdrop of trade friction, protectionism, exchange rate fluctuations and environmental regulations, new investment projects shall focus more on individual areas and reasonable extension of its regional competitive edges, which in turn highlights integration advantages, and hence resisting the impact of industrial volatility and maximizing the benefit. Furthermore, the PRC is still a region with the largest trading volume and fastest growth rate in the global petrochemical market, and in particular has a strong demand for fine chemical industry. The trend of future development in the EPC engineering market will concentrate on the richly assorted fine chemical products and by-products, while the production of which requires a high level of engineering technology and detailed design capability.

Besides, the massive outbreak of an epidemic at the start of 2020 has posed lasting impacts on the development of various industries, at the same time intensifying the needs for expediting the digital transformation of the energy and chemical engineering industry, and propelling the industry towards the development of intelligence, remote-control technology and automation. New technology empowers traditional industry while significance of application of Digital Twin, Industrial Internet of Things (IoT), cloud computing, artificial intelligence and other high and new technology in the EPC engineering industry is growing.

In regards to the momentous shift in the industry and market environment and based on the Company's business development strategies and market changes, the Group will continuously push forward and improve reorganization plans for talents and organizational structure to inspire the potential of staff at all levels. The Group will also enhance synergy among departments and systems to further showcase Wison Engineering's capabilities of refined management, swift and flexible operating mechanism and efficient innovation. Upholding its operation tenet of "integrity-oriented, customer-oriented, innovation-oriented, achieving mutual success in harmony" (誠信為本、客户為尊、創新為要、和諧共贏), Wison Engineering will promptly respond to market demand, capitalize on new market opportunities, deepen innovation in technology development and management, and strengthen its core technology and design capability on a sustainable basis through research and development of proprietary technology and technology licensing cooperation, meanwhile implementing refined management and enhancing the quality of its engineering works and services. In addition, the Group will also step up its effort in technological research and development for digitalization and intelligence to increase the core competitiveness of the Company.

### (1) Building on Local Market and Grasping New Opportunities in Domestic Market, while Committed to the Internationalisation Strategy

Regarding market expansion, the Group upholds the strategy of building on local market and expanding into the international market.

In respect of the domestic market, despite the market forecast that the demand for crude oil in China will slow down in 2020, with significant slowdown in the first quarter, yet China will remain the world's biggest growth driver. Following a series of policies concerning opening up and reform, domestic oil and gas, petrochemical and coal-to-chemical markets will continue to push forward the rapid growth of the domestic market. In 2019, the government successively promulgated the Opinions on Creating a Better Development Environment to Support the Reform and Development of Private Enterprises (關於營造更好發展環境支持民營企業改革發展的意見) and the Special Administrative Measures for Foreign Investment Access (Negative List) (2019 Edition) to further open oil and gas industries to private and foreign enterprises. The huge potential in the Chinese market has attracted numerous major domestic private enterprises and renowned international oil and petrochemical companies to actively establish their presence. Therefore, as an engineering Company rooted and bred in China, Wison Engineering will be attaching great importance to and actively expanding Chinese market.

By closely grasping domestic market opportunities, Wison Engineering officially established "Strategic Growth Center" in June 2019, the major function of which is to strengthen the management of mid-to-long-term strategic clients of "foreign-funded companies in China" and systemically develop key

# Business Overview

customers with strategic value to aim new quality opportunities. Since the establishment of the Strategic Growth Center and leveraging its advantages of, among others, extensive internationalization experience, standardized service procedures and differentiated service values, Wison Engineering has successively gained recognition from a number of well-known foreign enterprises such as Evonik, Covestro and Ineos and has been awarded various types of contract orders such as EPCM, FEED and engineering design.

In respect of international market, Wison Engineering will develop market strategies based on the characteristics of different regional markets. In well-developed markets such as North America and the Middle East, where competition from major engineering companies worldwide is fierce, Wison Engineering will expand such markets by leveraging its advantages such as cost and construction period control so as to build up a leading brand image for the Group in the international market. In emerging markets such as Russia and Southeast Asia, where energy and chemical markets will rapidly develop in the near future with diversified development opportunities and the competition is not as fierce as that of well-developed markets, Wison Engineering will leverage its differentiated and distinct advantages of management experience of core technology projects and provision of assistance in obtaining financing to expand markets and hence increasing profitability. In Africa and other potential markets where market demand will gradually rise in the future and growth potential is immense, Wison Engineering is only deploying such market at current stage and will map out long-term plans based on the development needs of the market so as to lay a foundation for expanding future businesses.

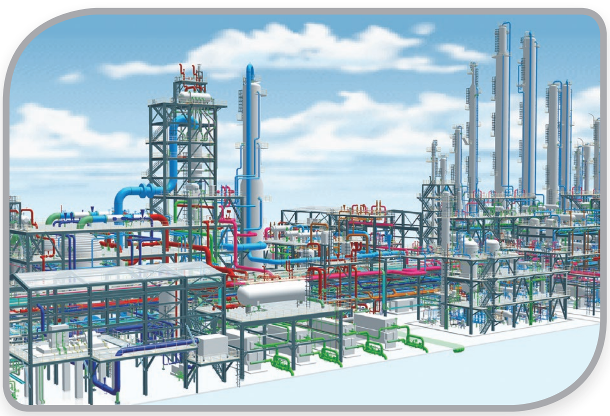
On the other hand, leveraging on its advantages in terms of modularization, digitalization, project execution, project management and financing capabilities, Wison Engineering will consistently enhance its competiveness in overseas markets by enhancing the establishment of overseas marketing team. In order to respond to the needs of different target markets and customers more effectively, Wison Engineering has established designated departments such as "Emerging Market Department" and "Major Customer Department". The "Emerging Market Department" will focus on new opportunities in Africa and South America and is expected to expand new markets for the Company, while the "Major Customer Department" will be committed to further cooperation with giants in the oil, gas and petrochemical industries as well as consistently keeping track of and exploring business opportunities of major international customers, with a view to pushing forward Wison Engineering to achieve new milestones.

### (2) Accelerating the Implementation of Digitalization and Modularization to Build a Technical Engineering Service Enterprise

The outbreak of major public health incident has enabled energy and chemical industries to be deeply aware of the importance of technology and Wison Engineering is more determined to develop its digitalization and smart technology. In terms of petrochemical energy engineering industry, digitalization and smart technology will change the operational and work model of the industry. With digitalization and smart technology and by using tools and methods such as big data, in-depth computing and non-mechanism modeling identification, various smart elements will be applied in EPC engineering and management sectors such as process computing, model design and selection, rule

# Business Overview

application, experience exchange, compliance testing, procurement reference, logistics tracking, material management, engineering guidance, proposal enhancement, quality supervision and emergency training, which has significantly improved the work synergy and efficiency. In terms of the operation of petrochemical energy factory, the application of smart factories will be valuable in five major aspects, namely supply chain optimization, simulation and optimization during production process, lean practice control, all life cycle asset management and 3D-based visualized management. The operation of smart factories will focus on the core concept of Digital Twin which is conducive to enhancing the market, process and production effectiveness of the enterprise, offering the optimal operation cycle and visualized convenience to the owners. Digital Twin will contribute to shared corporate social economy.



Digitalization and smart technology will change the operation model of energy chemical engineering industry

With the technological development and amid the rapidly-changing market, the scenario and value of modularization in the energy chemical engineering industry will consistently increase. And with the optimization of design, manufacturing and transportation technologies, modularized production has entered a new stage where it can be applied to projects with more complexity, larger in scale and longer in distance. Through optimized design and refined layout, more on-site fabrication work of steel structure, pipes and electrical instruments can be transferred to module processing plants so as to further increase work efficiency and reduce costs and strengthen the control over the project safety and progress. Impacted by the trade tariffs, cost advantages of modularized manufacturing in overseas markets may be undermined. However, the clear advantage of modularization on project construction period and quality control can continuously bring a large amount of additional value to the owners. The application of modularization still has an immense development potential. If international trade relationship alleviates, the advantage of modularized manufacturing will be far more valuable in the future.

Wison Engineering believes that "technology-driven development", digitalization and smart technology as well as modularization will become the future core competitive edges of engineering companies. Through further collaborations with tertiary institutions and leading enterprises, the Group will continue to strengthen research and development in digitalization and smart technology as well as modularization technologies with a view to setting a new benchmark in the industry.

### (3) Establishing a Business Ecosystem, Diversifying Development through Expansion along the Industry

By adhering to the strategic initiatives of "Promoting development and strengthening business with technologies", the Group will closely track research and development trends in the global energy and chemical industry and will focus on global cutting-edge technology in the areas of basic chemicals, chemical intermediates, new and raw material

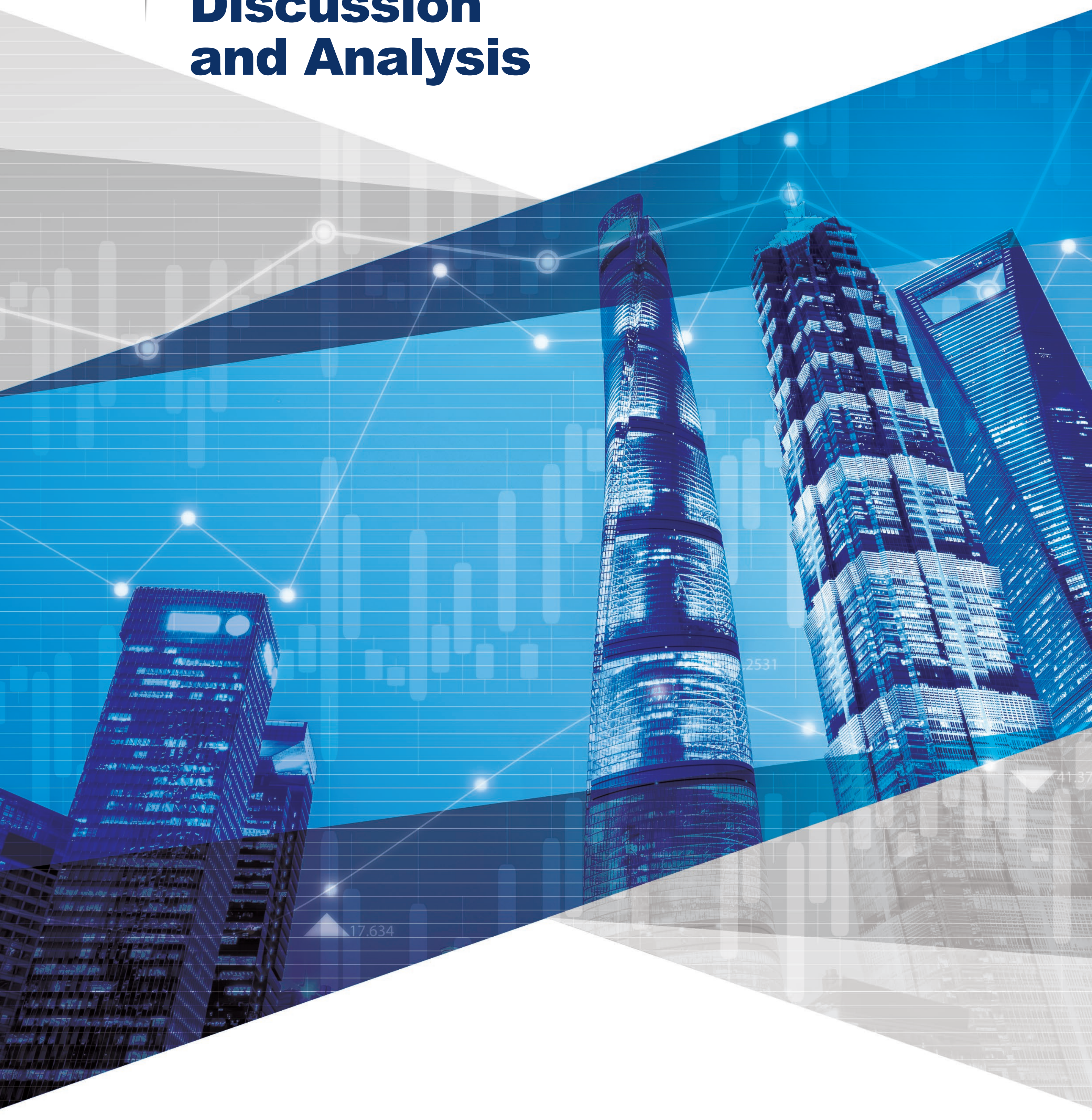
# Business Overview

chemicals, green processes, and low-carbon energy conservation. Through technical cooperation ecosystem, the Group aims at developing a wide range of cooperation in "production, learning and research" based on the principle of "resources and technological complementation" and the concept of mutual benefits. The Group will continue to enhance green chemical in the energy and chemical sector, develop and industrialize clean production technology to provide innovative chemical technology with low energy consumption, environmental protection and safety and higher value adding for the enterprise, thereby supporting the industrial transformation and upgrade towards low-carbon and ecofriendliness. At the same time, leveraging on the opportunities arising from the national strategy regarding the development of emerging industries, the Group increased efforts in developing the technologies of new materials which are highly dependent on imports and with higher value adding as well as the upstream material bottlenecking technology to form an innovative industrial application platform integrating technological research and development, engineering amplification and investment construction. The Group is committed to developing itself into a leading engineering service enterprise with advanced technologies.


The Group will closely track the development trend of global energy and chemical industry and strengthen the research and development of new technology

Looking forward, the petrochemical industry will usher in new subjects, new raw materials, new processes and new regulations, and demonstrate a new development pattern. By leveraging the advantage of synergies among various segments within the Group, Wison Engineering will enhance the consolidation of resources from strategic partners so as to build an ecosystem covering the entire industry chain. While implementing the strategic measures of "full internationalization", "optimized management" and "market competition differentiation", the Group will proactively respond to the overall requirements of the national green circular economy, actively carry out industrial investment and operation to effectively expand its principal businesses by leveraging its own strengths and core competency, as well as exploring new development opportunities in fields such as environmental protection and civic engineering. Meanwhile, the Group will step up its efforts in the technological research and development of new functional materials and bottlenecking raw materials, both of which are highly dependent on imports, and establish 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 and unique energy service and operation company with outstanding core advantages, diversified business risks, strong technical strengths and diversified profit sources, the Group will hence be able to realise 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 2019 and 2018:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **REVENUE** | **4,367,271** | 3,256,478 |
| Cost of sales | **(3,959,044)** | (2,757,606) |
| **GROSS PROFIT** | **408,227** | 498,872 |
| Other income and gains | **293,850** | 202,614 |
| Selling and marketing expenses | **(132,916)** | (107,521) |
| Administrative expenses | **(288,774)** | (377,737) |
| Reversal of impairment losses on financial and contract assets | **8,312** | 8,648 |
| Other expenses | **(176,024)** | (118,537) |
| Finance costs | **(22,719)** | (33,790) |
| Share of profit or loss of an associate | **(181)** | 190 |
| **PROFIT BEFORE TAX** | **89,775** | 72,739 |
| Income tax | **(39,217)** | (12,786) |
| **PROFIT FOR THE YEAR** | **50,558** | 59,953 |
| Attributable to: | | |
| Owners of the parent | **50,609** | 56,301 |
| Non-controlling interests | **(51)** | 3,652 |
| | **50,558** | 59,953 |

# Management Discussion and Analysis

## Revenue and Gross Profit

The comprehensive revenue of the Group increased by 34.1% from RMB3,256.5 million for the year ended 31 December 2018 to RMB4,367.3 million for the year ended 31 December 2019.

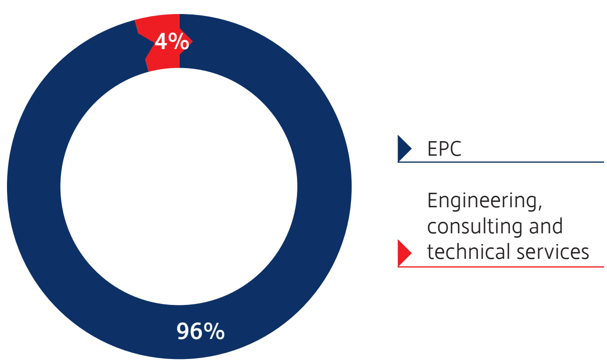
The gross profits of the Group decreased by 18.2% from RMB498.9 million for the year ended 31 December 2018 to RMB408.2 million for the year ended 31 December 2019.

The gross profit margins of the Group for the year ended 31 December 2018 and 2019 were 15.3% and 9.3%, respectively.

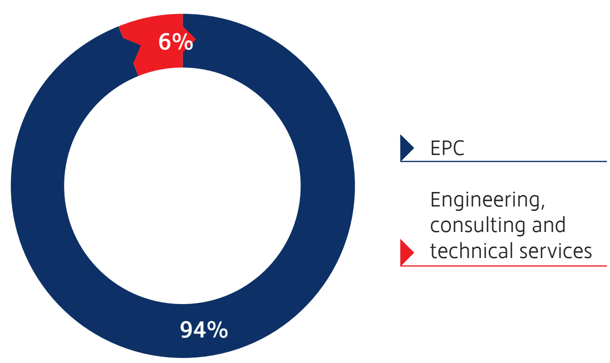
Details of comprehensive revenue and gross profit breakdown by business segments are set out below:

| | Segment revenue | | Segment gross profit | | Segment gross profit margin | |
|---|---|---|---|---|---|---|
| | **2019 (RMB'million)** | 2018 (RMB'million) | **2019 (RMB'million)** | 2018 (RMB'million) | **2019 (%)** | 2018 (%) |
| EPC | **4,201.7** | 3,072.3 | **373.8** | 432.5 | **8.9%** | 14.1% |
| Engineering, consulting and technical services | **165.6** | 184.2 | **34.4** | 66.4 | **20.8%** | 36.0% |
| | **4,367.3** | 3,256.5 | **408.2** | 498.9 | **9.3%** | 15.3% |

**2019**




**2018**



# Management Discussion and Analysis

The revenue of EPC of the Group increased by 36.8% from RMB3,072.3 million for the year ended 31 December 2018 to RMB4,201.7 million for the year ended 31 December 2019. The increase of the revenue of EPC was mainly because of the smooth progress of the Group's petrochemical projects in America and Middle East, which increased the revenue contribution during the year ended 31 December 2019.

The gross profit margins of EPC of the Group decreased from 14.1% for the year ended 31 December 2018 to 8.9% for the year ended 31 December 2019. This was mainly because the Group strategically adjusted the gross profit margins of the major projects under construction during the year ended 31 December 2019, in order to enhance competitiveness in regions, in particular, regions where presence has been newly established.

