Annual Report 2016

Wison Engineering Services Co. Ltd.

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

WISON

Passion Powering Progress

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Liu Haijun *(Chief Executive Officer)*
Mr. Zhou Hongliang
Mr. Li Zhiyong
Mr. Dong Hua

Non-executive Director

Mr. Cui Ying

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

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

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

Corporate Information

HONG KONG SHARE REGISTRAR

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

COMPANY SECRETARY

Ms. Luk Wai Mei

AUTHORISED REPRESENTATIVES

Mr. Cui Ying
Ms. Luk Wai Mei

AUDITORS

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

PRINCIPAL BANKS

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

REGISTERED OFFICE

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Clifton House
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Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Tai Yau Building
181 Johnston Road
Wan Chai
Hong Kong

COMPANY'S WEBSITE

www.wison-engineering.com

STOCK CODE

2236

Financial Summary

	For the year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**3,041,877**	5,413,531	6,992,113	3,674,518	4,891,908
Gross profit	**931,233**	816,880	792,188	142,810	1,139,631
Profit/(Loss) before tax	**153,621**	311,007	267,430	(546,291)	699,929
Income tax	**(100,251)**	(72,491)	(56,736)	32,619	(165,606)
Profit/(Loss) for the year	**53,370**	238,516	210,694	(513,672)	534,323
Attributable to:					
Owners of the parent	**42,914**	205,106	179,038	(471,301)	466,812
Non-controlling interests	**10,456**	33,410	31,656	(42,371)	67,511
Earnings/(loss) per share					
– Basic and diluted	**RMB0.01**	RMB0.05	RMB0.04	RMB(0.12)	RMB0.13

Financial Summary

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities					
Non-current assets	**1,195,846**	1,361,318	1,816,312	1,506,863	1,058,375
Current assets	**6,598,816**	7,805,594	6,923,468	5,439,034	6,610,645
Current liabilities	**5,532,446**	7,014,353	6,928,877	5,419,531	5,266,080
Net current assets/(liabilities)	**1,066,370**	791,241	(5,409)	19,503	1,344,565
Total assets less current liabilities	**2,262,216**	2,152,559	1,810,903	1,526,366	2,402,940
Non-current liabilities	**34,039**	29,559	25,548	23,187	350,750
Net assets	**2,228,177**	2,123,000	1,785,355	1,503,179	2,052,190
Share capital	**329,809**	329,803	329,803	329,803	324,560
Reserves	**1,695,878**	1,601,163	1,336,928	1,086,408	1,576,376
Non-controlling interests	**202,490**	192,034	118,624	86,968	151,254
Total equity	**2,228,177**	2,123,000	1,785,355	1,503,179	2,052,190

Business Overview

OVERALL REVIEW

In spite of the rebound in global oil prices at the end of 2016 brought by the reaching of a deal to cut production output by the Organization of the Petroleum Exporting Countries (OPEC) and its subsequent implementation, domestic and overseas energy and chemical markets in general have still remained at a low point with tightened capital controls and cautious investments with no clear signs of recovery over the past year. The oil & gas engineering industry is still faced with fierce market competition, which is impacting, to varying degrees, on the result performances of engineering companies including Wison Engineering Services Co. Ltd. (the "Company", together with its subsidiaries, the "Group").

While the difficult times for the industry persisted, the Group achieved significant breakthroughs in new business areas such as liquefied natural gas ("LNG"), waste water treatment and new energy, and embarked on cooperations with renowned technology patent owners and research institutes from within the country and overseas on the research and development ("R&D") and market promotion of technologies. These efforts have laid the ground for the realization of a new round of sustained and healthy growth. At the same time, overseas business expansion in the Middle East, the Commonwealth of Independent States ("CIS") and the Americas achieved milestone progresses, while the Group's major projects under execution in domestic and overseas markets advanced smoothly under assured quality and safety. In face of the widely recognized difficult market conditions, Wison continued to leverage on its industry know-how and capability advantages gained over years of experience, and combining with notions of innovation and openness, it endeavors to return to its path to growth and lay the cornerstone to realize the vision of becoming a first-class engineering company in the world.

Business Overview

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2016 (the "Year under Review"), revenue of the Group amounted to approximately RMB3,041.9 million (2015: approximately RMB5,413.5 million). The decrease in revenue as compared with the previous year was mainly due to domestic and foreign macroeconomic factors which had significant impact on the Group's results. In addition, new orders obtained in 2016 were yet to enter the principal construction phase while projects from previous years were approaching completion, leading to a significant year-on-year drop in revenue recognized in 2016. Gross profit amounted to approximately RMB931.2 million (2015: approximately RMB816.9 million). Profit attributable to owners of the parent amounted to approximately RMB42.9 million (2015: approximately RMB205.1 million). The decrease in profit attributable to owners of the parent was mainly attributable to impairment provision made for amounts due from contract customers in respect of the projects in previous years. During the Year under Review, the Group disposed of its land and property located in Mainland China. Excluding the effects of one-off provisions and the disposal of the land and property described above, profit attributable to owners of the parent amounted to approximately RMB431.0 million.

During the Year under Review, the new contract value (net of estimated value added tax, same hereinafter), secured by the Group amounted to approximately RMB2,152.5 million (2015: RMB1,486.1 million), of which petrochemicals business and coal-to-chemicals business accounted for 43.9% and 43.3%, respectively. 46 engineering, consulting and technical services and engineering, procurement and construction ("EPC") contracts were newly signed in aggregate. As at the end of the Year under Review, backlog value (net of estimated value added tax, same hereinafter) was approximately RMB10,705.5 million (as at the end of 2015: approximately RMB11,985.1 million).