The revenue of engineering, consulting and technical services of the Group decreased by 10.1% from RMB184.2 million for the year ended 31 December 2018 to RMB165.6 million for the year ended 31 December 2019. The decrease of the revenue of engineering, consulting and technical services was mainly because certain larger scale engineering and consulting projects of the Group for the corresponding period of last year were completed during the current year.

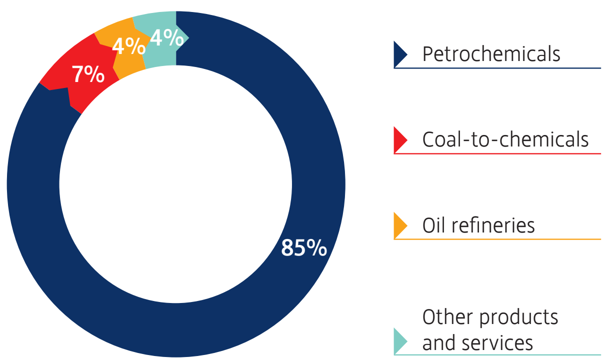
The gross profit margins of engineering, consulting and technical services of the Group decreased from 36.0% for the year ended 31 December 2018 to 20.8% for the year ended 31 December 2019. This was mainly due to the lower gross profit margin of the Group's individual engineering and consultation contracts for the current year.

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

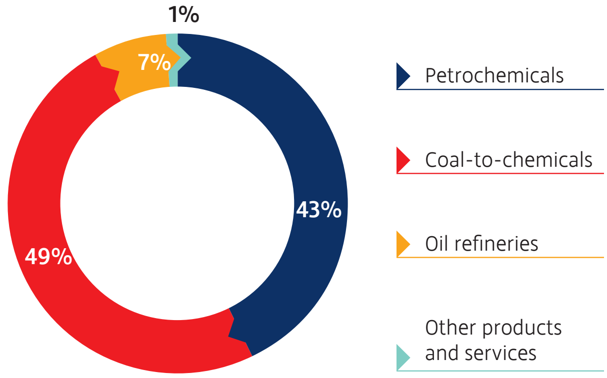
| | **2019 (RMB'million)** | 2018 (RMB'million) | **Change** | Change (%) |
|---|---|---|---|---|
| Petrochemicals | **3,711.3** | 1,399.7 | **2,311.6** | 165.1% |
| Coal-to-chemicals | **321.7** | 1,587.5 | **-1,265.8** | -79.7% |
| Oil refineries | **151.6** | 237.8 | **-86.2** | -36.2% |
| Other products and services | **182.7** | 31.5 | **151.2** | 480.0% |
| | **4,367.3** | 3,256.5 | **1,110.8** | 34.1% |

# Management Discussion and Analysis

**2019**




**2018**




The revenue of petrochemical business segment increased by 165.1%. This was mainly due to the increase in contribution to the revenue for the year thanks to the smooth progress of the Group's petrochemical projects in America, the Middle East and Mainland China for the year.

The revenue of coal-to-chemicals business segment decreased by 79.7%. This was mainly due to the decrease in contribution to the revenue from the Group's MTO Project in Nanjing, which has reached the completion stage.

The revenue of oil refineries business segment decreased by 36.2%. This was mainly due to the decrease in contribution to revenue as the Group's oil refinery projects in Abu Dhabi have yet to enter the principal construction phase.

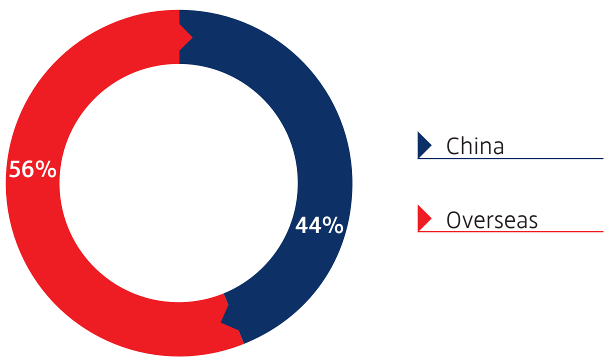
The revenue of other products and services business segment increased by 480.0%. This was mainly due to the kick-off of environmental protection and new material plant construction projects during the year, which has increased the contribution of other products and services segment to revenue.

# Management Discussion and Analysis

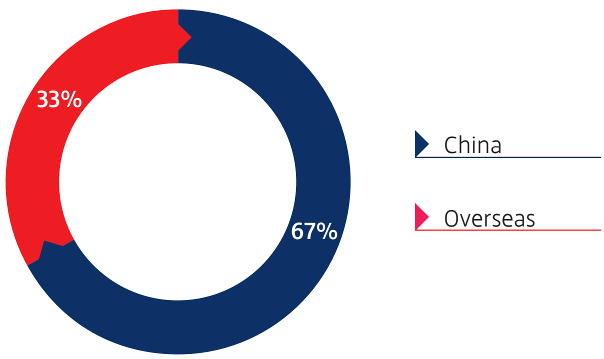
Details of comprehensive revenue breakdown by geographic locations of our clients are set out below:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **Revenue (RMB'million)** | **Percentage of total revenue (%)** | Revenue (RMB'million) | Percentage of total revenue (%) |
| Mainland China | **1,938.0** | **44.3%** | 2,174.7 | 66.8% |
| America | **1,929.0** | **44.2%** | 832.6 | 25.6% |
| Middle East | **482.8** | **11.1%** | 208.7 | 6.4% |
| Others | **17.5** | **0.4%** | 40.5 | 1.2% |
| | **4,367.3** | **100.0%** | 3,256.5 | 100.0% |

**2019 % of total revenue by geographic locations**




**2018 % of total revenue by geographic locations**




The revenue from overseas projects of the Group accounted for approximately 33% of the total revenue for the year ended 31 December 2018, whereas for the year ended 31 December 2019, revenue from overseas projects accounted for approximately 56% of the total revenue. The increase in percentage weighting of revenue from overseas projects for the year was mainly because of the smooth progress of the Group's petrochemical projects in America and Middle East, which increased the revenue contribution from these areas during the year ended 31 December 2019.

# Management Discussion and Analysis

## Other Income and gains

Other income and gains increased by 45.1% from RMB202.6 million for the year ended 31 December 2018 to RMB293.9 million for the year ended 31 December 2019, in which government grants increased by RMB79.8 million and insurance indemnities increased by RMB37.5 million. 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 23.6% from RMB107.5 million for the year ended 31 December 2018 to RMB132.9 million for the year ended 31 December 2019. The increase was mainly because the Group has increased preliminary expenditure for the deployment of domestic and foreign markets.

## Administrative Expenses

Administrative expenses decreased by 23.5% from RMB377.7 million for the year ended 31 December 2018 to RMB288.8 million for the year ended 31 December 2019, which was mainly due to the decrease in expenditure for administrative staff during the year.

## Other Expenses

Other expenses increased by 48.5% from RMB118.5 million for the year ended 31 December 2018 to RMB176.0 million for the year ended 31 December 2019. This was mainly because of the increase in research and development expenditure during the year.

## Finance Costs

Finance costs decreased by 32.8% from RMB33.8 million for the year ended 31 December 2018 to RMB22.7 million for the year ended 31 December 2019, in which interest on bank loans increased by RMB6.4 million and interest on discounted bills decreased by RMB18.1 million. The increase in interest on bank loans was primarily due to the increase in average balance of bank loans for the year ended 31 December 2019. The decrease in interest on discounted bills was primarily due to the recognition of interest on discounted bills for the financing arrangements for certain projects during the year ended 31 December 2018. The financing arrangements have been matured during the year ended 31 December 2018.

## Income Tax Expenses

Income tax expenses increased by 206.3% from RMB12.8 million for the year ended 31 December 2018 to RMB39.2 million for the year ended 31 December 2019, this was mainly because of the increase in percentage of assessable profit in certain regions, where have higher income tax rate.

# Management Discussion and Analysis

## Profit for the year

Profit for the year decreased by 15.7% from RMB60.0 million for the year ended 31 December 2018 to RMB50.6 million for the year ended 31 December 2019. Our net profit margin was 1.8% for the year ended 31 December 2018 and decreased to 1.2% for the year ended 31 December 2019. The related decline was mainly because of the decrease in gross profit margins of the Group's major projects under construction during the year ended 31 December 2019. The decrease in gross profit margins of projects was mainly attributable from the intense market competition, as well as the increase in raw materials costs.

## 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 19.8% from RMB1,519.1 million as at 31 December 2018 to RMB1,218.2 million as at 31 December 2019. For details please refer to note 21 to the financial statements.

## Financial Resources, Liquidity and Capital Structure

As at 31 December 2019, the Group's cash and bank balances amounted RMB814.3 million, representing approximately 19.0% of the Group's current assets (As at 31 December 2018: RMB932.1 million, representing approximately 20.2% of the Group's current assets).

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

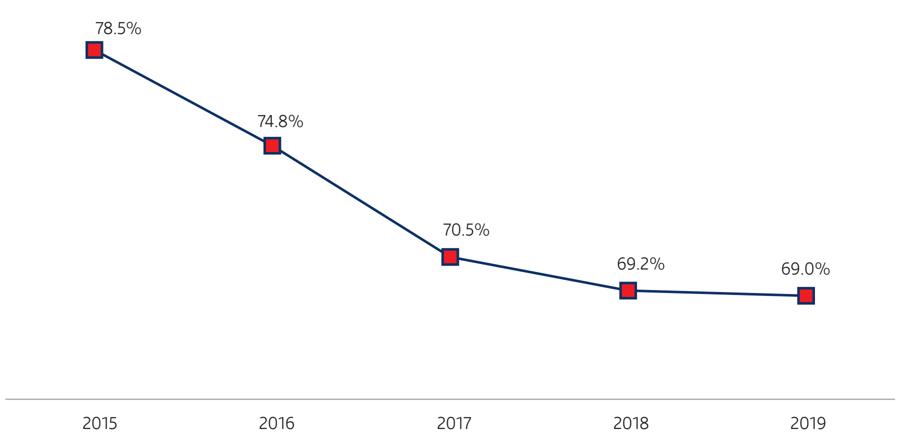
| Major items of cash flow | For the year ended 31 December<br>**2019**<br>**(RMB'million)** | <br>2018<br>(RMB'million) |
|---|---|---|
| Net cash flows from operating activities | **(271.1)** | 666.7 |
| Net cash flows from investing activities | **(338.0)** | 71.9 |
| Net cash flows from financing activities | **483.5** | (744.1) |

As at 31 December 2019, the Group's pledged and unpledged cash and bank balances included the following amounts:

| | As at 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **(RMB'million)** | (RMB'million) |
| Hong Kong Dollar | **7.6** | 8.0 |
| US Dollar | **714.8** | 125.3 |
| Renminbi | **786.4** | 956.8 |
| Saudi Riyal | **80.3** | 9.3 |
| Euro | **14.6** | 2.5 |
| South African Rand | **8.3** | – |
| Indonesian Rupiah | **–** | 16.7 |
| Venezuelan Sovereign Bolivar | **–** | 2.0 |
| UAE Dirham | **1.3** | 0.4 |

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**



# Management Discussion and Analysis

Interest-bearing bank and other borrowings of the Group as at 31 December 2019 and 2018 were set out in the table follow. The short-term bank borrowings of the Group accounted for 40.5% of the total bank borrowings (2018: 100%).

| | As at 31 December 2019 (RMB'million) | 2018 (RMB'million) |
|---|---|---|
| Current | | |
| Bank loans repayable within one year | | |
| — secured | **252.0** | 245.9 |
| Current portion of long-term bank loans | | |
| — secured | **52.8** | – |
| | **304.8** | 245.9 |
| Non-Current | | |
| Bank loans repayable after one year | | |
| — secured | **447.2** | – |

Bank borrowings were denominated in RMB and USD at 31 December 2018 and 2019. At 31 December 2019, bank borrowings amounting to RMB62,000,000 (2018: RMB62,000,000) bore interest at fixed rates.

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

| | |
|---|---|
| Year ended 31 December 2018 | 3.87% to 5.44% |
| Year ended 31 December 2019 | 4.79% to 5.88% |

The maturity profile of interest-bearing bank and other borrowings as at 31 December 2019 and 2018, based on contractual undiscounted payments, is as follows:

| | On demand | Less than 3 months | 3 to 12 months (RMB'million) | 1 to 5 years | Total |
|---|---|---|---|---|---|
| 31 December 2019 | | | | | |
| Interest-bearing bank and other borrowings | **–** | **213.7** | **122.1** | **632.8** | **968.6** |
| 31 December 2018 | | | | | |
| Interest-bearing bank and other borrowings | – | 188.3 | 62.8 | – | 251.1 |

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

# Management Discussion and Analysis

## Material Acquisitions and Disposals

Reference is made to the discloseable transaction announcement dated 24 May 2019 of the Company. The Company announced in that announcement that on 24 May 2019, the Company (as an investor) entered into the Cornerstone Investment Agreement with CSSC (Hong Kong) Shipping Company Limited ("CSSC Hong Kong Shipping", as the issuer), China International Capital Corporation Hong Kong Securities Limited ("CICC", as the Sole Sponsor and one of the Joint Global Coordinators) and CLSA Limited ("CLSA", as one of the Joint Global Coordinators), pursuant to which the Company has agreed to subscribe for shares in CSSC Hong Kong Shipping as a cornerstone investor, with an aggregate subscription price (exclusive of the brokerage and the levies in respect of the shares) of approximately HK$234.0 million. The Company acquired 174,626,000 shares, representing approximately 2.85% of the equity interests in CSSC Hong Kong Shipping.

Reference is made to the discloseable transaction announcement dated 6 June 2019 of the Company. The Company announced in that announcement that on 6 June 2019, Wison Engineering Ltd. ("Wison Engineering", an indirect wholly-owned subsidiary of the Company) and certain other investors, Shanxi Lu'an Mining (Group) Company Limited (as the existing shareholder of Shanxi Lu'an Chemical Co., Ltd. (山西潞安化工有限公司, "Target Company")) and the Target Company entered into a capital contribution agreement, pursuant to which Wison Engineering agreed to make capital contribution in cash of RMB30.0 million to the Target Company for a 0.2246% equity interest in the Target Company.

Reference is made to the discloseable transaction announcement dated 25 July 2019 of the Company. The Company announced in that announcement that on 25 July 2019, Wison Energy Engineering (Hong Kong) Limited ("Wison Energy Engineering", an indirect wholly-owned subsidiary of the Company) entered into the Convertible Bonds Purchase Agreement with Lucky Rich Holdings Limited ("Lucky Rich"), pursuant to which Wison Energy Engineering agreed to acquire from Lucky Rich the Convertible Bonds of CIMC-TianDa Holdings Company Limited ("CIMC-TianDa") in a principal amount of RMB130.7 million at a cash consideration of HK$100.0 million.

The Group is also closely exploring other investment opportunities to complement the Group's strategic development or as additional means of improving returns.

## Capital Expenditure

The capital expenditure of the Group amounted to RMB32.8 million for the year ended 31 December 2019 (2018: RMB39.2 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.

# Management Discussion and Analysis

## Contingent Liabilities

(1) During 2018, a sub-contractor of Wison Engineering filed a claim with the Sichuan Province's Higher People's Court in Mainland China against Wison Engineering for additional payment of construction costs and the interest arising from the overdue payment of construction costs of approximately RMB211.3 million.

(2) During 2018, another sub-contractor of Wison Engineering filed a claim with the Sichuan Province's Higher People's Court in Mainland China against Wison Engineering for additional payment of construction costs and the interest arising from the overdue payment of construction costs of approximately RMB132.3 million.

(3) During 2019, a sub-contractor of Wison Engineering was accused by its own sub-contractor to Chengdu Intermediate People's Court and Wison Engineering has also been named as a defendant to undertake joint liability for the payment of construction costs of approximately RMB45.4 million.

(4) During 2019, a sub-contractor filed a claim with the Pudong New District People's Court against Wison Engineering for the payment of consulting fee and the interest arising from the overdue payment of consulting costs of approximately RMB16.5 million.

(5) During 2019, Wison Engineering was involved in four bill cases with a total amount of RMB20.0 million. Wison Engineering has been accused by the subsequent endorsers of the bill to assume bill liabilities with the total amount of RMB20.0 million.

As of the date of approval of the financial statements, Wison Engineering and the subcontractors in case (1), case (2) and case (3) have completed the first pre-trial evidence exchange in court and cross-examination, and trials are yet to be scheduled. Wison Engineering and the subcontractor of case (4) are still in the process of first pre-trial evidence exchange and trial is yet to be scheduled. The trial of case (5) is yet to be scheduled.

The directors of the Company are of the opinion that, case (1), case (2) and case (3) are without merits and the possibility for the Group to be subject to additional payment claims is remote on the basis of the available evidence and having taken legal advice. Thus, it is not required for the Group to make provision for these three cases.

The directors of the Company has accrued the liabilities for case (4) and case (5) as at 31 December 2019 due to the possibility of the Group to take settlement responsibility, on the basis of the available evidence and having taken legal advice.

## Asset Security

As at 31 December 2019, certain building of RMB818.8 million, as well as future years right of receiving rental fees from certain properties, were pledged as security for bank facilities of the Group.

## Human Resources

As at 31 December 2019, the Group had 1,694 employees (31 December 2018: 1,439 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 2019, the total staff cost of the Group (including salaries, bonuses, insurance and share option schemes) amounted to RMB619.3 million (during the year ended 31 December 2018: RMB593.0 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 44, 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 over 20 years of experience in the management and operation of state-owned enterprises, foreign enterprises and privately-owned enterprises, and has accumulated extensive experience in leading the development and transformation of various types of businesses. Ms. Rong became an external independent director of Wison Group Holding Limited ("Wison Holding") in July 2017, and was also appointed as a director and vice president of Wison Holding since January 2018. Ms. Rong studied at the University of Cambridge and Hong Kong University of Science and Technology and obtained a master's degree in mathematics and a master's degree in management.

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

# Biographies of the Directors and Senior Management

**Mr. Zhou Hongliang (周宏亮)**, age 50, 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 the Company's brand operation and system establishment in terms of quality and safety. 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 27 years' experience in the petrochemicals industry.

**Mr. Li Zhiyong (李志勇)**, age 48, was appointed as an executive Director of our Company and the Chief Financial Officer of our Group on 13 January 2017. Mr. Li is mainly responsible for overseeing the Group's financial operations and investor relations management. Mr. Li obtained a bachelor of science degree from the Nanjing University of Aeronautics and Astronautics (南京航空航天大學), the PRC, in 1993, a master of business administration degree conferred by Tsinghua University (清華大學), the PRC, upon completion of the Tsinghua-MIT Sloan IMBA Program in 2000 and a master of business administration degree issued jointly by Northwestern University (the United States of America) and The Hong Kong University of Science and Technology (Hong Kong) upon completion of the Kellogg-HKUST Executive MBA (EMBA) Program in 2011. Mr. Li was recognized as a Chartered Financial Analyst by the CFA Institute in 2009. From March 2014 to December 2016, Mr. Li was a partner and the general manager of Vado Consulting (Shanghai) Co., Ltd (凡道管理諮詢(上海)有限公司). From January 2012 to February 2014, Mr. Li was a vice-president of Jiangsu Shenma Electric Co., Ltd. (江蘇神馬電力股份有限公司). Prior to these positions, Mr. Li held a number of positions at certain members of the Group. In March 2001, Mr. Li joined Wison Engineering (formerly known as Shanghai Wison Chemical Engineering Co., Ltd. (上海惠生化工工程有限公司)), the principal operating subsidiary of the Company, as the financial controller until March 2011. Mr. Li also served as an executive director of the Company from June 2007 to April 2011. Mr. Li re-joined the Group in January 2017 as the chief financial officer of Wison Engineering.

# Biographies of the Directors and Senior Management

**Mr. Dong Hua (董華)**, age 52, 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 31 years' experience in the petrochemicals industry.

## NON-EXECUTIVE DIRECTOR

**Mr. Liu Hongjun (劉洪鈞)**, aged 47, joined our Company as a non-executive Director on 19 February 2020. He obtained a bachelor degree in chemical engineering and processes and a master degree in chemical engineering from Tsinghua University in the PRC in 1996 and 1999, respectively, and an Executive Master of Business Administration (EMBA) degree from China Europe International Business School in the PRC in 2010.

Mr. Liu has over 20 years of work experience in chemical engineering industry. From July 1999 to January 2005, he worked at Shanghai Wison Chemical Engineering Co., Ltd. (上海惠生化工工程有限公司) (currently known as Wison Engineering Ltd. (惠生工程(中國)有限公司)) and held various positions, including engineer, deputy manager, manager of project department (division 1) and manager of Nanjing project department. During the period between February 2005 and October 2015, Mr. Liu served at Wison (Nanjing) Chemical Co., Ltd. (惠生(南京)化工有限公司) (currently known as Nanjing Chengzhi Clean Energy Co., Ltd (南京誠志清潔能源有限公司)) and held a number of positions, such as manager of project management department, deputy general manager, general manager, president and chairman of the board of directors. From November 2015 to November 2019, Mr. Liu served as a vice president of Wison Group Holding Limited. Since November 2015, he has been a director and president of Wison (China) Holding Company. Since November 2017, Mr. Liu has been a director of Wison Group Holding Limited. Since December 2019, he has been the president of Wison Group Holding Limited. Since January 2020, Mr. Liu has been the chairman of the board of directors of Wison (China) Holding Company. Wison Group Holding Limited is the controlling shareholder of the Company and Wison (China) Holding Company is one of its key operating subsidiaries. Currently, Mr. Liu also serves as a director at certain other subsidiaries of Wison Group Holding Limited.

# Biographies of the Directors and Senior Management

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Lawrence Lee (李磊)**, age 55, 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 25 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 63, 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

# Biographies of the Directors and Senior Management

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. Mr. Tang was 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) from December 2013 to July 2019. 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.

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 51, joined our Company as an independent non-executive Director on 28 December 2015. Mr. Feng has more than 24 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.

# Biographies of the Directors and Senior Management

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 52, is a senior vice president of our Group. She is responsible for the professional talent resource efficiency, professional technical capabilities and enhancement of corporate productization capabilities of Wison Engineering, and at the same time, is a senior supporter of various domestic and overseas projects. 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, and had the qualification of senior engineer. From 1998 to 2007, Ms. Chen successively 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 department. Ms. Chen joined our Group in 2007 and successively worked at Wison Engineering as deputy manager of the quality and safety department, manager of the technical management department, manager of the research and development center and vice president of the Group, and was once in charge of technology research, engineering design, information technology as well as quality and safety. Ms. Chen has 29 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 52, is a senior vice president of our Group. He is responsible for the execution of domestic and overseas projects. 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 and international business in the Middle East and partial region of Africa. Mr. Zheng is a member of council of Shanghai Association of International Services Trade. Mr. Zheng has 30 years' experience in the petrochemicals industry.

# Biographies of the Directors and Senior Management

**Mr. Li Yansheng (李延生)**, age 55, 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 54, is the chief technology officer of Wison Engineering, mainly responsible for global technology cooperation, global market strategic research and marketing, and in charge of the product technology centre, the technology development centre and the marketing department. Mr. Pang has 30 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.

# Biographies of the Directors and Senior Management

**Mr. Cui Hongxing (崔洪星)**, age 54, 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 32 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 2019.

## PRINCIPAL ACTIVITIES

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

## BUSINESS REVIEW

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

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

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

# Report of the Directors

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.

## SUBSEQUENT EVENTS

### The novel coronavirus epidemic

In 2020, the worldwide epidemic outbreak has been casting more uncertainties to various economies around the world as well as significantly limiting international long distance travels and business exchanges. In view of the development of the epidemic, the Group rolled out a number of adjustment measures accordingly. The headquarters of the Company adjusted its post-Lunar New Year work arrangements, pursuant to which employees resumed work one week later than past years. A flexible working arrangement was also adopted with a combination of work from home and work in office during the first three weeks after the work resumption. As affected by the epidemic, the Company's projects under development also experienced delays in both the schedule for commencement of work and construction progress. For those resumed projects, works have gradually resumed normal now and overtime works have been arranged to push ahead with the progress. Most of the domestic and overseas business trips have been cancelled as affected by the epidemic. Instead, communication was maintained by way of remote conferences or relying on business exchanges between colleagues based at the local branch of the Group and customers. In response to the impact of the epidemic, the Chinese government has launched a series of supportive and preferential policies. The Company is now actively applying for some of the policies for which it has met the conditions in accordance with the requirements under the policies.

# Report of the Directors

### Abrupt downward adjustment of international crude oil prices

Since March 2020, there was an abrupt downward adjustment of international crude oil prices, which has brought a huge impact on the global energy market and financial market. The Company is now closely monitoring and studying the impact on the industry. Based on previous industry experience, stable and appropriate crude oil prices will be conducive to the healthy development of the upstream and downstream of the energy and chemical industry. However, the influence of changes in oil prices on the upstream and downstream industry varies. In general, the decrease in crude oil prices will be unfavourable to the upstream energy industry, but for the oil-refining industry and the chemical industry which uses oil as the key raw material, as the reduction in cost will bring higher profit margins, some of the sub-segments may record a growth. The current movement of crude oil price, especially when coupled with the impact of the novel coronavirus epidemic, brings uncertainty to future macro-economy and the industry trend. The Group will constantly pay attention to the changes in various circumstances and adopt responsive measures accordingly.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, the aggregate purchases of raw materials attributable to the Group's five largest suppliers accounted for approximately 22.1% of the Group' s total purchases. Our purchases attributable to the single largest supplier accounted for approximately 6.1% of the Group's total purchases for the same period.

For the year ended 31 December 2019, our five largest clients, in aggregate, accounted for approximately 78.8% of our total revenue. Our revenue derived from the single largest client for the same period amounted to approximately 40.0% 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 2019.

## SUBSIDIARIES AND ASSOCIATE

Particulars of the Company's subsidiaries and the Group's associate as at 31 December 2019 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 2019 and the Group's financial position as at that date are set out in the financial statements on pages 86 to 210 of this report.

# Report of the Directors

## FINAL DIVIDEND

The board of directors of the Company recommends a final dividend of RMB0.0037 (equivalent to HK$0.0040) per ordinary share for the year ended 31 December 2019.

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 RMB0.91553, being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 20 March 2020. The final dividend will be paid on or around 15 July 2020 to shareholders whose names appear on the Register of Members of the Company on 26 June 2020.

## 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 2019 (2018: 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 2019 are set out in the consolidated statement of changes in equity. Changes to the reserves of the Company during the year ended 31 December 2019 are set out in Note 41 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands comprise the share premium and retained earnings totaling approximately RMB863,095,000.

# Report of the Directors

## DIRECTORS

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

### Executive Directors

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

### Non-executive Director

Mr. Liu Hongjun (appointed on 19 February 2020)

### Independent Non-executive Directors

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

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

In accordance with Article 112 of the Company's Articles of Association, Mr. Liu Hongjun will retire at the forthcoming annual general meeting of the Company and, being eligible, offers himself for re-election.

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

## RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

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

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

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

# Report of the Directors

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

## MANAGEMENT CONTRACTS

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

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

As at 31 December 2019, 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 2019, 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 2019, 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 390,854,200, representing approximately 9.59% of the issued share capital of the Company as at the date of this report. Options lapsed in accordance with the Share Option Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit. Unless approved by the Shareholders in a general meeting, the total number of Shares issued and to be issued upon the exercise of the options granted to each Eligible Person (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the relevant class of securities of our Company in issue.

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

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

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

(iii) the nominal value of the Shares.

# Report of the Directors

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

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 2019 | Exercised during the year | Lapsed during the year | Granted during the year | No. of Shares involved in the options outstanding at 31 December 2019 |
|---|---|---|---|---|---|---|
| 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 |
| Employees of the Group | 1.744 | 128,700,000 | – | (4,900,000) | – | 123,800,000 |
| Total | | 131,700,000 | – | (4,900,000) | – | 126,800,000 |

No option has been granted under the Share Option Scheme during the year ended 31 December 2019. Save as disclosed above, no option has been cancelled or lapsed during the year ended 31 December 2019.

### 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 2019, 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 130,527,000 shares, representing approximately 3.20% 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 2019, options to subscribe for an aggregate of 130,527,000 shares representing 3.20% of the total issued share capital of our Company as at the date of this report have been granted by our Company for a consideration of HK$1.00 and remain outstanding under the Pre-IPO Share Option Scheme. Save as disclosed below, no Directors, substantial shareholders or other connected persons or their respective associates have been granted options under the Pre-IPO Share Option Scheme.

# Report of the Directors

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

| Category of participants | Exercise price per share (HK$) | No. of Shares involved in the options outstanding at 1 January 2019 | Exercised during the year | Lapsed during the year | Reassigned during the year | No. of Shares involved in the options outstanding at 31 December 2019 |
|---|---|---|---|---|---|---|
| **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 |
| Employees of the Group | 0.837 | 98,931,800 | (2,551,600) | (3,359,200) | 1,140,000 | 94,161,000 |
| **Wison Holding and its subsidiaries** | | | | | | |
| Employees, executives and officers of Wison Holding or any of its subsidiaries | 0.837 | 32,566,000 | (608,000) | (152,000) | (1,140,000) | 30,666,000 |
| Total | | 137,197,800 | (3,159,600) | (3,511,200) | – | 130,527,000 |

The outstanding options granted under the Pre-IPO Share Option Scheme above were granted on 30 November 2012. During the year ended 31 December 2019, options representing 3,159,600 shares have been exercised by the holders, options to subscribe for an aggregate of 3,511,200 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$1.008.

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.

# Report of the Directors

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

As at 31 December 2019, 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 Engineering Investment Limited ("Wison Investment") | Company | Beneficial owner | 3,088,782,146(L) | 75.82% |
| Wison Holding(2) | Company | Interest in controlled corporation | 3,088,782,146(L) | 75.82% |
| Mr. Hua Bangsong(3) | Company | Interest in controlled corporation | 3,088,782,146(L) | 75.82% |
| Ms. Huang Xing(4) | Company | Interest of spouse | 3,088,782,146(L) | 75.82% |

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 2019, 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.

# Report of the Directors

## 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 75.82% 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.

Wison Engineering Ltd. ("**Wison Engineering**") is an indirect wholly-owned subsidiary of the Company.

Shanghai Wison Offshore & Marine Co., Ltd. ("**Wison Marine**") is an indirect 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 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.

Wison (Taizhou) New Material Technology Co., Ltd. ("**Wison Taizhou**") is an indirect wholly-owned subsidiary of Wison Holding. Therefore, Wison Taizhou is an associate of Mr. Hua and a connected person of our Company under the Listing Rules.

Wison Petrochemicals (NA), LLC ("**Wison Petrochemicals**") is an indirect wholly-owned subsidiary of the Company.

### One-off Connected Transaction

The following transaction is an one-off transaction entered into by our Group:

1. On 12 March 2019, Wison Engineering and Wison Taizhou entered into the EPC general contractor contract (the "**Wison Taizhou EPC Contract**"), pursuant to which Wison Engineering was engaged by Wison Taizhou as the EPC general contractor for its high performance polyamide project in Taixing Economic Development Zone, Jiangsu Province, the PRC. The total contract price payable by Wison Taizhou to Wison Engineering under the Wison Taizhou EPC Contract comprises the reimbursement of the engineering costs to be incurred by Wison Engineering and the design fees, project management fees and remuneration payable by Wison Taizhou to Wison Engineering. The contract price was RMB440,250,000. However, Wison Engineering will be entitled to certain incentive payments from Wison Taizhou for effective costs saving, efficient delivery of works and ensuring work safety. Furthermore, if completion of the construction of the project is delayed to beyond October 31, 2020 due to any reasons not related to Wison Engineering, the parties may also negotiate for an adjustment in the project management fees. For the year ended 31 December 2019, the relevant revenue recognised by the Group during the year was RMB28,177,000.

   The connected transaction contemplated under the Wison Taizhou EPC Contract was announced on 12 March 2019 and was approved by independent Shareholders of the Company at the extraordinary general meeting held on 18 April 2019.

# Report of the Directors

## Continuing Connected Transactions

For the financial year ended 31 December 2019, 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 wholly-owned subsidiary of the Company, leased (the "Leases") to Wison (China) Investment and Wison Marine 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 Marine for the premises under the Leases for office use.

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

| Lessor | Lessee | Leased Properties | Duration of Lease | g.f.a of Leased Properties ($m^2$) | Annual Rental (RMB in thousands) | Annual comprehensive park management fees (RMB in thousands) | Annual charges for conference facilities (RMB in thousands) | Annual electricity fees (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 of Block A at No. 633 Zhongke Road, Pudong New District, Shanghai, PRC | 1 January 2019 to 31 December 2020 | 7,584 | 15,225 | 2,275 | – | – |
| Wison Engineering | Wison (China) Investment | Certain premises located at the entire 3rd Floor of Block C at No. 633 Zhongke Road, Pudong New District, Shanghai, PRC | 1 April 2019 to 31 March 2021 (Note 1) | 2,003.8 | 3,541 | 451 | 530 | 400 |

# Report of the Directors

| Lessor | Lessee | Leased Properties | Duration of Lease | g.f.a of Leased Properties (m$^2$) | Annual Rental (RMB in thousands) | Annual comprehensive park management fees (RMB in thousands) | Annual charges for conference facilities (RMB in thousands) | Annual electricity fees (RMB in thousands) |
|---|---|---|---|---|---|---|---|---|
| Wison Engineering | Wison (China) Investment | Certain premises located at Room 401, 4th Floor of Block C at No. 633 Zhongke Road, Pudong New District, Shanghai, PRC | From 1 July 2019 to 31 March 2021 (Note 2) | 306 | 309 | 45.9 | – | 18 |
| Wison Engineering | Wison Marine | 5th Floor of Block A at No. 633 Zhongke Road, Pudong New District, Shanghai, PRC | From 1 January 2019 to 31 December 2020 (Note 3) | 2,000 | 4,099 | 613 | – | – |

Note 1: The rent free period commenced from 1 April 2019 and expired on 31 May 2019, during which period rental was not payable but Wison (China) Investment continued to pay the comprehensive park management fee.

Note 2: The rent free period commenced from 1 July 2019 and expired on 31 August 2019, during which period rental was not payable but Wison (China) Investment continued to pay the comprehensive park management fee.

Note 3: Pursuant to the supplemental agreements entered into between Wison Engineering and Wison Marine on 25 January 2019, Wison Engineering (as landlord) and Wison Marine (as tenant) agreed that subject premises of the lease shall be changed from a portion of 4th Floor and 5th Floor of Block A at 633 Zhongke Road, Pudong New District, Shanghai, PRC to 5th Floor of Block A at 633 Zhongke Road, Pudong New District, Shanghai, PRC, with gross floor area being reduced from 2,500 square metres to 2,000 square metres. The monthly rental was adjusted from RMB418,229.17 (representing rental for the year ended 31 December 2019 of RMB5,018,750.04) to RMB334,583.33 (representing rental for the year ended 31 December 2019 of RMB4,098,645.80) and the monthly comprehensive park management fees shall be adjusted from RMB62,500 (representing fees for year ended 31 December 2019 of RMB750,000) to RMB50,000 (representing fees for year ended 31 December 2019 of RMB612,500). Such amendments took effect on 1 February 2019.

Pursuant to the 2020 Wison Marine Property Leasing Agreement and the 2020 Wison Marine Supplemental Agreement entered into between Wison Engineering and Wison Marine on 16 December 2019, Wison Engineering (as landlord) and Wison Marine (as tenant) agreed to renew the lease (together with the provision of property management services) for a term of one year commencing from 1 January 2020 to 31 December 2020.

# Report of the Directors

As the Leases and the Property Management Services Agreements were entered into by Wison Engineering with Wison (China) Investment and Wison Marine, respectively, both of which are connected persons of our Company, the Leases and the Property Management Services Agreement 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 and the Property Management Services Agreements should be aggregated under Rule 14A.82 (1) of the Listing Rules.

The rental, comprehensive park management fees, electricity fees and charges for conference facilities payable by each of Wison (China) Investment and Wison Marine (as applicable) 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.

The annual caps for the aggregate amounts of rental, comprehensive park management fees, electricity fees and charges for conference facilities payable under the Leases and the Property Management Services Agreements for the year ended 31 December 2019, and the years ending 31 December 2020 and 2021 amounted to RMB28,000,000, RMB32,000,000 and RMB3,000,000, respectively.

The aggregate rental, comprehensive park management fee, electricity fee and charges for conference facilities payable by Wison (China) Investment for the year ended 31 December 2019, and the aggregate rental and comprehensive park management fees payable by Wison Marine for the year ended 31 December 2019 were RMB27,494,000.

**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 2019 was US$559,000.

# Report of the Directors

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 2019 was RMB472,000.

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.

# Report of the Directors

The aggregate contract sums entered into by the Company during the year ended 31 December 2019 was approximately equivalent to RMB450,982,000 and the aggregate amount payable to Wison Marine Group for the year ended 31 December 2019 was RMB337,238,000.