BUSINESS AND OPERATIONS REVIEW

1. Breakthroughs in new business development, continuing to devote to areas with traditional advantages

In recent years the Group has been committing itself to business diversification. While strengthening the business areas where it already has a competitive edge in, the Group kept itself abreast of the development trends of national industries and global energy landscape and exerted efforts to tap into new fields of business with sustainable development prospects in order to ensure the Company's long-term growth potential. During the Year under Review, breakthroughs were achieved one after another:

Business Overview

- **LNG Business:** The Group was awarded its first ever EPC contract for a natural gas liquefaction project during the Year under Review. Pursuant to the contract, Wison Engineering Ltd. ("Wison Engineering"), an indirect non-wholly owned subsidiary of the Company, will provide Astana Trans Oil LLP with turn-key services ranging from front-end engineering design ("FEED"), engineering design, procurement, construction to start-up commissioning and staff training for the first onshore natural gas liquefaction project in Kazakhstan (the "Kazakhstan LNG Project"). The commencement of work under the contract is subject to the satisfaction of certain conditions precedent.

- **Environmental Protection:** During the Year under Review, the Group's first EPC project in water treatment, being the EPC contract for the 30kta water treatment agent expansion project of Henan Qingshuiyuan Technology Co., Ltd (河南清水源科技股份有限公司) (the "Qingshuiyuan Water Treatment Agent Project") was signed, marking a key step for the Group's environmental protection business. Furthermore, several engineering design contracts for special treatment of VOCs (Volatile Organic Compounds) for domestic coal-to-chemical and petrochemical plants were secured.

- **New Energy:** The Group was awarded the first engineering design contract for hydrogen dispensing, purification and formulation for new energy vehicles and its accessories.

- **Inorganic Chemicals:** The Group obtained an engineering design contract for a 200kta titanium dioxide (TiO2) by sulfuric acid production plant. New process technology will be adopted to substitute for the original chlorination process which causes serious environmental pollution and entails high production costs. The Group will continue to dedicate efforts to provide clients in energy and chemical industries with alternative process technologies and engineering services that target environmental protection, energy conservation and technological upgrades.

In ethylene cracking field where the Group has been enjoying traditional advantages, Wison Engineering respectively secured an EPC contract for feedstock conversion of four ethylene cracking furnaces, and won the bid for feasibility study, basic design and detailed design of a one-megaton light hydrocarbon cracking to ethylene project in the domestic market. It is worth mentioning that both projects were cases of successful remarketing built on the trust from the Group's existing clients. Meanwhile, the Group has now possessed the capability of modularized design and integrated modularized delivery of petrochemical plants.

As for coal-to-chemicals, Wison Engineering entered into a contract with Jilin Connel Group (吉林康乃爾集團) in relation to a 300kta methanol-to-olefins ("MTO") plant, covering EPC services, licensed use of the proprietary olefin separation technology, process package compilation and technical services during the Year under Review. This was the tenth licensing arrangement of the Wison olefin separation technology proprietarily owned by the Group. In addition, the Company has recently undertaken an EPC contract for China's first coal-based high quality lubricant base oil project (the "Oil Isodewaxing Project"), which would enrich the Group's technologies in coal-based high-end chemicals and the industrial chain of EPC service provision, further enhancing its "differentiated advantages" in the coal-to-chemicals field.

Business Overview

2. Steady growth in overseas business, expedited forging of core capabilities in executing internationalized projects

The Group continued to uphold its "internationalization" development strategy and managed to make continuous breakthroughs in respect of new geographical markets and new clients during the Year under Review. New orders from overseas markets accounted for approximately 51.4% of the Group's total sum of new orders during the Year under Review, setting a record high percentage:

- **Central Asia and CIS region:** The aforesaid Kazakhstan LNG project was the first engineering project secured by the Group in the Central Asia region, marking the Group's first market presence in the CIS region. Furthermore, the Group provided preliminary technical advisory services for a number of clients from Russia during the Year under Review and entered into multiple preliminary technical consulting contracts for several MTO, gas-to-methanol projects, etc.. Participating in the early phase of project development creates favorable conditions for securing EPC contracts when the projects enter into implementation phase.

- **Middle East:** During the Year under Review, by virtue of its exceptional project execution record, the Group continued to secure multiple EPC contracts for chemical plant revamping projects in the Middle East market where it already has a track record in a number of projects. New projects secured include expansion and revamping works for an ethylene-to-ethylene oxide and ethylene glycol ("EOEG") plant and its utility facilities, a revamping project for a methyl tert-butyl ether ("MTBE") plant and its auxiliary facilities and a renovation project for a polypropylene and propane dehydrotreating plant. So far, the Group has accumulated a track record of eight projects in the Middle East region. Furthermore, the Group has been qualified for submitting tenders for projects valued over US$500 million by a key customer in the Middle East, laying the solid foundation for securing future large-scale projects in this region.

- **The Americas:** In the North America region where the natural gas industry is highly competitive, the Group has undertaken a technical advisory project for gas processing and utilization. In the South American market where several of the Groups's projects are currently under construction, an EPC contract for additive production unit ("APU") was recently secured from an existing client as well. The commencement of work under the contract is subject to the satisfaction of certain conditions precedent.

Capabilities in project execution and delivery are one of the core competitive strengths of an engineering company. During the Year under Review, revenue recognized from projects in overseas markets contributed to more than half of the Group's total revenue. To cope with the potential further increase in the proportion of overseas business with higher execution standards, the Group is accelerating its efforts to perfect its management system which would fully comply with requirements for execution of international projects, to expand and strengthen its execution teams for internationalized projects, and to establish a resource network for project execution in key overseas markets. Key elements in international project execution such as value engineering, sustainable development and risk analysis have been comprehensively adopted in

Business Overview

the Group's overseas project execution. To meet the localization requirements for projects executed in certain countries, the Group has continued to enhance resource localization rate in overseas project execution while continuing to introduce qualified Chinese equipment suppliers into the Middle East market, which strengthened the Group's overseas project cost advantages, and actively contributed to Chinese enterprises "going abroad".

3. Project execution progressing smoothly, recognition by customers for quality and safety

During the Year under Review, the Group successfully delivered four domestic EPC projects and delivered one overseas project in phases. While eighteen projects were simultaneously under construction during peak time, no major health, safety and environment or quality incidents occurred for such projects during the year with an accumulative twelve million safety man hours recorded during the Year under Review. Project progress remained under control in general. During the year, the Group recorded revenue of RMB66.2 million from engineering, consulting and technical services projects and RMB2,975.7 million from EPC projects. Progress for some of the significant projects undertaken by the Group is as follows:

- During the Year under Review, the gasification unit of the large-scale coal-to-chemicals project in Shanxi Province achieved mechanical completion ahead of schedule, and has already entered the preparation phase for pre-commissioning and start-up;

- On-site construction of the Jilin Connel MTO project achieved three important milestones ahead of schedule under harsh climate conditions, achieving the fastest rate of construction among similar plants. This created a favorable condition for meeting the target of starting the commissioning process in 2017;

- The first EPC project of the Group in the environmental protection industry, the Qingshuiyuan Water Treatment Agent Project, was completed and delivered;

- Detailed design for China's first coal-based high quality lubricant base oil project has commenced.

In quality and safety, awards were given by project owners and industry associations in recognition of project management quality, delivery quality and safety work for several of the Group's completed and ongoing projects in domestic and foreign markets during the Year under Review. The largest engineering project in South America ever undertaken by Chinese enterprises, being the site preparation project for refinery revamp in Venezuela contracted by the Group, has cumulatively achieved nearly 6 million safety man hours since commencement, setting a good safety record for the Group's execution of large-scale overseas projects.

Utilizing internet technology, the Company integrated advanced information technology with engineering design and project management, leading to multiple achievements in project management system. At the same time, the Group continued to enhance its digitalized and modular design capabilities while optimizing digitalized project management system, thereby improving work efficiency and quality through an advanced project management and information system.

Business Overview

4. Fruitful results reaped in technology R&D and innovation, acceleration in marketization of new technologies through collaborative R&D

For technology R&D and collaborative technology development, the Group has been focusing on the frontier areas such as clean energy, green chemicals, environmental protection and energy conservation. During the Year under Review, achievements were attained in innovative technology engineering and industrialized verification in various domains, paving ways for the future development of the Company:

- **New methanation technology:** The pilot plant for the VESTA new methanation technology jointly developed by Wison Engineering, Amec Foster Wheeler, a world renowned engineering company, and Clariant, a specialty chemical company, has successfully passed various performance tests, signifying that the technology is qualified for commercial application. This will provide a new highly reliable and economical solution for coal-to-SNG production. With its professional performance in technology optimization, pilot plant design and construction process, Wison Engineering was awarded the "Technology Innovation Award" (技術創新獎) by Clariant.

- **Butadiene technology:** The 70kta butene oxidization and dehydrogenation to butadiene project in Shandong, for which Wison Engineering utilized its self-developed technology and catalyst, successfully commenced production during the Year under Review. Such catalyst, to which the Group owns the intellectual property, has passed the 72-hour assessment and calibration and was highly rated by the client. The performance of such technology and catalyst as well as the overall plant energy consumption were leading in the PRC, which not only has promising prospects in the markets for newly-built production plants and upgrading of existing plants, but will also offer a highly competitive solution for the integrated application of mixed carbon four technology.

- **Olefin separation technology:** The Shandong 300kta MTO project contracted by Wison Engineering, for which Wison utilized its proprietary olefin separation technology, passed the owner's performance tests and acceptance check for olefin separation units during the Year under Review. Ethylene and propylene recovery rates not only achieved a record high since the industrial application of such technology, but also set the highest level within the industry worldwide.

The Group continued to carry out the "technological innovation" strategy via external collaboration. By way of complementing one another on competitive strengths and resources with our partners, R&D and industrialization cycles can be shortened, which in turn facilitates technological cooperation and commercialization progress, rapidly and precisely focusing on market needs and offering competitive new technological solutions to markets and customers. During the Year under Review, Wison Engineering entered into the following cooperation agreements:

- An R&D collaboration agreement was entered into with Haldor Topsoe from Denmark, a global leading heterogeneous catalysts and technology provider. On the back of Haldor Topsoe's strong R&D capabilities in catalysts and the Group's experience in process technology development, engineering and EPC services, the parties will embark on a wide range of collaboration in fields such as clean energy, development of chemicals, new technologies, engineering and market development.

Business Overview

- A joint development contract was entered into with the Group's long-term partner Tianjin University and Yangquan Coal Industry (Group) Co., Ltd. The parties will together work on the industrial scale-up of the ethanol technology preliminarily co-developed by Wison Engineering and Tianjin University.