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 2019 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 2019 are set out in Note 33 to the financial statements. During the year ended 31 December 2019, the related party transactions set out in Notes 33(a)(ii), 33(a)(iii), 33(a)(iv), 33(a)(xiv) (when aggregated with the related party transaction set out in Note 33(a)(xv)), 33(a)(xv), 33(a)(xvii) and 33(a)(xxi) are regarded as continuing connected transactions of the Group, and the related party transactions set out in Notes 33(a)(viii), 33(a)(x) and 33(a)(xi) 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)(xviii) is regarded as non-exempt continuing connected transaction of the Group, and the related party transactions set out in Notes 33(a)(ix) (when aggregated with the related party transaction set out in Note 33(a)(viii)) and 33(a)(xix) are regarded as non-exempt connected transactions of the Group, 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 are above 5%; while the related party transactions set out in Notes 33(a)(i), 33(a)(v) and 33(a)(vii) 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)(xii) are exempt financial assistances under Rule 14A.90 of the Listing Rules; and the related party transaction set out in Note 33(a)(xiii) 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.

# Report of the Directors

## 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 2019.

## 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 2019 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.

# Report of the Directors

## PERMITTED INDEMNITY PROVISION

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

## PUBLIC FLOAT

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

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

## AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's internal controls and financial reporting matters with the management. The Audit Committee has reviewed and discussed the annual results for the year ended 31 December 2019.

## 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, 24 March 2020

# 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 2019, 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 eight 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. Liu Hongjun as a non-executive Director and 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 42 to 49 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 2019 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 a term of three years commencing from 13 January 2020 and shall continue thereafter unless terminated by not less

# Corporate Governance Report

than six months' written notice. Mr. Liu Hongjun has entered into a letter of appointment with our Company for a term of three years commencing from 19 February 2020 unless terminated by three months' written notice or in certain circumstances in accordance with the terms of his letter of appointment. 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 RMB6.1 million, plus a discretionary bonus as determined by the Board and our Remuneration Committee. Mr. Liu Hongjun is not entitled to any director's fee for his appointment as non-executive Director. 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 2019 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 2019.

Each of the Directors (other than Mr. Liu Hongjun whose appointment was effective from 19 February 2020) attended various trainings in 2019, including the training on regulatory updates for Main Board listed companies as well as ESG trend, 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 2019, the Board held 13 meetings. A total of 65 proposals were considered at these Board meetings, including proposals for the consideration of the Company's 2018 annual report, 2019 interim report, transactions involving the cornerstone investment in CSSC (Hong Kong) Shipping Company Limited and the capital contribution in Shanxi Lu'an Chemical Co., Ltd. (山西潞安化工有限公司), acquisition of convertible bonds issued by CIMC-TianDa Holdings Company Limited (中集天達控股有限公司) and certain connected transactions and continuing connected transactions. 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 2019.

| Director | Number of meetings requiring attendance | Number of meetings attended in person |
|---|---|---|
| Rong Wei | 10 | 6 |
| Zhou Hongliang | 13 | 11 |
| Li Zhiyong | 13 | 12 |
| Dong Hua | 13 | 8 |
| Lawrence Lee | 13 | 9 |
| Tang Shisheng | 13 | 9 |
| Feng Guohua | 13 | 10 |

In 2019, the Company convened and held two shareholders' general meetings, being the 2018 annual general meeting held on 11 June 2019 and the extraordinary general meeting held on 18 April 2019 for the approval of a connected transaction. Ms. Rong Wei, Mr. Zhou Hongliang, Mr. Li Zhiyong, Mr. Lawrence Lee, Mr. Tang Shisheng and Mr. Feng Guohua attended the 2018 annual general meeting and Mr. Zhou Hongliang, Mr. Li Zhiyong, 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.

# Corporate Governance Report

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 2019, the Audit Committee held 3 meetings, at which a total of 11 proposals were considered, including proposals for the consideration of the Company's 2018 annual report, 2019 interim report and the appointment of auditors for 2019. 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 2019.

| Director | Number of meetings requiring attendance | Number of meetings attended in person |
|---|---|---|
| Lawrence Lee | 3 | 3 |
| Tang Shisheng | 3 | 2 |
| Feng Guohua | 3 | 3 |

## 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 Mr. Liu Hongjun as non-executive Director of the Company, the criteria and procedures set out above have been applied.

In 2019, the Nomination Committee held 1 meeting at which a total of 4 proposals were considered, including proposals for re-election of directors.

# Corporate Governance Report

The table below sets out the details of meeting attendance of each member of the Nomination Committee during the year ended 31 December 2019.

| Director | Number of meetings requiring attendance | Number of meetings attended in person |
|---|---|---|
| Tang Shisheng | 1 | 1 |
| Feng Guohua | 1 | 1 |
| Lawrence Lee | 1 | 1 |

## 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 2019, the Remuneration Committee held 2 meetings, at which a total of 3 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 2019.

| 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 2019, 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 | 3 |
| HK$2,000,001 to HK$2,500,000 | 1 |
| HK$2,500,001 to HK$3,000,000 | 1 |

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

## CORPORATE GOVERNANCE 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 Framework (企業風險管理框架) 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 examination and evaluation on the review process and results, and follow up on the progress of improvement after the

# Corporate Governance Report

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. The Board considered the existing systems to be effective and adequate.

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 2019.

## 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 2019.

For the year ended 31 December 2019, 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 | 4,610 |
| Audit services provided by other local auditors | 864 |
| Non-audit service provided by Ernst & Young Advisory for environmental, social and governance service | 290 |
| | 5,764 |

## 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 80 to 85 of this report. In preparing the financial statements for the year ended 31 December 2019, 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 2019, 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@wison.com or directly by raising the questions at an annual general meeting or extraordinary general meeting.

During the year ended 31 December 2019 and up to the date of this report, there has not been any change in the Company's memorandum and articles of association. The Company's memorandum and articles of association are available on the website of the Company and that of the Stock Exchange.

# Independent Auditor's Report

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

## OPINION

We have audited the consolidated financial statements of Wison Engineering Services Co. Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 86 to 210, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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*<br>The Group provides engineering, procurement and construction management services. Revenue from construction contracts 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.<br><br>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 under the percentage-of-completion (POC) method. 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. |

# Independent Auditor's Report

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Recoverability of trade receivables and contract assets*<br>As at 31 December 2019, trade receivables and contract assets of the Group amounted to RMB1,003,866,000 and RMB690,354,000, respectively. As at 31 December 2019, provisions for impairment of RMB150,105,000 and RMB61,316,000 were made for trade receivables and contract assets, respectively. The expected credit loss 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.<br><br>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. |

# Independent Auditor's Report

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the Business Overview on pages 9 to 28, which we obtained prior to the date of this auditor's report, and the other sections of the Annual Report not including the consolidated financial statements and the auditor's report thereon ("the Other Sections"), which are expected to be made available after that date.

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.

When we read the Other Sections of the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Group's Audit Committee.

## 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.

# Independent Auditor's Report

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

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

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

As part of an audit in accordance with ISAs, we exercise professional 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.

# Independent Auditor's Report

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ng Cheung.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong
24 March 2020

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **REVENUE** | 6 | **4,367,271** | 3,256,478 |
| Cost of sales | | **(3,959,044)** | (2,757,606) |
| **GROSS PROFIT** | | **408,227** | 498,872 |
| Other income and gains | 6 | **293,850** | 202,614 |
| Selling and distribution expenses | | **(132,916)** | (107,521) |
| Administrative expenses | | **(288,774)** | (377,737) |
| Reversal of impairment losses on financial and contract assets | | **8,312** | 8,648 |
| Other expenses | | **(176,024)** | (118,537) |
| Finance costs | 7 | **(22,719)** | (33,790) |
| Share of profit and loss of an associate | | **(181)** | 190 |
| **PROFIT BEFORE TAX** | 8 | **89,775** | 72,739 |
| Income tax | 10 | **(39,217)** | (12,786) |
| **PROFIT FOR THE YEAR** | | **50,558** | 59,953 |
| Attributable to: | | | |
| Owners of the parent | | **50,609** | 56,301 |
| Non-controlling interests | | **(51)** | 3,652 |
| | | **50,558** | 59,953 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 12 | | |
| — Basic | | **RMB1.24 cents** | RMB1.38 cents |
| — Diluted | | **RMB1.24 cents** | RMB1.37 cents |

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **PROFIT FOR THE YEAR** | **50,558** | 59,953 |
| **OTHER COMPREHENSIVE INCOME** | | |
| Other comprehensive income that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | **(2,459)** | 8,813 |
| **Net other comprehensive income that may be reclassified to profit or loss in subsequent periods** | **(2,459)** | 8,813 |
| Other comprehensive income that will not be reclassified to profit or loss in subsequent periods: | | |
| Equity investments designated at fair value through other comprehensive income: | | |
| Changes in fair value | **(9,297)** | – |
| **Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods** | **(9,297)** | – |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX | **(11,756)** | 8,813 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **38,802** | 68,766 |
| Attributable to: | | |
| Owners of the parent | **38,853** | 65,348 |
| Non-controlling interests | **(51)** | 3,418 |
| | **38,802** | 68,766 |

# Consolidated Statement of Financial Position

At 31 December 2019

| | Notes | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | **851,409** | 877,691 |
| Investment property | 14 | **11,098** | 11,747 |
| Right-of-use assets | 15(b) | **165,163** | – |
| Prepaid land lease payments | 15(a) | **–** | 149,032 |
| Goodwill | 16 | **15,752** | 15,752 |
| Intangible assets | 17 | **31,515** | 32,101 |
| Investments in associates | 18 | **7,587** | 1,468 |
| Equity investments designated at fair value through other comprehensive income | 19 | **311,391** | – |
| Long-term prepayments | 22 | **2,202** | 7,948 |
| Deferred tax assets | 29 | **36,848** | 35,375 |
| Total non-current assets | | **1,432,965** | 1,131,114 |
| **CURRENT ASSETS** | | | |
| Inventories | 20 | **126,859** | 46,804 |
| Trade receivables | 21 | **1,003,866** | 1,338,735 |
| Bills receivable | | **214,352** | 180,360 |
| Contract assets | 23 | **690,354** | 612,789 |
| Prepayments and other receivables | 22 | **510,530** | 395,511 |
| Financial asset at fair value through profit or loss | 24 | **112,734** | – |
| Due from fellow subsidiaries | 33 | **14,665** | 168,918 |
| Pledged bank balances and time deposits | 25 | **800,388** | 943,028 |
| Cash and bank balances | 25 | **814,251** | 932,086 |
| Total current assets | | **4,287,999** | 4,618,231 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 26 | **2,051,091** | 2,550,425 |
| Other payables and accruals | 27 | **839,577** | 1,007,822 |
| Interest-bearing bank and other borrowings | 28 | **304,780** | 245,934 |
| Lease liabilities | 15(c) | **4,686** | – |
| Due to fellow subsidiaries | 33 | **79,276** | 37,087 |
| Due to an associate | 33 | **630** | 630 |
| Tax payable | | **176,446** | 146,489 |
| Total current liabilities | | **3,456,486** | 3,988,387 |
| **NET CURRENT ASSETS** | | **831,513** | 629,844 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **2,264,478** | 1,760,958 |

# Consolidated Statement of Financial Position

At 31 December 2019

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | 28 | **447,220** | – |
| Lease liabilities | 15(c) | **8,534** | – |
| Deferred tax liabilities | 29 | **720** | 6,444 |
| Government grants | 30 | **4,377** | 4,695 |
| Total non-current liabilities | | **460,851** | 11,139 |
| **Net Assets** | | **1,803,627** | 1,749,819 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 31 | **330,578** | 330,299 |
| Share premium | 31 | **869,201** | 861,129 |
| Other reserves | | **603,899** | 558,391 |
| | | **1,803,678** | 1,749,819 |
| **Non-controlling interests** | | **(51)** | – |
| **Total equity** | | **1,803,627** | 1,749,819 |

**Rong Wei**
*Director*

**Li Zhiyong**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2019

| | 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) | Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000 | 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 2018 | 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 |
| **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** |
| **Profit for the year** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **50,609** | **50,609** | **(51)** | **50,558** |
| **Other comprehensive income for the year:** | | | | | | | | | | | | | |
| **Change in fair value of equity investments at fair value through other comprehensive income net of tax** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(9,297)** | **-** | **-** | **(9,297)** | **-** | **(9,297)** |
| **Exchange differences on translation of foreign operations** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(2,459)** | **-** | **(2,459)** | **-** | **(2,459)** |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(9,297)** | **(2,459)** | **50,609** | **38,853** | **(51)** | **38,802** |
| **Transfer to the statutory reserves** | **-** | **-** | **-** | **-** | **-** | **13,953** | **4,189** | **-** | **-** | **(18,142)** | **-** | **-** | **-** |
| **Exercise of share options** | **279** | **8,072** | **(6,017)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **2,334** | **-** | **2,334** |
| **Equity-settled share option arrangements** | **-** | **-** | **30,038** | **-** | **-** | **-** | **-** | **-** | **-** | | **30,038** | **-** | **30,038** |
| **Dividends declared** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(17,366)** | **(17,366)** | **-** | **(17,366)** |
| **As at 31 December 2019** | **330,578** | **869,201** | **342,612** | **(101,206)** | **-** | **46,541** | **36,779** | **(9,297)** | **9,582** | **278,888** | **1,803,678** | **(51)** | **1,803,627** |

* These reserve accounts comprised the consolidated other reserves of RMB603,899,000 and RMB558,391,000 in the consolidated statements of financial position as at 31 December 2019 and 2018, respectively.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2019

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **89,775** | 72,739 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment and investment properties | 8,13,14 | **53,455** | 47,450 |
| Depreciation of right-of-use assets/ recognition of prepaid land lease payments | 8,15 | **10,914** | 4,037 |
| Amortisation of intangible assets | 8,17 | **5,598** | 4,191 |
| Recognition of government grants | 6,8,30 | **(105,898)** | (26,111) |
| Share of profit and loss of an associate | 18 | **181** | (190) |
| Net foreign exchange losses | | **(4,384)** | (13,931) |
| Dividend income from equity investments designated at fair value through other comprehensive income | 6 | **(4,726)** | – |
| Fair value gains of equity investments at fair value through profit or loss, net | 6,8 | **(23,227)** | – |
| Loss on disposal of items of property, plant and equipment | 8 | **269** | – |
| Loss on disposal of items of intangible assets | 8 | **–** | 137 |
| Impairment of trade receivables | 21 | **34,042** | 74,490 |
| Reversal of impairment of contract assets | 23 | **(42,648)** | (82,986) |
| Provision/(reversal) for impairment of other receivables | 22 | **294** | (152) |
| Gain on disposal of a subsidiary | 6,8,34 | **–** | (25,567) |
| Equity-settled share option expenses | 8 | **30,038** | 60,837 |
| Finance costs | 7 | **22,719** | 33,790 |
| Interest income | 6 | **(24,993)** | (19,693) |
| | | **41,409** | 129,041 |
| Increase in inventories | | **(80,055)** | (22,289) |
| Decrease in trade and bills receivables | | **266,835** | 976,371 |
| Increase in prepayments, deposits and other receivables | | **(121,809)** | (62,564) |
| Decrease/(increase) in long-term prepayments | | **3,465** | (7,290) |
| (Increase)/decrease in contract assets | | **(34,917)** | 1,334,716 |
| Increase in right-of-use assets | 39(a) | **(13,720)** | – |
| Increase in lease liabilities | 39(a) | **13,720** | – |
| Decrease/(increase) in amounts due from fellow subsidiaries | | **154,253** | (134,641) |
| Increase in amounts due to fellow subsidiaries | | **42,189** | 37,087 |
| Decrease in trade and bills payables | | **(499,334)** | (965,582) |
| Decrease in other payables and accruals | | **(171,620)** | (197,480) |
| Decrease/(increase) in pledged bank balances and time deposits | | **142,640** | (400,759) |
| **Cash generated from operations** | | **(256,944)** | 686,610 |
| Interest received | | **24,993** | 8,168 |
| Interest paid | | **(22,719)** | (22,265) |
| Tax paid | | **(16,457)** | (5,777) |
| **Net cash flows (used in)/from operating activities** | | **(271,127)** | 666,736 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2019

| | Notes | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Dividend income from equity investments designated at fair value through other comprehensive income | 6 | **4,726** | – |
| Purchases of items of property, plant and equipment | 13 | **(27,807)** | (7,158) |
| Proceeds from disposal of items of property, plant and equipment | | **1,014** | – |
| Purchase of intangible assets | 17 | **(5,012)** | (32,065) |
| Receipt of government grants | 30 | **105,580** | 25,792 |
| Purchases of equity investments designated at fair value through other comprehensive income | | **(320,688)** | – |
| Purchases of financial assets at fair value through profit and loss | | **(89,507)** | – |
| Purchases of investments in associates | | **(6,300)** | – |
| Disposal of a subsidiary | 34 | **–** | 85,322 |
| **Net cash flows (used in)/from investing activities** | | **(337,994)** | 71,891 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Net proceeds from issue of new shares | | **2,334** | 2,772 |
| Acquisition of non-controlling interests | | **–** | (350,000) |
| New bank loans | | **752,000** | 236,682 |
| Repayment of bank loans | | **(245,934)** | (311,764) |
| Principal portion of lease payments | 39(b) | **(7,507)** | – |
| Dividend paid | | **(17,366)** | (321,765) |
| **Net cash flows from/(used in) financing activities** | | **483,527** | (744,075) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(125,594)** | (5,448) |
| Cash and cash equivalents at beginning of year | | **932,086** | 916,153 |
| Effect of foreign exchange rate changes, net | | **7,759** | 21,381 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **814,251** | 932,086 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | | **814,251** | 897,086 |
| 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** | 25 | **814,251** | 932,086 |
| **CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF CASH FLOWS** | | **814,251** | 932,086 |

# Notes to Financial Statements

Year ended 31 December 2019

## 1. CORPORATE INFORMATION

The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, 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 | Indirect | Principal activities |
|---|---|---|---|---|---|
| Wison Engineering Technology Limited ("Wison Technology")* | British Virgin Islands ("BVI") | United States dollar ("US$")1 | 100 | – | Investment holding |
| Wison Energy Engineering (Hong Kong) Limited ("Wison Energy (HK)")* | Hong Kong | Hong Kong dollar ("HK$") 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 | Renminbi ("RMB") 510,000,000 | – | 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 |
| 江蘇中和永泰建設工程有限公司 (Jiangsu Zhonghe Yongtai Construction Engineering Company Limited, "Jiangsu Zhonghe Yongtai")* | PRC/Mainland China | RMB120,800,000 | – | 100 | Provision of procurement and construction management services |

# Notes to Financial Statements

Year ended 31 December 2019

## 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 ended 31 December 2018, 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 except for equity investments which have been measured at fair value.These financial statements are presented in 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 2019. 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 9 | *Prepayment Features with Negative Compensation* |
| IFRS 16 | *Leases* |
| Amendments to IFRS 19 | *Plan Amendment, Curtailment or Settlement* |
| Amendments to IFRS 28 | *Long-term interests in Associates and Joint Ventures* |
| IFRIC 23 | *Uncertainty over Income Tax treatments* |
| *Annual Improvements to IFRSs 2015-2017 Cycle* | Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 |

# Notes to Financial Statements

Year ended 31 December 2019

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

Except for the amendments to IFRS 9 and IAS 19, and *Annual Improvements to IFRSs 2015–2017 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) 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 account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

IFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

**New definition of a lease**

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

**As a lessee — Leases previously classified as operating leases**

***Nature of the effect of adoption of IFRS 16***

The Group has lease contracts for various items of property, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

***Impact on transition***

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were 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 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

# Notes to Financial Statements

Year ended 31 December 2019

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) *(continued)*

**Financial impact at 1 January 2019**

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

| | **Increase/ (decrease)** RMB'000 |
|---|---|
| **Assets** | |
| Right-of-use assets | 162,357 |
| Prepaid land lease payments | (149,032) |
| Prepayments and other receivables | (4,037) |
| Long-term prepayments | (2,281) |
| Total assets | 7,007 |
| **Liabilities** | |
| Lease liabilities | 7,007 |
| Total liabilities | 7,007 |

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

| | RMB'000 |
|---|---|
| **Operating lease commitments as at 31 December 2018** | 19,137 |
| Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019 | 10,553 |
| | 8,584 |
| Weighted average incremental borrowing rate as at 1 January 2019 | 5.24% |
| Discounted operating lease commitments as at 1 January 2019 | 7,007 |
| **Lease liabilities as at 1 January 2019** | 7,007 |

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(b) 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 assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) 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. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

# Notes to Financial Statements

Year ended 31 December 2019

## 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*[1] |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | *Interest Rate Benchmark Reform*[1] |
| Amendments to IFRS 10 and IAS 28 | *Sales or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| Amendments to IAS 1 | *Classification of Liabilities as Current or Non-Current*[3] |
| IFRS 17 | *Insurance Contracts*[2] |
| Amendments to IAS 1 and IAS 8 | *Definition of Material*[1] |

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after 1 January 2022
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.