- The Group is committed to the R&D of green chemical technologies, and has entered into a cooperation agreement with a domestic partner to co-develop epoxide to replace the existing obsolete and highly polluting technology. Design work for the technology's pilot plant has commenced.

Meanwhile, the Group has continued to engage in in-depth discussions with its existing partners, including Royal Dutch Shell plc, Honeywell UOP, and Clariant on the basis of existing cooperation to accurately identify market demands in line with national industry policies and energy development trends, thereby actively exploring more cooperation opportunities. Several cooperation opportunities are expected to materialize.

5. Adjustment to management structure, strengthening the internationalization of management team

The Group proactively sought an organizational layout more suited to the management system of an international engineering company and adaptive to the specific needs of its next stage of internationalization, and adjustment was made to the middle-to-senior level management structure; under the principles of simplification and efficiency, the Group pushed forward market-oriented and client-centered reforms, cultivating an innovative corporate culture and accelerating the progress towards internationalization. Meanwhile, the Company appointed new senior management members and executive directors to strengthen its corporate governance and refine the composition of the board of directors of the Company (the "Board").

In early 2017, Mr. Li Zhiyong, who has extensive experience in the field of financial operations management, was appointed as an executive director and chief financial officer by the Board. He will oversee the Group's financial operations and investor relations management. Mr. Dong Hua, who is in charge of overseas business development, was also appointed as an executive director. Both the aforementioned Directors have many years of working experience in the Group, and the Board believes that they will bring greater contributions to the Group by virtue of their extensive experience and professional competence.

OUTLOOK

Although the uncertainties hindering global economic growth and the energy industry recovery will persist in the near future, the overall trend towards a clean and low-carbon energy structure is becoming more evident on a global scale. Emerging countries such as China and India will be an important pillar of global economic development in the next few years. In the PRC, supply-side structural reform will be further promoted as the implementation of the "13th Five-Year Plan" kicks off. National strategic opportunities, such as economic developments of the regions under the "One Belt, One Road" policy, reinforcement of environmental laws and regulations, and chemical industrial park developments, are expected to continue to bring opportunities for a new round of growth for the domestic business of the Group.

This year, on the occasion of the 20th anniversary of the establishment of Wison Engineering, the Company will reinforce the guidance under its core strategies of "market-orientation, internationalization and leadership through differentiation", gain in-depth understanding of external challenges and opportunities, integrate analysis of internal capabilities with external resources, and adjust its implementation policies and key initiatives and exert greater efforts in their implementation:

Business Overview

1. **Market-orientation — Constantly enhance responsiveness to markets and service awareness to customers; uphold and strengthen the market-oriented operational mechanism.**

    - Under the new management structure, enhance front-stage, mid-stage and back-stage resource integration capabilities and the ability to swiftly respond to customers through process streamlining and optimization of internal structure and management interface, so as to continuously meet and exceed clients' demands and be capable of providing solutions that would help realize clients' vision;

    - Closely follow development trends in cutting-edge technologies in the global energy industry and capture the country's emerging strategies and development of pivotal technologies; develop new technologies, businesses and markets in the fields of environmental protection, new materials and renewable energy, gradually achieving the diversification of businesses and markets, mitigating impacts of industry cyclical fluctuations on the Company's business;

    - Through innovations in fields of businesses, services, business models and management, create a comprehensive innovative culture and environment, bring internal innovative vigor and potential into full play and eventually build up the ability to provide innovative solutions to clients.

2. **Internationalization — Stay firm on developing international markets, strengthen international cooperation with an ultimate goal to establish a world-class engineering company.**

    - Divert resources to overseas business and step up the internationalization capability throughout the whole value chain;

    - Expand and strengthen the international team force for all stages in EPC and project management through the combination of internal training and recruitment; gradually increase the localization rate in project execution and dedicate efforts to promote local social responsibilities and community care;

    - Comprehensively establish international cooperation; create business partner networks covering R&D, design, procurement and construction; strengthen capabilities in global resource integration and execution control for material procurement and construction subcontracting activities.

Business Overview

3. **Leadership through differentiation — Establish differentiated competitive edge through insistence on innovation and development.**

   - Consolidate the competitive edge in technologies and workforce for the four core product lines—ethylene, MTO, natural gas reforming and coal gasification;

   - For the process technologies with market competitiveness at the forefront such as LNG, high-carbon olefins, polymer, ethanol, ethylene glycol, epoxide and base oil, gradually establish technological reserves and widely integrate internal and external resources, expedite engineering demonstration and commercialization of technologies with market potentials under the collaborative win-win principle; gain market and client recognition, enlarge market share;

   - Forge our digital design capability and promote digitalized project delivery; comprehensively enhance synergetic efficiency and design quality across disciplines, creating favorable conditions for the future design of smart factories;

   - Strengthen modular design, project execution and general project delivery capabilities in areas including cracking furnaces and other industrial furnaces, petrochemicals and oil refining. This in turn will be conducive to the competitive advantages of the Company in its leading position in terms of differentiation;

   - Improve efficiency in internal management and operations through innovative ideas, culture and mechanism; implement detailed management, and build up a more efficient, professional performance-oriented organizational culture.

Management Discussion and Analysis

FINANCIAL REVIEW

OVERALL REVIEW

Revenue and Gross Profit

For the year ended 31 December 2016, the comprehensive revenue of the Group amounted to RMB3,041.9 million, representing a decrease of RMB2,371.6 million, or 43.8%, from RMB5,413.5 million in the previous year.