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. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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 IAASB 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.

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.

# Notes to Financial Statements

Year ended 31 December 2019

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investment in associates

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 investments in associates 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.

# Notes to Financial Statements

Year ended 31 December 2019

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Fair value measurement

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

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

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

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

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

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

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

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, contract assets, deferred tax assets, financial assets and investment properties), 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

# Notes to Financial Statements

Year ended 31 December 2019

## 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.

## 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 | $3^1/_3$% to 5% |
| Plant and machinery | 10% |
| Motor vehicles | 10% |
| Office equipment | 20% |
| Leasehold improvements | Over the shorter of the lease terms and 20% |

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.

# Notes to Financial Statements

Year ended 31 December 2019

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Intangible assets represent software and 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 (applicable from 1 January 2019)

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

**Group as a lessee**

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

***(a) Right-of-use assets***

Right-of-use assets are recognised at the commencement date of the lease that is the date the underlying asset is available for use. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Leases (applicable from 1 January 2019) *(continued)*

**Group as a lessee *(continued)***

***(a) Right-of-use assets (continued)***

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

| | |
|---|---|
| Properties | Over the lease terms |
| Leasehold land | 45 years |

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

***(b) Lease liabilities***

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

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

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

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

# Notes to Financial Statements

Year ended 31 December 2019

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Leases (applicable from 1 January 2019) *(continued)*

**Group as a lessor**

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

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

### Leases (applicable before 1 January 2019)

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, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

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

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments and other financial assets

**Initial recognition and measurement**

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component 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" below.

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

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

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

**Subsequent measurement**

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

# Notes to Financial Statements

Year ended 31 December 2019

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments and other financial assets *(continued)*

**Financial assets at amortised cost (debt instruments)**

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.

**Financial assets designated at fair value through other comprehensive income (equity investments)**

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

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

**Financial asset at fair value through profit or loss**

Financial asset at fair value through profit or loss is carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investment classified as financial asset at fair value through profit or loss is also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments and other financial assets *(continued)*

**Financial assets at fair value through profit or loss *(continued)***

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

### Derecognition of financial assets

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

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

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

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

### Impairment of financial assets

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

# Notes to Financial Statements

Year ended 31 December 2019

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment of financial assets *(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 *(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, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

### Financial liabilities

**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 bills payables, other payables, an amount due to an associate, amounts due to fellow subsidiaries, and interest-bearing bank and other borrowings.

**Subsequent measurement**

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

**Financial liabilities at amortised cost (loans and borrowings)**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in 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.

# Notes to Financial Statements

Year ended 31 December 2019

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Derecognition of financial liabilities

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

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.

### 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.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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.

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.

# Notes to Financial Statements

Year ended 31 December 2019

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Income tax *(continued)*

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

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Government grants

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

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

### Revenue recognition

**Revenue from contracts with customers**

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

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

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group 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.

# Notes to Financial Statements

Year ended 31 December 2019

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Revenue recognition *(continued)*

**Revenue from contracts with customers *(continued)***

***(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.

**Revenue from other sources**

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

**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.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Contract assets

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

### Contract liabilities

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

### Contract costs

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.

### 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.

# Notes to Financial Statements

Year ended 31 December 2019

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Share-based payments *(continued)*

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.

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.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Other employee retirement benefits

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

Pursuant to the relevant regulations of the PRC government, the companies comprising the Group operating in Mainland China (the "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.

# Notes to Financial Statements

Year ended 31 December 2019

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Foreign currencies

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

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

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

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

The functional currencies of certain overseas subsidiaries 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.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Foreign currencies *(continued)*

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 or liabilities affected in the future.

### Judgements

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

**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:

***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.

# Notes to Financial Statements

Year ended 31 December 2019

## 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 uncertainly

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, 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.

The Group updates its assessment of expected successful claims quarterly. 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 uncertainly *(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 2019 was RMB15,752,000. Details are set out in note 16.

**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 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 a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in note 21 and note 23 to the financial statements, respectively.

# Notes to Financial Statements

Year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

### Estimation uncertainly *(continued)*

**Leases – Estimating the incremental borrowing rate**

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

**Impairment of non-financial assets (other than goodwill)**

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use 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.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

### Estimation uncertainly *(continued)*

**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.

**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 2019 was RMB214,511,000 (2018: RMB123,565,000). Further details are contained in note 29 to the financial statements.

**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.

# Notes to Financial Statements

Year ended 31 December 2019

## 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, fair value gains/losses from the Group's financial instruments 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, right-of-use assets, goodwill, intangible assets, investments in associates, deferred tax assets, long-term prepayments, amounts due from fellow subsidiaries, prepayments and other receivables, equity investments designated at fair value through other comprehensive income, financial asset at fair value through profit or loss, 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, tax payable, lease liabilities, 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 2019 | EPC RMB'000 | Engineering, consulting and technical services RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Segment revenue** (note 6) | | | |
| Sales to external customers | 4,201,633 | 165,638 | 4,367,271 |
| Intersegment sales | 55,852 | 22,209 | 78,061 |
| **Total revenue** | 4,257,485 | 187,847 | 4,445,332 |
| *Reconciliation:* | | | |
| Elimination of intersegment sales | | | (78,061) |
| Revenue | | | 4,367,271 |
| **Segment results** | 373,799 | 34,428 | 408,227 |
| *Reconciliation:* | | | |
| Unallocated income | | | 293,850 |
| Unallocated expenses | | | (589,402) |
| Unallocated finance costs | | | (22,719) |
| Share of profit and loss of an associate | | | (181) |
| Profit before tax | | | 89,775 |
| **Segment assets** | 2,418,476 | 94,858 | 2,513,334 |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | | | (80,109) |
| Corporate and other unallocated assets | | | 3,287,739 |
| Total assets | | | 5,720,964 |
| **Segment liabilities** | 2,613,081 | 55,882 | 2,668,963 |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | | | (81,348) |
| Corporate and other unallocated liabilities | | | 1,329,722 |
| Total liabilities | | | 3,917,337 |
| **Other segment information** | | | |
| Share of profit and loss of an associate — Unallocated | | | (181) |
| Impairment losses reversed in the statement of profit or loss | | | 8,312 |
| Depreciation and amortisation — Unallocated | | | 69,967 |
| Investments in associates — Unallocated | | | 7,587 |
| Capital expenditure* — Unallocated | | | 32,819 |

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

# Notes to Financial Statements

Year ended 31 December 2019

## 5. OPERATING SEGMENT INFORMATION *(continued)*

### Operating segments *(continued)*

| 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 and 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 and 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)*

### Geographical information

**Revenue from external customers**

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Mainland China | **1,937,970** | 2,174,674 |
| America | **1,929,009** | 832,636 |
| Middle East | **482,832** | 208,741 |
| Other | **17,460** | 40,427 |
| | **4,367,271** | 3,256,478 |

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:

| | 2019 | 2018 |
|---|---|---|
| Customer A (EPC segment) | **40.0%** | 13.5% |
| Customer B (EPC segment) | **21.4%** | N/A |
| Customer C (EPC segment) | **N/A** | 38.2% |

# Notes to Financial Statements

Year ended 31 December 2019

## 6. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Revenue from contracts with customers | **4,367,271** | 3,256,478 |

### Revenue from contracts with customers

**(a) Disaggregated revenue information**

**For the year ended 31 December 2019**

| Segments | EPC<br>RMB'000 | Engineering, consulting and technical services<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|
| **Type of goods or services** | | | |
| Construction services | **4,201,633** | **–** | **4,201,633** |
| Design, feasibility research, consulting and technical services | **–** | **165,638** | **165,638** |
| Total revenue from contracts with customers | **4,201,633** | **165,638** | **4,367,271** |
| **Geographical markets** | | | |
| Mainland China | **1,815,408** | **122,562** | **1,937,970** |
| America | **1,903,393** | **25,616** | **1,929,009** |
| Middle East | **482,832** | **–** | **482,832** |
| Others | **–** | **17,460** | **17,460** |
| Total revenue from contracts with customers | **4,201,633** | **165,638** | **4,367,271** |
| **Timing of revenue recognition** | | | |
| Services transferred over time | **4,201,633** | **165,638** | **4,367,271** |

## 6. REVENUE, OTHER INCOME AND GAINS *(continued)*

### Revenue from contracts with customers *(continued)*

**(a) Disaggregated revenue information *(continued)***

**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 |
| Total revenue from contracts with customers | 3,072,348 | 184,130 | 3,256,478 |
| **Geographical markets** | | | |
| Mainland China | 2,016,658 | 158,016 | 2,174,674 |
| America | 824,004 | 8,632 | 832,636 |
| Middle East | 208,741 | – | 208,741 |
| Others | 22,945 | 17,482 | 40,427 |
| Total revenue from contracts with customers | 3,072,348 | 184,130 | 3,256,478 |
| **Timing of revenue recognition** | | | |
| Services transferred over time | 3,072,348 | 184,130 | 3,256,478 |

# Notes to Financial Statements

Year ended 31 December 2019

## 6. REVENUE, OTHER INCOME AND GAINS *(continued)*

### Revenue from contracts with customers *(continued)*

**(a) Disaggregated revenue information *(continued)***

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

**For the year ended 31 December 2019**

| **Segments** | **EPC RMB'000** | **Engineering, consulting and technical services RMB'000** | **Total RMB'000** |
|---|---|---|---|
| **Revenue from contracts with customers** | | | |
| External customers | **4,201,633** | **165,638** | **4,367,271** |
| Intersegment sales | **55,852** | **22,209** | **78,061** |
| | **4,257,485** | **187,847** | **4,445,332** |
| Intersegment adjustments and eliminations | **(55,852)** | **(22,209)** | **(78,061)** |
| Total revenue from contracts with customers | **4,201,633** | **165,638** | **4,367,271** |

**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 |
| | 3,150,108 | 193,453 | 3,343,561 |
| Intersegment adjustments and eliminations | (77,760) | (9,323) | (87,083) |
| Total revenue from contracts with customers | 3,072,348 | 184,130 | 3,256,478 |

## 6. REVENUE, OTHER INCOME AND GAINS *(continued)*

### Revenue from contracts with customers *(continued)*

**(a) Disaggregated revenue information *(continued)***

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **Revenue recognised that was included in contract liabilities at the beginning of the reporting period:** | | |
| Construction services | **444,644** | 381,042 |
| Design, feasibility research, consulting and technical services | **11,004** | 26,516 |
| | **455,648** | 407,558 |

**(b) 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.

# Notes to Financial Statements

Year ended 31 December 2019

## 6. REVENUE, OTHER INCOME AND GAINS *(continued)*

### Revenue from contracts with customers *(continued)*

**(b) Performance obligations *(continued)***

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Other income** | | |
| Government grants* | **105,898** | 26,111 |
| Bank interest income | **24,993** | 19,693 |
| Dividend income from equity investments at fair value through other comprehensive income | **4,726** | – |
| Other interest income from financial assets at fair value through profit or loss | **69** | – |
| Rental income | **97,068** | 111,994 |
| Insurance indemnities | **37,546** | – |
| Others | **323** | 7,571 |
| | **270,623** | 165,369 |
| **Gains** | | |
| Fair value gains, net: | | |
| Financial asset at fair value through profit or loss — mandatorily classified as such, including those held for trading | **23,227** | – |
| Foreign exchange gains | **–** | 11,678 |
| Gain on disposal of a subsidiary | **–** | 25,567 |
| | **23,227** | 37,245 |
| | **293,850** | 202,614 |

* 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:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Interest on bank loans and other loans | **22,083** | 15,693 |
| Interest on lease liabilities | **636** | – |
| Interest on discounted bills and letters of credit | **–** | 18,097 |
| | **22,719** | 33,790 |

## 8. PROFIT BEFORE TAX

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

| | Note | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| Cost of services provided* | | **3,959,044** | 2,757,606 |
| Depreciation of property, plant and equipment and investment properties | *13, 14* | **53,455** | 47,450 |
| Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments) | *15(a), 15(b)* | **10,914** | 4,037 |
| Research and development costs | | **131,682** | 101,998 |
| Amortisation of intangible assets | *17* | **5,598** | 4,191 |
| Government grants | *30* | **(105,898)** | (26,111) |
| Provision/(reversal) of impairment of financial and contract assets, net | | | |
| Impairment of trade receivables, net | *21* | **34,042** | 74,490 |
| Impairment of contract assets, net | *23* | **(42,648)** | (82,986) |
| Impairment of other receivables, net | *22* | **294** | (152) |
| Gain on disposal of a subsidiary | *34* | **–** | (25,567) |
| Loss on disposal of items of property, plant and equipment | | **269** | – |
| Loss on disposal of items of intangible assets | | **–** | 137 |
| Lease payments not included in the measurement of lease liabilities | *15(d)* | **19,869** | – |
| Fair value gains, net: | | | |
| Financial asset at fair value through profit or loss mandatorily classified as such, including those held for trading | | **(23,227)** | – |
| Auditor's remuneration | | **5,474** | 6,473 |
| Employee benefit expense (including directors' and chief executive's remuneration) (note 9) | | | |
| Wages and salaries | | **522,600** | 477,750 |
| Retirement benefit scheme contributions | | **66,679** | 54,421 |
| Equity-settled share option expenses | *32* | **30,038** | 60,837 |
| | | **619,317** | 593,008 |
| Foreign exchange differences, net | | **3,375** | (11,678) |

* Amounts of RMB307,894,000 and RMB216,468,000 of employee benefit expenses were included in cost of services provided during the years ended 31 December 2019 and 2018.

# Notes to Financial Statements

Year ended 31 December 2019

## 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:

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| Fees | **960** | 606 |
| Other emoluments: | | |
| Salaries and allowances | **6,039** | 6,471 |
| Discretionary bonuses | **868** | 1,029 |
| Equity-settled share option expenses and equity-settled share-based payment expenses | **821** | 1,642 |
| Retirement benefit scheme contributions | **196** | 204 |
| Total | **8,884** | 9,952 |

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 2019** | | | | | | |
| Executive directors | | | | | | |
| Ms. Rong Wei (i) | 81 | 1,773 | 186 | – | 49 | 2,089 |
| Mr. Zhou Hongliang | 81 | 1,422 | 239 | 112 | 49 | 1,903 |
| Mr. Li Zhiyong | 81 | 1,422 | 299 | – | 49 | 1,851 |
| Mr. Dong Hua | 81 | 1,422 | 144 | 112 | 49 | 1,808 |
| | 324 | 6,039 | 868 | 224 | 196 | 7,651 |
| Independent non–executive directors | | | | | | |
| Mr. Lawrence Lee | 212 | – | – | 199 | – | 411 |
| Mr. Tang Shisheng | 212 | – | – | 199 | – | 411 |
| Mr. Feng Guohua | 212 | – | – | 199 | – | 411 |
| | 636 | – | – | 597 | – | 1,233 |
| | 960 | 6,039 | 868 | 821 | 196 | 8,884 |

# Notes to Financial Statements

Year ended 31 December 2019

## 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 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 (ii) | – | 297 | – | 28 | 8 | 333 |
| Ms. Rong Wei (i) | – | 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 |

(i) 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.

(ii) 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.

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:

| | **2019** | 2018 |
|---|---|---|
| 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 2019 are as follows:

| | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| Salaries and allowances | **3,387** | 2,704 |
| Discretionary bonuses | **644** | 533 |
| Equity-settled share option expenses and equity-settled share-based payment expenses | **348** | 338 |
| Retirement benefit scheme contributions | **49** | 100 |
| | **4,428** | 3,675 |

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

| | **2019** | 2018 |
|---|---|---|
| HK$2,000,001 to HK$2,500,000 | **1** | 2 |
| HK$2,500,001 to HK$3,000,000 | **1** | – |
| | **2** | 2 |

# Notes to Financial Statements

Year ended 31 December 2019

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

### (b) Five highest paid employees *(continued)*

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.

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| Current | | |
| — Mainland China | **–** | – |
| — Elsewhere | **46,414** | 4,432 |
| Deferred (note 29) | **(7,197)** | 8,354 |
| Total tax charge for the year | **39,217** | 12,786 |

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, Japan, Mexico, Thailand, United Arab Emirates and Singapore as the Group did not have any assessable income arising in Hong Kong, Indonesia, Turkey, Russia, South Africa, Japan, Mexico, Thailand, United Arab Emirates and Singapore during the year ended 31 December 2019 (2018: Nil).