Gross profit of the Group increased by RMB114.3 million, or 14.0%, from RMB816.9 million for the year ended 31 December 2015 to RMB931.2 million for the year ended 31 December 2016. The gross profit margins of the Group for the years ended 31 December 2015 and 2016 were 15.1% and 30.6%, 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	
	2016	2015	**2016**	2015	**2016**	2015
	(RMB'million)		(RMB'million)		(%)	
EPC	**2,975.7**	5,301.3	**917.7**	804.3	**30.8%**	15.2%
Engineering, consulting and technical services	**66.2**	112.2	**13.5**	12.6	**20.4%**	11.2%
	3,041.9	5,413.5	**931.2**	816.9	**30.6%**	15.1%

Management Discussion and Analysis

Revenue of EPC decreased by RMB2,325.6 million, or 43.9%, from RMB5,301.3 million for the year ended 31 December 2015 to RMB2,975.7 million for the year ended 31 December 2016. The decrease was mainly because the Group's existing major EPC projects approached the late construction phase, while other EPC projects newly acquired have not yet entered into the principal construction, leading to a decrease in revenue to be recognized. Gross profit margin of EPC increased from 15.2% for the year ended 31 December 2015 to 30.8% for the year ended 31 December 2016. The increase was mainly because the Group's large-scale petrochemical and oil refinery projects approached the late construction phase. Meanwhile, strict cost control measures have been implemented continuously, thus adjusting the overall budgets for these projects.

Revenue of Engineering, Consulting and Technical Services decreased by RMB46.0 million, or 41.0%, from RMB112.2 million for the year ended 31 December 2015 to RMB66.2 million for the year ended 31 December 2016. The decrease was mainly because of the poor market sentiment in large-scale domestic projects due to the impact of the macroeconomic environment, resulting in a decrease in early engineering work for projects. Gross profit margin of Engineering, Consulting and Technical Services increased from 11.2% for the year ended 31 December 2015 to 20.4% for the year ended 31 December 2016. The increase was mainly because during the year under review, the Group had strengthened the cost control of engineering projects.

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

(RMB'million)

	2016	2015	Change	Changes %
Petrochemicals	**489.2**	580.4	–91.2	–15.7%
Oil refineries	**1,296.2**	1,540.6	–244.4	–15.9%
Coal-to-chemicals	**1,251.9**	3,288.3	–2,036.4	–61.9%
Other products and services	**4.6**	4.2	0.4	9.5%
	3,041.9	5,413.5	–2,371.6	–43.8%

In petrochemicals, revenue decreased by RMB91.2 million, or 15.7%, from RMB580.4 million for the year ended 31 December 2015 to RMB489.2 million for the year ended 31 December 2016. The decrease was mainly because the Group's major petrochemical project, Sichuan PTA Project, already completed its principal construction phase in the previous year, while other petrochemical projects newly acquired have not yet entered into principal construction phase.

Management Discussion and Analysis

In oil refineries, revenue decreased by RMB244.4 million, or 15.9%, from RMB1,540.6 million for the year ended 31 December 2015 to RMB1,296.2 million for the year ended 31 December 2016. The decrease was mainly because the Group's major oil refinery projects have entered the late construction phase, and recognised revenue decreased accordingly.

In coal-to-chemicals, revenue decreased by RMB2,036.4 million, or 61.9%, from RMB3,288.3 million for the year ended 31 December 2015 to RMB1,251.9 million for the year ended 31 December 2016. The decrease was mainly because the Group's major coal-to-chemicals projects have entered the late construction phase, and recognised revenue decreased accordingly.

In other products and services, revenue increased by RMB0.4 million, or 9.5%, from RMB4.2 million for the year ended 31 December 2015 to RMB4.6 million for the year ended 31 December 2016.

Other Income

Other income increased by RMB76.2 million, or 14.8%, from RMB513.8 million for the year ended 31 December 2015 to RMB590.0 million for the year ended 31 December 2016. Interest income decreased by RMB130.6 million, gain on disposal of assets classified as held for sale increased by RMB220.2 million, rental income increased by RMB10.6 million and foreign exchange gains decreased by RMB30.6 million. The significant decrease in interest income was attributed to the decrease in principal portion of the financing arrangement for certain projects, and interest income recognised according to the relevant accounting standards decreased accordingly. The significant increase in gain on disposal of assets classified as held for sale was due to the disposal of the Group's property located in Mainland China during the year under review. The decrease in foreign exchange gains was due to the narrowing of exchange rate fluctuation between RMB yuan and the US dollar in 2016.

Sales and Marketing Expenses

Sales and marketing expenses increased by RMB4.5 million, or 8.0%, from RMB56.1 million for the year ended 31 December 2015 to RMB60.6 million for the year ended 31 December 2016. The increase was mainly due to the increase in expenditure as a result of the strengthening of the Group's sales effort.

Administrative Expenses

Administrative expenses decreased by RMB79.9 million, or 27.8%, from RMB287.9 million for the year ended 31 December 2015 to RMB208.0 million for the year ended 31 December 2016. The decrease was primarily due to the decrease in depreciation expense and the amortization of share option expenses.

Other Expenses

Other expenses increased by RMB561.9 million, or 221.0%, from RMB254.3 million for the year ended 31 December 2015 to RMB816.2 million for the year ended 31 December 2016. The increase was primarily because the Group made provision for impairment of overdue gross amount due from contract customers during the year under review.

Finance Costs

Finance costs decreased by RMB138.7 million, or 32.9%, from RMB421.9 million for the year ended 31 December 2015 to RMB283.2 million for the year ended 31 December 2016. Interest on bank loans decreased by RMB11.0 million and interest on discounted bills decreased by RMB127.7 million. The decrease in interest on bank loans was primarily due to the decrease in our average bank borrowings and average interest rate for the year ended 31 December 2016 compared with the year ended 31 December 2015. The decrease in interest on discounted bills was primarily due to the decrease in the principal portion of the financing arrangements for certain projects, and interest on discounted bills decreased accordingly.

Management Discussion and Analysis

Income Tax Expenses

Income tax expenses increased by RMB27.8 million or 38.3%, from RMB72.5 million for the year ended 31 December 2015 to RMB100.3 million for the year ended 31 December 2016. The increase was primarily due to the increase in assessable income for the year ended 31 December 2016.

Profit for the year

Profit for the year decreased by RMB185.1 million, or 77.6%, from RMB238.5 million for the year ended 31 December 2015 to RMB53.4 million for the year ended 31 December 2016. Our net profit margin was 4.4% for the year ended 31 December 2015 and decreased to 1.8% for the year ended 31 December 2016. The decrease was primarily because the Group made provision for impairment of overdue gross amount due from contract customers for the year ended 31 December 2016.

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 90 days or the respective contracts' retention period. As at 31 December 2016 and 2015, the Group had trade and bills receivables of RMB381,813,000 and RMB311,209,000, respectively. For details please refer to note 21 to the financial statements.

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

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

Financial Resources, Liquidity and Capital Structure

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

Management Discussion and Analysis

As at 31 December 2016, the Group's pledged and unpledged cash and bank balances included the following amounts:

	As at 31 December	
	2016	2015
	(Million)	
Hong Kong Dollar	**5.4**	10.8
US Dollar	**232.7**	350.0
Renminbi	**108.2**	204.1
Saudi Riyal	**15.3**	11.1
Euro	**0.1**	–
Indonesian Rupiah	**567.5**	189.0
Venezuelan Bolivar	**27.8**	226.3
UAE Dirham	**0.7**	0.1

Interest-bearing bank and other borrowings of the Group as at 31 December 2016 and 2015 were set out in the table follow. The short-term bank borrowings of the Group accounted for 100% of the total bank borrowings (2015: 100%).

	As at 31 December	
	2016	2015
	(RMB million)	
Current		
Bank loans repayable within one year		
— secured	**426.7**	230.0
Finance lease payables	**–**	0.1
	426.7	230.1
Non-current		
Finance lease payables	**–**	–
	–	–
	426.7	230.1

Bank borrowings were denominated in RMB, USD and Euro at 31 December 2015 and 2016. At 31 December 2016, bank borrowings amounting to RMB58,468,000 (2015: RMB230,000,000) bore interest at fixed rates.

Management Discussion and Analysis

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

Year ended 31 December 2015	4.83% to 7.56%
Year ended 31 December 2016	2.93% to 5.20%

The maturity profile of interest-bearing bank and other borrowings as at 31 December 2016 and 2015, based on contractual undiscounted payments, is as follows.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
			(RMB million)		
31 December 2016					
Interest-bearing bank and other borrowings	–	**209.9**	**222.1**	–	**432.0**
31 December 2015					
Interest-bearing bank and other borrowings	–	3.5	234.5	–	238.0
Finance lease payables	–	0.1	–	–	0.1

As at 31 December 2016, the gearing ratio of the Group, which was derived by dividing total debt by total equity, was 0.2x (2015: 0.1x). The ratio of total borrowings to total assets was 5.5% (2015: 2.5%).

Material Acquisitions and Disposals

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

Capital Expenditure

During the reporting year, the capital expenditure of the Group amounted to RMB5.0 million (2015: RMB6.7 million).

Foreign Exchange Risk Control

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

Asset Security

As at 31 December 2016, bills receivable with carrying amount of RMB20.0 million was pledged as security for bank facilities of the Group.

Contingent Liability

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

Except for the contingent liabilities as stated above, the Group had no other contingent liabilities as at 31 December 2016.

Management Discussion and Analysis

Qualified Opinion

As at 31 December 2016, the Group had trade receivables of RMB55,937,000 and amounts due from contract customers of RMB951,169,000, respectively, which have been identified as overdue in accordance with the contract terms and the Group has made an impairment provision of RMB643,629,000 for these amounts due from contract customers in the year ended 31 December 2016.

Provision for impairment of RMB643,629,000 was made for amounts due from contract customers. Such impairment provision relates to an EPC project (the "**Project**"). Since the second half of 2013, the relevant customer of the Project has ceased discussing with the Company regarding settlement of the contract amounts for the Project and such discussion was only resumed at the end of 2016. Based on the discussion between the Company and the relevant customer of the Project, the management of the Company made their own judgment and estimated the final settlement amount for the Project and this estimation formed the basis of making the impairment provision. Since the discussion between the Company and the relevant customer for the Project were conducted verbally, there was no written evidence to support the Company's estimation. The Company was only able to provide the budget prepared by the Company based on its estimation of the final settlement amount for the Project to the Company's independent auditor as audit evidence to support the judgment of the Company's management relating to the impairment provision.

Regarding the remaining overdue amounts due from contract customers of RMB307,540,000 as at 31 December 2016, based on the Company's experience and understanding of the PRC market as well as the Company's discussion with the relevant customer of the Project, the Company considered it is more than probable that such overdue amounts would be recoverable. Accordingly, the Company considered the impairment provision already made to be sufficient.