惠生工程(中國)有限公司 (Wison Engineering Limited, "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 was 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 2019 and 2018.

## 10. INCOME TAX *(continued)*

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.

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:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Profit before tax | **89,775** | 72,739 |
| Tax at the statutory tax rates | **27,301** | 11,299 |
| Lower tax rate enacted by local authority | **(1,202)** | 1,579 |
| Tax losses not recognised | **14,722** | 10,415 |
| Tax losses utilised from previous periods | **(1,271)** | (2,742) |
| Effect of withholding taxes on distributable profits of the subsidiaries in Mainland China | **12,750** | 3,653 |
| Additional tax deduction | **(14,814)** | (11,291) |
| Income not subject to tax | **(790)** | (1,922) |
| Expenses not deductible for tax | **2,521** | 1,795 |
| Tax charge at the Group's effective rate | **39,217** | 12,786 |

The share of tax attributable to an associate amounting to RMB10,000 (2018: RMB14,000) is included in "Share of profit and loss of an associate" in the consolidated statement of profit or loss.

# Notes to Financial Statements

Year ended 31 December 2019

## 11. DIVIDEND

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Final — HK$0.005 (2018: Nil) per ordinary share | **17,366** | – |
| Interim — Nil (2018: HK$0.0007) per ordinary share | **–** | 2,494 |
| One-off — Nil (2018: HK$0.0666) per ordinary share | **–** | 237,287 |
| | **17,366** | 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 4,072,111,174 (2018: 4,069,112,331) 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:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations | **50,609** | 56,301 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **4,072,111,174** | 4,069,112,331 |
| Effect of dilution-weighted average number of ordinary shares | **19,776,648** | 36,810,922 |
| | **4,091,887,822** | 4,105,923,253 |

# Notes to Financial Statements

Year ended 31 December 2019

## 13. PROPERTY, PLANT AND EQUIPMENT

| | 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 2019** | | | | | | |
| At 31 December 2018 and 1 January 2019: | | | | | | |
| 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 |
| At 1 January 2019, net of accumulated depreciation | 870,769 | 359 | 1,313 | 1,358 | 3,892 | 877,691 |
| Additions | 3,149 | 631 | 6,792 | 9,228 | 8,007 | 27,807 |
| Disposals | – | – | – | (1,264) | (19) | (1,283) |
| Depreciation provided during the year | (43,209) | (276) | (3,724) | (2,956) | (2,641) | (52,806) |
| At 31 December 2019, net of accumulated depreciation | 830,709 | 714 | 4,381 | 6,366 | 9,239 | 851,409 |
| At 31 December 2019: | | | | | | |
| Cost | 1,066,001 | 4,563 | 15,102 | 32,797 | 74,297 | 1,192,760 |
| Accumulated depreciation | (235,292) | (3,849) | (10,721) | (26,431) | (65,058) | (341,351) |
| Net carrying amount | 830,709 | 714 | 4,381 | 6,366 | 9,239 | 851,409 |

# Notes to Financial Statements

Year ended 31 December 2019

## 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 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 |

At 31 December 2019, certain of the Group's buildings with a net book value of approximately RMB818,763,000 (2018: Nil) were pledged to secure general banking facilities granted to the Group (note 28).

At 31 December 2019, the Group's buildings are situated in Mainland China and are held under medium term leases with a net book value of RMB830,709,000 (2018: RMB863,615,000).

## 14. INVESTMENT PROPERTIES

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Carrying amount at 1 January | **11,747** | 12,396 |
| Depreciation | **(649)** | (649) |
| Carrying amount at 31 December | **11,098** | 11,747 |

The fair value of the Group's investment properties was RMB38,940,000 as at 31 December 2019 (2018: RMB40,401,000), 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 15).

### 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 2019 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 | **–** | **–** | **38,940** | **38,940** |

| | 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 |

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 (2018: 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 2019 | Weighted average 2018 |
|---|---|---|---|---|
| Commercial properties | Income method | Market monthly rental (RMB) (per square metre) | **11.2** | 12.2 |
| | | Long term vacancy rate | **7%** | 5% |
| | | Yield rate | **5.5%** | 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. LEASES

### The Group as a lessee

The Group has lease contracts for various items of properties, motor vehicles and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 45 years, and no ongoing payments will be made under the terms of these land leases. Leases of properties generally have lease terms between 1 and 5 years, while motor vehicles generally have lease terms between 1 and 2 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

**(a) Prepaid land lease payments (before 1 January 2019)**

| | RMB'000 |
|---|---|
| Carrying amount at 1 January 2018 | 157,106 |
| Recognised in profit or loss during the year | (4,037) |
| Carrying amount at 31 December 2018 | 153,069 |
| Current portion included in prepayments and other receivables | (4,037) |
| Non-current portion | 149,032 |

# Notes to Financial Statements

Year ended 31 December 2019

## 15. LEASES *(continued)*

### The Group as a lessee *(continued)*

**(b) Right-of-use assets**

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

| | Properties RMB'000 | Prepaid land lease payments RMB'000 | Total RMB'000 |
|---|---|---|---|
| As at 1 January 2019 | **9,288** | **153,069** | **162,357** |
| Additions | **13,720** | **–** | **13,720** |
| Depreciation charge | **(6,877)** | **(4,037)** | **(10,914)** |
| As at 31 December 2019 | **16,131** | **149,032** | **165,163** |

**(c) Lease liabilities**

The carrying amount of lease liabilities and the movements during the year are as follows:

| | 2019 Lease liabilities RMB'000 | 2018 Finance lease payables RMB'000 |
|---|---|---|
| Carrying amount at 1 January | **7,007** | – |
| New leases | **13,720** | – |
| Accretion of interest recognised during the year | **636** | – |
| Payments | **(8,143)** | – |
| Carrying amount at 31 December | **13,220** | – |
| Analysed into: | | |
| Current portion | **4,686** | – |
| Non-current portion | **8,534** | – |

The maturity analysis of lease liabilities is disclosed in note 38 to the financial statements.

## 15. LEASES *(continued)*

### The Group as a lessee *(continued)*

**(d) The amounts recognised in profit or loss in relation to leases are as follows:**

| | 2019 RMB'000 |
|---|---|
| Interest on lease liabilities | **636** |
| Depreciation charge of right-of-use assets | **10,914** |
| Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 | **19,314** |
| Expense relating to leases of low-value assets | **555** |
| Total amount recognised in profit or loss | **31,419** |

**(e) Extension and termination options**

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and they are aligned with the Group's business needs. The Group applies judgement that it is not necessary to exercise extension and termination options as those leases are neither construction of significant leasehold improvements or significant customisation to the leased asset.

### The Group as a lessor

The Group leases its office properties in China under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB97,068,000 (2018: RMB111,994,000), details of which are included in note 6 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in the future periods under non-cancellable operating lease with its tenants are as follow:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Within one year | **52,908** | 64,996 |
| In the second to fifth years, inclusive | **12,748** | 29,657 |
| After five years | **66,101** | 10 |
| | **131,757** | 94,663 |

# Notes to Financial Statements

Year ended 31 December 2019

## 16. GOODWILL

| | 2019 RMB'000 | 2018 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% (2018: 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 7% (2018: 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 2019 and extrapolates cash flows for the following five years based on an estimated average industry growth rate.

# Notes to Financial Statements

Year ended 31 December 2019

## 17. INTANGIBLE ASSETS

| | Software RMB'000 | Licences RMB'000 | Total RMB'000 |
|---|---|---|---|
| **31 December 2019** | | | |
| Cost at 1 January 2019, net of accumulated amortisation | **8,898** | **23,203** | **32,101** |
| Additions | **5,012** | **–** | **5,012** |
| Amortisation provided during the year | **(3,112)** | **(2,486)** | **(5,598)** |
| At 31 December 2019 | **10,798** | **20,717** | **31,515** |
| At 31 December 2019: | | | |
| Cost | **63,070** | **24,860** | **87,930** |
| Accumulated amortisation | **(52,272)** | **(4,143)** | **(56,415)** |
| Net carrying amount | **10,798** | **20,717** | **31,515** |
| **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 |

# Notes to Financial Statements

Year ended 31 December 2019

## 18. INVESTMENT IN ASSOCIATES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Share of net assets | **7,587** | 1,468 |

Particulars of the associate are as follows:

| Name | Registered 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 | Mainland China | 30 | Supervisory services for construction projects |
| 泰興博惠環保科技發展有限公司 (Taixing Bohui Environmental Technology Development Co., Ltd. ("Taixing Bohui")) | RMB252,143,200 | Mainland China | 25* | Research and development service for environmental technology |

* As at 31 December 2019, registered capital amounting to RMB25,210,000 was paid up by the shareholders of Taixing Bohui, of which RMB6,300,000 was from the Group.

The Group's equity holding in the associates was held through the wholly-owned subsidiaries of the Company.

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

## 18. INVESTMENT IN ASSOCIATES *(continued)*

The following table illustrates the financial information of the Group's associates that are not individually material:

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| Share of the associates' (loss)/profit for the year | **(181)** | 190 |
| Share of the associates' other comprehensive (loss)/income | **–** | – |
| Share of the associates' total comprehensive (loss)/income | **(181)** | 190 |
| Aggregate carrying amount of the Group's investment in the associates | **7,587** | 1,468 |

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

The Group's trade receivables and contract assets balance with the associates are disclosed in notes 21 and 23.

# Notes to Financial Statements

Year ended 31 December 2019

## 19. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **Equity investments designated at fair value through other comprehensive income** | | |
| Listed equity investments, at fair value | | |
| 中國船舶(香港)航運租賃有限公司 (CSSC (Hong Kong) Shipping Company Limited) | **204,513** | – |
| Unlisted equity investments, at fair value | | |
| 上海亞商財富投資管理有限公司 (Shanghai Asia Business Wealth Investment Management Co., Ltd.) | **60,000** | – |
| 山西潞安化工有限公司 (Shanxi Lu'an Chemical Co., Ltd.) | **23,930** | – |
| 興化粵海水務有限公司 (Xinghua Yuehai Water Affairs Co., Ltd.) | **20,698** | – |
| 上海銀鞍股權投資管理有限公司 (Shanghai Yin'an Equity Investment Management Co., Ltd.) | **2,250** | – |
| | **106,878** | – |
| | **311,391** | – |

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

## 20. INVENTORIES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Construction materials, net | **126,859** | 46,804 |

## 21. TRADE RECEIVABLES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Trade receivables | **1,153,971** | 1,454,798 |
| Impairment | **(150,105)** | (116,063) |
| | **1,003,866** | 1,338,735 |

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:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Trade receivables: | | |
| Within 1 month | **199,283** | 227,440 |
| 2 to 12 months | **217,769** | 440,396 |
| Over 1 year | **586,814** | 670,899 |
| | **1,003,866** | 1,338,735 |

# Notes to Financial Statements

Year ended 31 December 2019

## 21. TRADE RECEIVABLES *(continued)*

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

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| At beginning of year | **116,063** | 41,573 |
| Impairment losses, net (note 8) | **34,042** | 74,490 |
| At end of year | **150,105** | 116,063 |

The increase (2018: increase) in the loss allowance was due to the following significant changes in the gross carrying amount:

(i) Decrease in the loss allowance of RMB16,828,000 (2018: RMB11,000,000) as a result of a net decrease (2018: decrease) in the gross carrying amount after the settlement of trade receivables and origination of new trade receivables; and

(ii) Increase in the loss allowance of RMB50,870,000 (2018: RMB85,490,000) as a result of an increase in trade receivables which were over credit term.

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 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.

## 21. TRADE RECEIVABLES *(continued)*

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 2019

| | Ageing | | | | |
|---|---|---|---|---|---|
| | **Less than 1 year** | **1 to 2 year** | **2 to 3 years** | **Over 3 years** | **Total** |
| Expected credit loss rate | **8.56%** | **10.49%** | **18.25%** | **99.76%** | **13.01%** |
| Gross carrying amount (RMB'000) | **456,086** | **499,679** | **170,622** | **27,584** | **1,153,971** |
| Expected credit losses (RMB'000) | **39,034** | **52,414** | **31,139** | **27,518** | **150,105** |

### As at 31 December 2018

| | Ageing | | | | |
|---|---|---|---|---|---|
| | Less than 1 year | 1 to 2 year | 2 to 3 years | 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 |

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

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| Related companies | | |
| 泰興天馬化工有限公司 (as defined in note 33) | **72,516** | 73,575 |
| 泰興博惠環保科技發展有限公司 (as defined in note 18) | **61,420** | – |
| | **133,936** | 73,575 |

# Notes to Financial Statements

Year ended 31 December 2019

## 22. PREPAYMENTS AND OTHER RECEIVABLES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Prepayments | **397,794** | 344,333 |
| Deposits and other receivables | **115,397** | 55,254 |
| Current portion of prepaid land lease payments | **–** | 4,037 |
| Less: Non-current portion of prepayments | **(2,202)** | (7,948) |
| | **510,989** | 395,676 |
| Impairment allowance | **(459)** | (165) |
| | **510,530** | 395,511 |

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 deposits and other receivables where there were no comparable companies as at 31 December 2019 was 0.4% (2018: 0.42%).

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| At beginning of year | **165** | 317 |
| Impairment loss/(reversal of impairment), net (note 8) | **294** | (152) |
| At end of year | **459** | 165 |

# Notes to Financial Statements

Year ended 31 December 2019

## 23. CONTRACT ASSETS

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 | 1 January 2018 RMB'000 |
|---|---|---|---|
| Contract assets arising from: | | | |
| Construction services | **744,319** | 710,149 | 2,727,502 |
| Design, feasibility research, consulting and technical services | **7,351** | 6,604 | – |
| | **751,670** | 716,753 | 2,727,502 |
| Impairment | **(61,316)** | (103,964) | (862,983) |
| | **690,354** | 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 construction. 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 2019 and 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 each of the years.

During the year ended 31 December 2019, RMB42,648,000 (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.

# Notes to Financial Statements

Year ended 31 December 2019

## 23. CONTRACT ASSETS *(continued)*

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

| | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| Within one year | **583,380** | 332,999 |
| After one year | **106,974** | 279,790 |
| Total contract assets | **690,354** | 612,789 |

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

| | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| At beginning of year | **103,964** | 862,983 |
| Reversal of impairment loss, net (note 8)* | **(42,648)** | (82,986) |
| Written off | **–** | (676,033) |
| At end of year | **61,316** | 103,964 |

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

## 23. CONTRACT ASSETS *(continued)*

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

| | 2019 | 2018 |
|---|---|---|
| Expected credit loss rate | **8.16%** | 14.50% |

| | RMB'000 | RMB'000 |
|---|---|---|
| Gross carrying amount (RMB'000) | **751,670** | 716,753 |
| Expected credit losses (RMB'000) | **61,316** | 103,964 |

The amount due from a related company included in the contract assets is as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Related company | | |
| 泰興博惠環保科技發展有限公司 (as defined in note 18) | **2,638** | – |

## 24. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Listed equity investment, at fair value | | |
| 中集天達控股有限公司(CIMC-TianDa Holdings Company Limited) | **112,734** | – |

The above equity investment was classified as financial asset at fair value through profit or loss as they were held for trading.

# Notes to Financial Statements

Year ended 31 December 2019

## 25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | **2019** | 2018 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Cash and bank balances | **1,192,508** | 1,375,186 |
| Time deposits with original maturity of less than three months | **14,380** | 127,799 |
| Time deposits with original maturity of more than three months | **407,751** | 372,129 |
| | **1,614,639** | 1,875,114 |
| Less: Pledged bank balances and time deposits | **(800,388)** | (943,028) |
| Cash and cash equivalents | **814,251** | 932,086 |

At 31 December 2019, bank balances and time deposits of RMB561,310,000 (2018: RMB700,449,000) were placed as guarantee deposits for performance of certain construction contracts and for the tendering process.

At 31 December 2019, bank balances and time deposits of RMB32,208,000 (2018: RMB2,169,000) were pledged to a bank as security to obtain a letter of credit facility for the purchase of imported equipment.

At 31 December 2019, bank balances and time deposits of RMB147,381,000 (2018: RMB240,410,000) were pledged as security for bill facilities granted by the banks.

At 31 December 2019, bank balances and time deposits of RMB2,605,000 (2018: Nil) were pledged to a bank as security for forward foreign exchange contracts.

## 25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(continued)*

At 31 December 2019, bank balances of RMB56,884,000 (2018: Nil) were pledged to a bank as security to obtain a bank facility.

At 31 December 2019, the cash and bank balances of the Group denominated in RMB amounted to RMB786,429,000 (2018: RMB956,845,000). 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.

## 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:

| | **2019** | 2018 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Less than 1 year | **783,735** | 900,923 |
| 1 to 2 years | **138,217** | 1,272,588 |
| 2 to 3 years | **917,125** | 228,922 |
| Over 3 years | **212,014** | 147,992 |
| | **2,051,091** | 2,550,425 |

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

# Notes to Financial Statements

Year ended 31 December 2019

## 27. OTHER PAYABLES AND ACCRUALS

| | Notes | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 | 1 January 2018 RMB'000 |
|---|---|---|---|---|
| Contract liabilities | (a) | **536,524** | 739,134 | – |
| Accruals | | **107,989** | 51,167 | 88,197 |
| Advances from customers | | **14,443** | 6,084 | – |
| Other payables | (b) | **180,621** | 211,437 | 685,427 |
| | | **839,577** | 1,007,822 | 773,624 |

(a) Details of contract liabilities are as follows:

| | 31 December 2019 RMB'000 | 31 December 2018 RMB'000 | 1 January 2018 RMB'000 |
|---|---|---|---|
| *Short-term advances received from customers:* | | | |
| Construction services | **488,808** | 715,694 | 398,697 |
| Design, feasibility research, consulting and technical services | **47,716** | 23,440 | – |
| Total contract liabilities | **536,524** | 739,134 | 398,697 |

Contract liabilities include short–term advances received to render construction services and design, feasibility research, consulting and technical services, which was classified under other payables as at 1 January 2018. The decrease in contract liabilities in 2019 was mainly due to the decrease 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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **Current** | | |
| Bank loans repayable within one year — secured | **252,000** | 245,934 |
| Current portion of long-term bank loans — secured | **52,780** | – |
| | **304,780** | 245,934 |
| **Non-Current** | | |
| Bank loans repayable over one year — secured | **447,220** | – |

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

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| US$ denominated | **–** | 26,800 |

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

| | |
|---|---|
| Year ended 31 December 2018 | 3.87% to 5.44% |
| Year ended 31 December 2019 | 4.79% to 5.88% |

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Analysed into: | | |
| Bank loans repayable | | |
| Within one year or on demand | **304,780** | 245,934 |
| In the second year | **38,050** | – |
| In the third to fifth years, inclusive | **97,500** | – |
| Beyond five years | **311,670** | – |
| | **752,000** | 245,934 |

# Notes to Financial Statements

Year ended 31 December 2019

## 28. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

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

| | Note | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|---|
| Buildings | 13 | **818,763,000** | – |

During the year ended 31 December 2019, 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 (2018: RMB612,000,000). As at 31 December 2019, the loans were drawn down to the extent of RMB252,000,000 (2018: RMB245,934,000) (note 33).