Regarding the overdue trade receivables of approximately RMB55,937,000, the Company has not made any impairment provision because the Company has been in regular contact with such customer and in view of the continuing subsequent settlements by such customer, the Company considered the overdue trade receivables to be recoverable. However, since the Company is not in a position to provide satisfactory written evidence to the independent auditor to support the creditability of such customer, the Company's independent auditor has expressed a qualified opinion in relation to such overdue trade receivables.

Since the impairment provision is not supported by any external written evidence, the Company's independent auditor considered that management's representation is not sufficient to support the impairment provision and the recoverability of remaining balance of the trade receivables and amounts due from contract customers.

The Company will continue to take proactive steps which the Company considers to be in the best interest of the Company, including without limitation legal actions, to collect the overdue trade receivables and amounts due from contract customers. In addition, the Company will actively discuss with its customers regarding settlement of trade receivables and amounts due from contract customers.

Human Resources

As at 31 December 2016, the Group had 1,108 employees (31 December 2015: 1,457 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 2016, the total staff cost of the Group (including salaries, bonuses, insurance and share option schemes) amounted to RMB617.8 million (during the year ended 31 December 2015: RMB652.5 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

EXECUTIVE DIRECTORS

Mr. Liu Haijun (劉海軍), age 51, is an executive Director of our Company and the Chief Executive Officer of our Group. Mr. Liu is also a director and the chief executive officer of Wison Engineering Ltd. ("Wison Engineering"). Mr. Liu is responsible for the overall management of the daily operations of our Group and oversees the commercial department, quality and safety department, technology development centre, general management department and innovative management unit. Mr. Liu is also a director of Wison Engineering Investment Limited, an immediate holding company of the Company. Mr. Liu graduated from Shandong Chemical School (山東省化工學校) in 1984, majoring in organic chemical processing and the University of Petroleum (石油大學) in 1991, majoring in petroleum processing. In 2010, Mr. Liu obtained his executive MBA from China Europe International Business School (中歐國際工商學院). From 1984 to 1994, he was engaged in the petroleum processing and design work in the Design Institute of China Petroleum & Chemical Corporation Qilu Branch ("Sinopec Qilu"). From 1994 to 2001, he was engaged in the design management and project management in the Project Management Department of Sinopec Qilu. In 2000, he was appointed by Sinopec Qilu as a senior engineer. Mr. Liu joined our Group as a technical engineer of the Furnace Department of Wison Engineering in August 2001 and has successively served as the technical engineer, the project manager, the manager of the Furnace Department, the vice general manager of the Engineering Business Department, the deputy general manager, the chief operating officer and the senior vice president of Wison Engineering. Mr. Liu was appointed as our Director on 18 May 2011 and the Chief Executive Officer of our Group on 30 October 2015. He has 32 years' experience in the petrochemicals industry.

Biographies of the Directors and Senior Management

Mr. Zhou Hongliang (周宏亮), age 47, is a senior vice president of our Group and was appointed as an executive Director of our Company on 10 September 2013, and is mainly responsible for overseeing the expansion of domestic business and marketing of our Company, and supervises the domestic business department. He graduated from Liaoning Shihua University (遼寧石油化工大學), formerly known as the Fushun Petroleum Institute (撫順石油學院) in 1991. He received his master's degree in business administration from China Europe International Business School (中歐國際工商學院) in 2014. He obtained the qualification of constructor from the Ministry of Construction of the People's Republic of China (中華人民共和國建設部) in 2006. He was responsible for project management in Sinopec Ningbo Engineering Co., Ltd. from 1991 to 2002. From 2002 to 2004, Mr. Zhou worked as a deputy manager in the Ethylene Project Team in Shanghai SECCO Petrochemical Company Limited (上海賽科石油化工有限責任公司). Mr. Zhou joined our Group in January 2005 as a manager of the construction management department of Wison Engineering and was appointed as the deputy general manager of Wison Engineering in January 2008. He has 24 years' experience in the petrochemicals industry.

Mr. Li Zhiyong (李志勇), age 45, 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 49, 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. 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 a Project Management Professional Certificate from the Project Management Institute (the United States of America). Mr. Dong obtained management related program certificates from Fudan University (復旦大學), the PRC, and China Europe International Business School (中歐國際工商學院), the PRC. Mr. Dong obtained an EMBA from The Hong Kong University of Science and Technology, Hong Kong. Mr. Dong has over 28 years' experience in the petrochemicals industry.

NON-EXECUTIVE DIRECTOR

Mr. Cui Ying (崔穎), age 44, is a non-executive Director of our Company and a director of Wison Group Holding Limited and Wison Engineering Investment Limited, an ultimate holding company and an immediate holding company of our Company respectively. Mr. Cui is also the general manager of Wison (Nantong) Heavy Industry Co., Ltd., an indirect wholly-owned subsidiary of Wison Group Holding Limited. He graduated from Shanghai Railway University (上海鐵道大學) with a bachelor's degree in telecommunications engineering in 1994 and completed a master's degree in telecommunications signal processing from Shanghai Railway University (上海鐵道大學), (which subsequently merged with Tongji University (同濟大學)) in 1997. He completed an executive master of business administration degree in the Olin Business School of Washington University in St. Louis and the Advanced Management Program (AMP) at Harvard Business School. From 1997 to 2000, he worked in the Shanghai branch of China Unicom Group Co., Ltd. (中國聯通上海分公司). From 2000 to 2001, he was employed by Lucent Technologies (China) Co., Ltd. (朗訊科技(中國)公司). From 2001 to 2004, Mr. Cui worked as a senior marketing manager at China Netcom (中國網通). From 2005 to 2009, he was appointed by IBM Global Business Consulting Services as a managing consultant. Mr. Cui joined our Group as director of sales and marketing in July 2009.