In addition, certain bank has granted credit facilities to the Group for which the future years' right of receiving rental fees from certain properties of the Group has been pledged as security. As at 31 December 2019, the bank loans were drawn down to the extent of RMB500,000,000 (2018: Nil).

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 2019 | **28,094** | **7,281** | **35,375** |
| Deferred tax credited to the statement of profit or loss during the year (note 10) | **274** | **1,199** | **1,473** |
| At 31 December 2019 | **28,368** | **8,480** | **36,848** |
| At 1 January 2018 | 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 |

## 29. DEFERRED TAX *(continued)*

### Deferred tax liabilities

| | Withholding taxes arising from distributable profits of the PRC subsidiaries RMB'000 |
|---|---|
| At 1 January 2019 | **6,444** |
| Deferred tax charged to the statement of profit or loss during the year (note 10) | **720** |
| Realised during the year (note 10) | **(6,444)** |
| At 31 December 2019 | **720** |
| At 1 January 2018 | 11,479 |
| Deferred tax credited to the statement of profit or loss during the year (note 10) | (5,035) |
| At 31 December 2018 | 6,444 |

The Group has accumulated tax losses arising in Hong Kong of approximately RMB33,180,000 (2018: RMB31,719,000) 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 RMB177,466,000 (2018: RMB91,846,000) which are available for offsetting against future taxable profits in one to five years. The Group also has accumulated tax losses arising in Japan, Mexico, Singapore, Thailand, Russia and Saudi Arabia of approximately RMB3,865,000 which are available for offsetting against future taxable profits in one to infinite period.

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:

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| **Tax losses** | **214,511** | 123,565 |

# Notes to Financial Statements

Year ended 31 December 2019

## 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 2019, there was no significant unrecognised deferred tax liability (2018: 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

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| Carrying amount at beginning of the year | **4,695** | 5,014 |
| Received during the year | **105,580** | 25,792 |
| Released to profit or loss (note 6) | **(105,898)** | (26,111) |
| Carrying amount at end of the year | **4,377** | 4,695 |

## 31. SHARE CAPITAL AND RESERVES

### (a) Shares

| | **2019** | 2018 |
|---|---|---|
| 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 | **4,073,767,800** | 4,070,608,200 |

## 31. SHARE CAPITAL AND RESERVES *(continued)*

### (a) Shares *(continued)*

| | **2019** RMB'000 | 2018 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 | **330,578** | 330,299 |

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 2018 | 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 and 1 January 2019 | **4,070,608,200** | **330,299** | **861,129** | **1,191,428** |
| Share options exercised | **3,159,600** | **279** | **8,072** | **8,351** |
| At 31 December 2019 | **4,073,767,800** | **330,578** | **869,201** | **1,199,779** |

The subscription rights attaching to 3,159,600 share options were exercised at the subscription price of HK$0.837 per share, resulting in the issue of 3,159,600 shares for a total cash consideration, before expenses, of HK$2,645,000 (equivalent to RMB2,334,000) and a share premium of HK$2,329,000 (equivalent to RMB2,055,000). An amount of RMB6,017,000 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.

# Notes to Financial Statements

Year ended 31 December 2019

## 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 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 SCHEMES

### 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 SCHEMES *(continued)*

### Pre-IPO Share Option Scheme *(continued)*

As at 31 December 2019, the maximum number of shares could be issued in respect of the pre-IPO options granted under the Pre-IPO Share Option Scheme was 130,527,000 shares, representing approximately 3.20% 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:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **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** | **137,198** | 0.837 | 143,482 |
| Forfeited during the year | **0.837** | **(3,511)** | 0.837 | (2,242) |
| Exercised during the year | **0.837** | **(3,160)** | 0.837 | (4,042) |
| At 31 December | **0.837** | **130,527** | 0.837 | 137,198 |

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.837 per share (2018: HK$0.837).

# Notes to Financial Statements
Year ended 31 December 2019

## 32. SHARE OPTION SCHEMES *(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:

**2019**

| Number of options | Exercise price* HK$ per share | Exercise period |
|---|---|---|
| **26,105,400** | **0.837** | **29/12/2015 – 28/12/2020** |
| **26,105,400** | **0.837** | **29/12/2016 – 28/12/2020** |
| **26,105,400** | **0.837** | **29/12/2017 – 28/12/2020** |
| **26,105,400** | **0.837** | **29/12/2018 – 28/12/2020** |
| **26,105,400** | **0.837** | **29/12/2019 – 28/12/2020** |
| **130,527,000** | | |

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 | | |

* 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 (RMB1.904 each), of which the Group recognised a share option expense of RMB4,798,000 (2018: RMB12,200,000) during the year ended 31 December 2019.

During the year ended 31 December 2019, 3,511,200 (2018: 2,242,000) options were forfeited as the employees have terminated their employment and the vesting conditions have not been satisfied.

## 32. SHARE OPTION SCHEMES *(continued)*

### Pre-IPO Share Option Scheme *(continued)*

The 3,159,600 share options exercised during the year resulted in the issue of 3,159,600 ordinary shares of the Company and new share capital of approximately HK$316,000 (equivalent to approximately RMB279,000) (before issue expenses), as further detailed in note 31 to the financial statements.

At the end of the reporting period, the Company had 130,527,000 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 130,527,000 additional ordinary shares of HK$0.1 each of the Company and additional share capital of approximately HK$13,053,000 (equivalent to approximately RMB11,693,000) and share premium of approximately HK$96,198,000 (equivalent to approximately RMB86,174,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 128,969,000 share options outstanding under Pre-IPO Share Option Scheme, and these share options represented approximately 3.17% 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.

# Notes to Financial Statements

Year ended 31 December 2019

## 32. SHARE OPTION SCHEMES *(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:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **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** | **131,700** | 1.744 | 134,200 |
| Forfeited during the year | **1.744** | **(4,900)** | 1.744 | (2,500) |
| Exercised during the year | **1.744** | **–** | 1.744 | – |
| At 31 December | **1.744** | **126,800** | 1.744 | 131,700 |

No Shares were exercised during the years ended 31 December 2019 and 2018.

## 32. SHARE OPTION SCHEMES *(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:

**2019**

| Number of options | Exercise price* HK$ per share | Exercise period |
|---|---|---|
| **31,700,000** | **1.744** | **14/11/2018 – 13/11/2022** |
| **31,700,000** | **1.744** | **14/11/2019 – 13/11/2022** |
| **31,700,000** | **1.744** | **14/11/2020 – 13/11/2022** |
| **31,700,000** | **1.744** | **14/11/2021 – 13/11/2022** |
| **126,800,000** | | |

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 | | |

* 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 RMB25,240,000 (2018: RMB48,637,000) during the year ended 31 December 2019.

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.

# Notes to Financial Statements

Year ended 31 December 2019

## 32. SHARE OPTION SCHEMES *(continued)*

### Share Option Scheme *(continued)*

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

At the end of the reporting period, the Company had 126,800,000 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 126,800,000 additional ordinary shares of HK$0.1 each of the Company and additional share capital of HK$12,680,000 (equivalent to RMB11,359,000) and share premium of HK$208,459,000 (equivalent to RMB186,738,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 125,750,000 share Options outstanding under the Share Option Scheme, which represented approximately 3.09% of the Company's shares in issue as at that date.

## 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 | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
|---|---|---|---|
| Related companies: | | | |
| Purchase of products | (a)(i) | **–** | 8,787 |
| Rendering of services | (a)(xvi),(a)(xx) | **63,371** | 39,826 |
| Fellow subsidiaries: | | | |
| Rental income | (a)(ii),(a)(iii),(a)(iv) | **23,916** | 12,581 |
| Rendering of services | (a)(ii),(a)(iii),(a)(iv),(a)(xiv),(a)(xv),(a)(xix) | **36,063** | 7,276 |
| Services received | (a)(viii),(a)(ix),(a)(x),(a)(xi),(a)(xvii),(a)(xviii),(a)(xxi) | **563,473** | 134,165 |

## 33. RELATED PARTY TRANSACTIONS *(continued)*

| Name of related parties | Relationship |
|---|---|
| 寧波威宇尚致投資管理合夥企業(有限合夥) (Ningbo Wei Yu Shang Zhi Investment Management Partnership (Limited Partnership), "Ningbo Weiyu Shangzhi") | Chinese joint venture partner of Wison Engineering effective from 5 June 2018 to 2 July 2018 |
| 江蘇新華化工機械有限公司 (Jiangsu Xinhua Chemical Engineering Co., Ltd. ("Jiangsu Xinhua") | Fellow subsidiary of Ningbo Weiyu Shang Zhi and formerly as a Chinese joint venture partner of Wison Engineering before 5 June 2018 |
| 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 |
| 惠生(泰州)新材料科技有限公司 (Wison (Taizhou) New Material Technology co., Ltd., "Wison Taizhou") | Indirectly owned by Wison Holding and is a fellow subsidiary of the Company |

# Notes to Financial Statements

Year ended 31 December 2019

## 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 would purchase anchors, refractory support plunge hooks 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, 2018 and 2019 will not be more than RMB12,000,000. During the year ended 31 December 2018, the Group's purchases from Jiangsu Xinhua were RMB8,787,000. The purchases were made by reference to the published prices and conditions offered by Jiangsu Xinhua to its customers.

(a)(ii) The Group leased out office space in its office building and provided property management service to Wison Nantong during the year ended 31 December 2018. The rental income and service income inclusive of value-added tax for year ended 31 December 2018 from Wison Nantong were RMB4,015,000 and RMB690,000, respectively.

(a)(iii) On 24 March 2017, the Group entered into supplemental agreements with Wison (China) Investment to amend certain terms of the lease agreement and a property management service agreement both dated 19 December 2016, effective from 1 April 2017. The rental has been adjusted to RMB3,809,000 per annum, the property management service fee has been adjusted to RMB655,000 per annum, with 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 supplemental 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, and the property management service 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.

On 14 December 2018, the Group and Wison (China) Investment renewed the afore mentioned lease agreements and property management service agreements with a rental of RMB15,225,000 per annum and comprehensive park management fees of RMB2,275,000 per annum for a term of two years commencing from 1 January 2019.

On 28 February 2019, the Group entered into an additional lease agreement with Wison (China) Investment, pursuant to which the Group leases additional premises to Wison (China) Investment for RMB6,071,000 per annum for a 24-month period commencing from 1 April 2019. The rent-free period was between 1 April 2019 to 31 May 2019. On the same date, the Group entered into the additional supplement property management service agreement with Wison (China) Investment for RMB601,000 per annum for a 24-month period commencing from 1 April 2019. Also, as agreed, Wison (China) Investment may rent the conference facilities at the New Wison Complex of Wison Engineering at a charge of RMB1,500 to RMB5,000 per day depending on the size of the conference rooms and an electricity fee of RMB1.20 per unit of consumption is payable by Wison (China) Investment to Wison Engineering.

On 21 June 2019, the Group entered into an additional lease agreement with Wison (China) Investment, pursuant to which the Group leases additional premises to Wison (China) Investment for RMB927,000 per annum for a 21-month period commencing from 1 July 2019. The rent-free period was between 1 July 2019 to 31 August 2019. On the same date, the Group entered into the additional property management services agreement with Wison (China) Investment for RMB91,800 per annum for a 21-month period commencing from 1 July 2019. Also, as agreed, Wison (China) Investment shall pay an electricity fee of RMB1.20 per unit of consumption to Wison Engineering.

The rental income, comprehensive park management service income, electricity fees and charges for conference facilities inclusive of value-added tax for the year ended 31 December 2019 from Wison (China) Investment amounted to RMB19,818,000 (2018: RMB8,566,000), RMB2,772,000 (2018: RMB1,330,000), RMB139,000 (2018: Nil) and RMB54,000 (2018: Nil), respectively.

# Notes to Financial Statements

Year ended 31 December 2019

## 33. RELATED PARTY TRANSACTIONS *(continued)*

Notes: *(continued)*

(a)(iv) 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 Shanghai 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 service agreement, pursuant to which the Group would provide property management services in relation to the premises leased to Wison Offshore Marine Shanghai for RMB750,000 per annum for a one–year period commencing from 1 January 2019.

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 a property management service 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, and the property management service fee has been adjusted proportionally from RMB750,000 per annum to RMB600,000 per annum with reference to the size of the reduced gross floor area of the subject premises.

On 16 December 2019, the Group entered into a property leasing agreement with Wison Offshore Marine Shanghai to renew the afore-mentioned lease agreements dated 25 January 2019 for a one-year period commencing from 1 January 2020.

On 16 December 2019, Wison Engineering entered into a supplemental agreement with Wison Offshore Marine Shanghai in relation to the provision of property management services by Wison Engineering for an annual comprehensive park management fee of RMB600,000 for a one-year period commencing from 1 January 2020. Pursuant to the supplemental agreement, Wison Offshore Marine Shanghai might rent the conference facilities at a charge of RMB1,500 to RMB5,000 per day depending on the size of the conference rooms.

The rental income and comprehensive park management service income inclusive of value added tax for the year ended 31 December 2019 from Wison Offshore Marine Shanghai amounted to RMB4,098,000 (2018: Nil) and RMB613,000 (2018: Nil), 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 2019, Wison (China) Investment executed guarantees to certain banks for bank facilities to the Group of RMB612,000,000 (2018: RMB612,000,000) at nil consideration. As at 31 December 2019, the loans were drawn down to the extent of RMB252,000,000 (31 December 2018: RMB245,934,000) (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 13 June 2017, Wison Engineering and Wison Nantong entered into the module 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 RMB138,000,000. The relevant cost of services incurred by the Group during the year ended 31 December 2019 was RMB205,000 (2018: RMB71,482,000).

(a)(ix) On 22 August 2017, Wison Petrochemicals (NA), LLC, an indirectly wholly owned subsidiary of the Company, and Wison Nantong entered into the piperack module fabrication contract, pursuant to which the Group engaged Wison Nantong to supply pipe rack modules and spare parts for its construction project in the United States of America, at a total contract price of US$7,376,000, which was later increased to US$9,078,000. The relevant cost of services incurred by the Group during the year ended 31 December 2019 was US$1,722,000 (equivalent to RMB12,013,000) (2018: RMB50,621,000).

# Notes to Financial Statements

Year ended 31 December 2019

## 33. RELATED PARTY TRANSACTIONS *(continued)*

Notes: *(continued)*

(a)(x) 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 outside battery limits equipment and piping installation project in the United States of America, at a total contract price of US$1,850,000. The relevant cost of services incurred by the Group during the year ended 31 December 2019 was US$442,000 (equivalent to RMB3,081,000) (2018: RMB12,062,000).

(a)(xi) 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, which was subsequently increased to US$30,237,000 with additional variation order. The relevant cost of services incurred by the Group during the year ended 31 December 2019 was US$30,237,000 (equivalent to RMB210,936,000) (2018: Nil).

(a)(xii) 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)(xiii) On 6 June 2018, the Group and Ningbo Weiyu Shangzhi entered into a cooperation condition transfer agreement, under which Ningbo Weiyu Shangzhi would transfer 25% of the total equity interests in Wison Engineering to the Group for a total consideration of RMB350,000,000. The transaction was completed in July 2018.

(a)(xiv) On 7 June 2018, Wison Investment (HK) entered into the service agreement with Wison Petrochemicals (NA), LLC, pursuant to which Wison Petrochemicals (NA), LLC should 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 had a term of one year from 7 June 2018 and shall automatically be renewed for one year unless the parties terminate the agreement. The fees payable to Wison Petrochemicals (NA), LLC was determined based on the amount of time incurred in providing the services and was 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 revenue recognised by the Group during the year ended 31 December 2019 was US$559,000 (equivalent to RMB3,836,000) (2018: RMB2,056,000).

(a)(xv) On 26 June 2018, Wison (China) Investment entered into the technical consulting services framework agreement with Wison Engineering, pursuant to which Wison Engineering should provide technical consulting services to Wison (China) Investment for its projects, which 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 revenue recognised by the Group during the year ended 31 December 2019 was RMB472,000 (2018: RMB3,200,000).

(a)(xvi) 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 had a tentative term from 20 September 2017 to 28 February 2018 for a total consideration of RMB125,420,000, which was later increased to RMB136,792,000. The relevant revenue recognised by the Group during the year ended 31 December 2019 was nil (2018: RMB39,826,000). The trade receivable relating to Taixing Tianma is set out in note 21.

(a)(xvii) On 25 December 2018, Wison Petrochemicals (NA), LLC, Wison Offshore Marine and Wison Nantong entered into the module, stick-built steel structure and piping spool fabrication contract, pursuant to which Wison Petrochemicals (NA), LLC engaged Wison Offshore Marine and Wison Nantong to perform the module, stick-built steel structure and piping spool fabrication work, at a provisional lump sum price of US$5,550,000. US$1,000,000 was reimbursable according to actual material price and US$4,500,000 was based on unit rate. The relevant cost of services incurred by the Group during the year ended 31 December 2019 was US$4,427,000 (equivalent to RMB30,884,000) (2018: Nil).

## 33. RELATED PARTY TRANSACTIONS *(continued)*

Notes: *(continued)*

(a)(xviii) On 24 January 2019, Wison Engineering and Zhoushan Wison entered into the modules prefabrication and supply contract, pursuant to which the Group engaged Zhoushan Wison to design the structure, procure materials, assemble certain equipment modules for a third-party project in the PRC, at a total contract price of RMB340,000,000. The relevant cost of services incurred by the Group during the year ended 31 December 2019 was RMB306,354,000 (2018: Nil).

(a)(xix) On 12 March 2019, Wison Engineering entered into a general engineering procurement construction contract with Wison Taizhou, pursuant to which Wison Taizhou engaged Wison Engineering to provide engineering design, equipment and material procurement and construction services for the project, at a total contract price of RMB447,880,000, which was later decreased to RMB440,250,000. The relevant revenue recognised by the Group during the year ended 31 December 2019 was RMB28,177,000 (2018: Nil).

(a)(xx) In August 2019, Jiangsu Zhonghe Yongtai entered into a general construction contract with Taixing Bohui, pursuant to which Taixing Bohui engaged Jiangsu Zhonghe Yongtai to provide construction services for the project, at a total contract price of RMB264,795,000. The relevant revenue recognised by the Group during the year ended 31 December 2019 was RMB63,371,000 (2018: Nil). The trade receivables and contract assets relating to Taixing Bohui are set out in notes 21 and 23.

(a)(xxi) On 25 December 2019, 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, at a provisional lump sum price of US$15,905,000. The relevant cost of services incurred by the Group during the year ended 31 December 2019 was nil (2018: Nil).

In the opinion of the directors of the Company, the transactions between the Group and Ningbo Weiyu Shangzhi, Jiangsu Xinhua, Wison Nantong, Wison Holding, Wison (China) Investment, Wison Offshore Marine Shanghai, Wison Investment (HK), Zhoushan Wison, Wison Offshore Marine, Wison Taizhou, Taixing Bohui and Taixing Tianma were conducted based on mutually agreed terms.

(b) Balances with related parties:

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| Due from fellow subsidiaries: | | |
| Wison Offshore Marine Shanghai | **6,088** | 180 |
| Wison (China) Investment | **8,577** | 20 |
| Wison Nantong | **–** | 361 |
| Wison Offshore Marine* | **–** | 168,357 |
| | **14,665** | 168,918 |
| Due to fellow subsidiaries: | | |
| Wison Nantong | **49,275** | 37,083 |
| Wison Taizhou | **14,891** | – |
| Zhoushan Wison | **15,110** | 4 |
| | **79,276** | 37,087 |
| Due to an associate: | | |
| 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(a)(xi).

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.

# Notes to Financial Statements

Year ended 31 December 2019

## 33. RELATED PARTY TRANSACTIONS *(continued)*

Notes: *(continued)*

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

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Short term employee benefits | **9,009** | 6,348 |
| Equity-settled share option expenses and equity-settled share-based payment expenses | **558** | 507 |
| Total compensation paid to key management personnel | **9,567** | 6,855 |

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

## 34. DISPOSAL OF A SUBSIDIARY

In February 2018, the Group disposed of the entire equity interest 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 |

## 34. DISPOSAL OF A SUBSIDIARY *(continued)*

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 |

## 35. CONTINGENT LIABILITIES

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

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

(3) During 2019, a sub-contractor of Wison Engineering was accused by its own sub-contractor to Chengdu Intermediate People's Court and Wison Engineering has also been named as a defendant to undertake joint liability for the payment of construction costs of approximately RMB45,360,000.

(4) During 2019, a sub-contractor filed a claim with the Pudong New District People's Court against Wison Engineering for the payment of consulting fee and the interest arising from the overdue payment of consulting costs of approximately RMB16,544,000.

(5) During 2019, Wison Engineering was involved in four bill cases with a total amount of RMB20,000,000. Wison Engineering has been accused by the subsequent endorsers of the bill to assume bill liabilities with the total amount of RMB20,000,000.

# Notes to Financial Statements

Year ended 31 December 2019

## 35. CONTINGENT LIABILITIES *(continued)*

As of the date of approval of the financial statements, Wison Engineering and the subcontractors in case (1), case (2) and case (3) have completed the first pre-trial evidence exchange in court and cross-examination, and trials are yet to be scheduled. Wison Engineering and the subcontractor of case (4) are still in the process of first pre-trial evidence exchange and trial is yet to be scheduled. The trial of case (5) are yet to be scheduled.

The directors of the Company are of the opinion that, case (1), case (2) and case (3) are without merits and the possibility for the Group to be subject to additional payment claims is remote on the basis of the available evidence and having taken legal advice. Thus, it is not required for the Group to make provision for these three cases.

The directors of the Company has accrued the liabilities for case(4) and case(5) as at 31 December 2019 due to the possibility of the Group to take settlement responsibility, on the basis of the available evidence and having taken legal advice.

## 36. 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:

### 2019

**Financial assets**

| | Financial assets at fair value through profit or loss | Financial assets at fair value through other comprehensive income | |
|---|---|---|---|
| | Mandatorily designated as such RMB'000 | Equity investments RMB'000 | Financial assets at amortised cost RMB'000 |
| Equity investments at fair value through other comprehensive income | – | 311,391 | – |
| Trade receivables | – | – | 1,003,866 |
| Bills receivable | – | – | 214,352 |
| Financial assets included in prepayments and other receivables (note 22) | – | – | 114,938 |
| Financial assets at fair value through profit or loss | 112,734 | – | – |
| Due from fellow subsidiaries | – | – | 14,665 |
| Pledged bank balances and time deposits | – | – | 800,388 |
| Cash and bank balances | – | – | 814,251 |
| | 112,734 | 311,391 | 2,962,460 |

# Notes to Financial Statements

Year ended 31 December 2019

## 36. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

### 2019 *(continued)*

**Financial liabilities**

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| Trade and bills payables | **2,051,091** |
| Financial liabilities included in other payables and accruals (note 27) | **98,585** |
| Due to fellow subsidiaries | **79,276** |
| Due to an associate | **630** |
| Lease liabilities | **13,220** |
| Interest-bearing bank and other borrowings | **752,000** |
| | **2,994,802** |

### 2018

**Financial assets**

| | Financial assets at amortised cost RMB'000 |
|---|---|
| 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 |

## 36. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

### 2018 *(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 |

### Transfers of Financial Assets

**Transferred financial assets that are not derecognised in their entirety**

At 31 December 2019, Wison Engineering endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB34,625,000 (2018: RMB98,135,000) 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 2019 to which the suppliers had recourse was RMB34,625,000 (2018: RMB98,135,000) as at 31 December 2019.

# Notes to Financial Statements

Year ended 31 December 2019

## 36. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

### Transfers of Financial Assets *(continued)*

**Transferred financial assets that are derecognised in their entirety**

At 31 December 2019, 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 RMB74,344,000 (2018: RMB297,368,000). The Derecognised Bills had a maturity of six to twelve months at 31 December 2019. 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 2019, 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.

## 37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Financial assets** | | | | |
| Equity investments designated at fair value through other comprehensive income | **311,391** | – | **311,391** | – |
| Financial assets at fair value through profit or loss | **112,734** | – | **112,734** | – |
| | **424,125** | – | **424,125** | – |
| **Financial liabilities** | | | | |
| Interest-bearing bank and other borrowings | **500,000** | – | **505,000** | – |

## 37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

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

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair value of the non-current portion of interest-bearing bank and other borrowings has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2019 were assessed to be insignificant.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through other comprehensive income have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculates an appropriate price multiple, such as price to book ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the price per share of the comparable company by net assets value per share. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

# Notes to Financial Statements

Year ended 31 December 2019

## 37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

For the fair value of the unlisted equity investments at fair value through other comprehensive income, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2019:

| | Valuation technique | Significant unobservable input | Range/ratio | Sensitivity of fair value to the input |
|---|---|---|---|---|
| Unlisted equity investments | Valuation multiples | Average P/B multiple of peers | 2019: 0.5323 to 3.6688 | 10% increase/decrease in multiple would result in increase/decrease in fair value by RMB2,393,000 |
| | | Discount for lack of marketability | 2019: 25% | 10% increase/decrease in discount would result in decrease/increase in fair value by RMB798,000 |

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

## 37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

**Assets measured at fair value:**

**As at 31 December 2019**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Equity investments designated at fair value through other comprehensive income | 204,513 | – | 106,878 | 311,391 |
| Financial assets at fair value through profit or loss | 112,734 | – | – | 112,734 |
| | 317,247 | – | 106,878 | 424,125 |

The Group did not have any financial assets measured at fair value as at 31 December 2018.

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

# Notes to Financial Statements

Year ended 31 December 2019

## 37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

### Fair value hierarchy *(continued)*

**Assets measured at fair value: *(continued)***

The movements in fair value measurements within Level 3 during the year are as follows:

| | 2019<br>RMB'000 |
|---|---|
| Equity investments at fair value through other comprehensive income | |
| At 1 January | – |
| Purchases | 112,948 |
| Total losses recognised in other comprehensive income | (6,070) |
| At 31 December | 106,878 |

**Liabilities for which fair values are disclosed:**

**As at 31 December 2019**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Interest-bearing bank and other borrowings | – | 505,000 | – | 505,000 |

The Group did not have any financial liabilities for which fair values are disclosed as at 31 December 2018.

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments consist mainly of cash and bank balances, pledged bank balances and time deposits, amounts due from fellow subsidiaries, interest-bearing bank and other borrowings, dividends payable, amounts due to fellow subsidiaries 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. 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.

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 |

The Group did not have any foreign currency interest-bearing bank and other borrowings as at 31 December 2019.

# Notes to Financial Statements

Year ended 31 December 2019

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (b) Foreign currency risk

As a result of the foreign currency bank balances and bank borrowings, the Group's statement of financial position can be affected significantly by movements in the exchange rates of US$, HK$, Euro € ("EUR"), Saudi Riyal ("SAR") and South African Rand ("ZAR") against RMB.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rates of US$/HK$/EUR/SAR/ZAR 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).

| | Increase/ (decrease) in rate % | Increase/ (decrease) in profit before tax RMB'000 |
|---|---|---|
| **Year ended 31 December 2019** | | |
| If the RMB weakens against the US$ | **5** | **36,160** |
| If the RMB strengthens against the US$ | **5** | **(36,160)** |
| If the RMB weakens against the HK$ | **5** | **382** |
| If the RMB strengthens against the HK$ | **5** | **(382)** |
| If the RMB weakens against the EUR | **5** | **731** |
| If the RMB strengthens against the EUR | **5** | **(731)** |
| If the RMB weakens against the SAR | **5** | **4,016** |
| If the RMB strengthens against the SAR | **5** | **(4,016)** |
| If the RMB weakens against the ZAR | **5** | **417** |
| If the RMB strengthens against the ZAR | **5** | **(417)** |

## 38. 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) |

# Notes to Financial Statements

Year ended 31 December 2019

## 38. 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 2019**

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 2019. The amounts presented are gross carrying amounts for financial assets.

**As at 31 December 2019**

| | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1 RMB'000 | Stage 2 RMB'000 | Stage 3 RMB'000 | Simplified approach RMB'000 | Total RMB'000 |
| Contract assets* | – | – | – | 751,670 | 751,670 |
| Trade receivables* | – | – | – | 1,153,971 | 1,153,971 |
| Bills receivable | 214,352 | – | – | – | 214,352 |
| Financial assets included in prepayments and other receivables | | | | | |
| — Normal** | 115,397 | – | – | – | 115,397 |
| — Doubtful** | – | – | – | – | – |
| Due from fellow subsidiaries | 14,665 | – | – | – | 14,665 |
| Pledged bank balances and time deposits | 800,388 | – | – | – | 800,388 |
| Cash and bank balances | 814,251 | – | – | – | 814,251 |
| | 1,959,053 | – | – | 1,905,641 | 3,864,694 |

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (c) Credit risk *(continued)*

**Maximum exposure and year-end staging as at 31 December 2019 *(continued)***

**As at 31 December 2018**

| | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1 RMB'000 | Stage 2 RMB'000 | 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".

# Notes to Financial Statements

Year ended 31 December 2019

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (c) Credit risk *(continued)*

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.

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.

### (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, lease liabilities, amounts due to fellow subsidiaries 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:

**Group**

| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to 12 months RMB'000 | 1 to 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **31 December 2019** | | | | | |
| Lease liabilities | – | 1,251 | 4,580 | 8,652 | 14,483 |
| Interest-bearing bank and other borrowings | – | 213,650 | 122,055 | 632,840 | 968,545 |
| Trade and bills payables | – | 2,051,091 | – | – | 2,051,091 |
| Other payables | – | 98,585 | – | – | 98,585 |
| Due to fellow subsidiaries | – | 79,276 | – | – | 79,276 |
| Due to an associate | 630 | – | – | – | 630 |
| | 630 | 2,443,853 | 126,635 | 641,492 | 3,212,610 |

## 38. 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 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 fellow subsidiaries | – | 37,087 | – | – | 37,087 |
| Due to an associate | 630 | – | – | – | 630 |
| | 630 | 2,828,585 | 62,788 | – | 2,892,003 |

### (e) Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investment included in financial asset at fair value through profit or loss (note 24) and equity investments designated at fair value through other comprehensive income (note 19) as at 31 December 2019. The Group's listed investments are listed on the Hong Kong stock exchanges and are valued at quoted market prices at the end of the reporting period.

The market equity index for the following stock exchange, at the close of business of the nearest trading day in the year to the end of the reporting period, and its respective highest and lowest points during the year were as follows:

| | **31 December 2019** | **High/low 2019** | 31 December 2018 | High/low 2018 |
|---|---|---|---|---|
| Hong Kong — Hang Seng Index | **28,190** | **30,280/24,900** | 25,848 | 33,154/24,585 |

# Notes to Financial Statements

Year ended 31 December 2019

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (e) Equity price risk *(continued)*

The following table demonstrates the sensitivity to every 5% change in the fair values of the equity investments with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the equity investments at fair value through other comprehensive income, the impact is deemed to be on the fair value reserve.

| | Carrying amount of equity investments RMB'000 | Increase/ (decrease) in profit before tax RMB'000 | Increase/ (decrease) in equity* RMB'000 |
|---|---|---|---|
| **2019** | | | |
| Investments listed in: | | | |
| Hong Kong — Equity investments at fair value through other comprehensive income | **204,513** | **–** | **10,226** |
| Hong Kong — Financial assets at fair value through profit or loss | **112,734** | **5,637** | **–** |
| Unlisted investments at fair value: | | | |
| — Equity investments designated at fair value through other comprehensive income | **106,878** | **–** | **5,344** |

* Excluding retained profits

### (f) 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 2019 and 2018.

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (f) 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:

| | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| Interest-bearing bank and other borrowings | **752,000** | 245,934 |
| Total debt | **752,000** | 245,934 |
| Total equity | **1,803,627** | 1,749,819 |
| Gearing ratio | **42%** | 14% |

## 39. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transaction

During the year, the Group had additions to right-of-use assets and lease liabilities of RMB13,720,000 and RMB13,720,000, respectively, in respect of lease arrangements for properties (2018: Nil) which did not result in cashflow.

# Notes to Financial Statements

Year ended 31 December 2019

## 39. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

### (b) Changes in liabilities arising from financing activities

**2019**

| | Lease liabilities RMB'000 | Interests-bearing bank and other borrowings RMB'000 | Dividends payable RMB'000 |
|---|---|---|---|
| At 31 December 2018 | **–** | **245,934** | **–** |
| Effect of adoption of IFRS 16 | **7,007** | **–** | **–** |
| At 1 January 2019 | **7,007** | **245,934** | **–** |
| Changes from financing cash flows | **(7,507)** | **506,066** | **(17,366)** |
| New leases (note 15) | **13,720** | **–** | **–** |
| Interest expense (note 7) | **636** | **–** | **–** |
| Interest paid classified as operating cash flows | **(636)** | **–** | **–** |
| Dividends declared | **–** | **–** | **17,366** |
| At 31 December 2019 | **13,220** | **752,000** | **–** |

**2018**

| | Interests-bearing bank and other borrowings 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 | – |

## 39. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

### (c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

| | **2019**<br>**RMB'000** |
|---|---|
| Within operating activities | **20,505** |
| Within financing activities | **7,507** |
| | **28,012** |

## 40. COMMITMENTS

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2018<br>RMB'000 |
|---|---|
| Within one year | 15,264 |
| In the second to fifth years, inclusive | 3,873 |
| | 19,137 |

# Notes to Financial Statements

Year ended 31 December 2019

## 41. 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:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Investments in subsidiaries | **1** | 1 |
| Equity investments designated at fair value through other comprehensive income | **204,513** | – |
| Total non-current assets | **204,514** | 1 |
| **CURRENT ASSETS** | | |
| Due from subsidiaries | **706,377** | 909,165 |
| Prepayments and other receivables | **402** | 825 |
| Dividends receivables | **714,914** | 688,308 |
| Cash and cash equivalents | **5,892** | 3,036 |
| Total current assets | **1,427,585** | 1,601,334 |
| **CURRENT LIABILITIES** | | |
| Other payables and accruals | **2,937** | 2,625 |
| Due to subsidiaries | **11,138** | 7 |
| Total current liabilities | **14,075** | 2,632 |
| **NET CURRENT ASSETS** | **1,413,510** | 1,598,702 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | **1,618,024** | 1,598,703 |
| **NET ASSETS** | **1,618,024** | 1,598,703 |
| **EQUITY** | | |
| Share capital | **330,578** | 330,299 |
| Reserves (Note) | **1,287,446** | 1,268,404 |
| **TOTAL EQUITY** | **1,618,024** | 1,598,703 |

## 41. 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 | Fair value reserve of financial assets at fair value through other comprehensive income RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| 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 and 1 January 2019 | **318,591** | **861,129** | **84,936** | **–** | **3,748** | **1,268,404** |
| Net profit and total comprehensive income for the year | **–** | **–** | **–** | **–** | **7,512** | **7,512** |
| Other comprehensive income for the year: | | | | | | |
| Changes in fair value of equity investments at fair value through other comprehensive income | **–** | **–** | **–** | **(3,197)** | **–** | **(3,197)** |
| Exercise of share options | **(6,017)** | **8,072** | **–** | **–** | **–** | **2,055** |
| Equity-settled share option arrangements | **30,038** | **–** | **–** | **–** | **–** | **30,038** |
| Final dividend | **–** | **–** | **–** | **–** | **(17,366)** | **(17,366)** |
| **At 31 December 2019** | **342,612** | **869,201** | **84,936** | **(3,197)** | **(6,106)** | **1,287,446** |

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.

# Notes to Financial Statements

Year ended 31 December 2019

## 42. EVENTS AFTER THE BALANCE SHEET DATE

### Dividend

Pursuant to a resolution dated 24 March 2020, the Company proposed a final dividend of RMB0.0037 (equivalent to HK$0.0040) per ordinary share for the year ended 31 December 2019. Such proposal is subject to the approval at the forthcoming general meeting of the Company.

### Impact of the recent novel coronavirus situation

Since the outbreak of novel coronavirus ("COVID-19") in January 2020, the prevention and control of the COVID-19 has been going on throughout China and countries around the world.

The COVID-19 situation has certain impact on the business operations of the Group, in particular, the postponed of the projects construction, and the degree of the impact depends on the situation of the epidemic preventive measures and the duration of the epidemic.

The Group will monitor the development of the COVID-19 situation closely, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the report, the assessment is still in progress.

Given the dynamic nature of the circumstance, the related impact on the Group's consolidated results of operations, cash flows and financial condition could not be reasonably estimated at this stage. Any related impact will be reflected in the Group's 2020 interim and annual financial statements.

## 43. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, the Group adopted IFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, IAS 17, and related interpretations.

## 44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2020.