Biographies of the Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lawrence Lee (李磊), age 52, joined our Company as an independent non-executive Director on 30 March 2015. Mr. Lee was an executive director of Kasen International Holdings Limited (卡森國際控股有限公司) (a company listed on the The Stock Exchange of Hong Kong Limited ("Stock Exchange")) from August 2014 to November 2015. Mr. Lee currently works as independent advisors to several companies in China on corporate finance and strategy. During his career of over 22 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 60, joined our Company as an independent non-executive Director on 7 December 2015. Mr. Tang, PhD in economics, is a senior economist. Mr. Tang was admitted to Hunan College of Finance and Economics in September 1978 and became a teacher in the college after graduation in August 1981. From August 1988 to July 1994, Mr. Tang served successively as deputy general manager of the international business department of Hainan branch and branch president of Yangpu branch of the Hainan Province of China Construction Bank. From July 1994 to February 1997, Mr. Tang served successively as person in charge of preparation team and vice president of China International Capital Corporation Limited (中國國際金融有限公司) (now known as China International Capital Corporation Limited (中國國際金融股份有限公司)). From February 1997 to September 2009, Mr. Tang served successively as vice president of China Cinda Trust Investment Company (中國信達信託投資公司), vice president of China Galaxy Securities Limited Liability Company (中國銀河證券有限責任公司) (now known as China Galaxy Securities Co., Ltd. (中國銀河證券股份有限公司)), chairman of Hong Yuan Securities Co., Ltd. (a company listed on Shenzhen Stock Exchange, Stock Code: 000562). Mr. Tang acted as senior vice president of Peking University Founder Group Co., Ltd. from September 2009 to June 2012; and as chairman of Founder Capital Holdings Limited from October 2010 to June 2012. Mr. Tang served as supervisor of Hodojou Technology Co., Ltd. (華多九州科技股份有限公司), formerly known as Beijing HODOJOU Technology Co., Ltd (北京華多九州科技有限公司) (a company listed on

Biographies of the Directors and Senior Management

National Equities Exchange and Quotations, Stock Code: 834567) from March 2012 until he was appointed as chairman in January 2014, and was the chairman of Beijing Sinosoft Co., Ltd. (北京中科軟件有限公司) from June 2013 to March 2015. Since March 2015, Mr. Tang has been an executive director of Beijing Sinosoft Co., Ltd. Mr. Tang was also an independent director of Hunan TV & Broadcast Intermediary Co., Ltd. (湖南電廣傳媒股份有限公司) (a company listed on Shenzhen Stock Exchange, Stock Code: 000917) from February 2010 to August 2016; and an independent director of Wison (Nanjing) Clean Energy Co., Ltd. (which ceased to be a fellow subsidiary of the Company since August 2015) from December 2010 to July 2015. Mr. Tang has been an independent director of China CITIC Bank International Limited (中信銀行(國際)有限公司) since November 2013; and an independent director of Geo-Jade Petroleum Corporation (洲際油氣股份有限公司) (formerly known as Hainan Zhenghe Industrial Group Co., Ltd. (海南正和實業集團股份有限公司), a company listed on Shanghai Stock Exchange, Stock Code: 600759) since December 2013. Mr. Tang is an independent director candidate of The People's Insurance Company (Group) of China Limited (中國人民保險集團股份有限公司) (a company listed on The Stock Exchange of Hong Kong Limited, Stock Code: 1339), which appointment shall take effect upon the approval of his director qualification by the China Insurance Regulatory Commission.

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 48, joined our Company as an independent non-executive Director on 28 December 2015. Mr. Feng has more than 21 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

Biographies of the Directors and Senior Management

officer of Kingdee Software (China) Co., Ltd., a wholly-owned subsidiary of Kingdee International. He also served as an executive director of Kingdee International from 15 March 2011 to 2 February 2012. From November 2002 to January 2011, Mr. Feng worked at IBM Global Business Consulting Services, Greater China Group and served successively as associate partner, partner and managing partner. Before Mr. Feng joined IBM in November 2002, Mr. Feng was a director at PricewaterhouseCoopers Consultants (Shanghai) Ltd. from May 2002 to October 2002, a senior manager at Arthur Andersen (Shanghai) Business Consulting Co., Ltd. from November 2000 to April 2002 and a senior consultant and a consultant manager at Siemens Business Service from January 1996 to November 2000.

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

SENIOR MANAGEMENT

Ms. Chen Huimei (陳惠梅), age 49, is a senior vice president of our Group. She is responsible for the technology, design management and project execution of Wison Engineering and is also responsible for overseeing the design centre, procurement department, construction management department, project management department and industrial furnace business department. Ms. Chen graduated from Xi'an Jiaotong University (西安交通大學) with a bachelor's degree in chemistry and chemical engineering in 1989. From 1998 to 2007, Ms. Chen worked at Petrochina Lanzhou Petrochemical Company (中石油蘭州石化工程公司) as project manager, project director and the manager of technology management. Ms. Chen joined our Group in 2007 and worked at Wison Engineering as assistant manager of the quality safety assurance department, manager of the technical management department and manager of the research and development center. Ms. Chen has 26 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 49, is a senior vice president of our Group. He is responsible for international business in the Middle East, Africa and Europe (excluding Russia). Mr. Zheng graduated from Hefei University of Technology (合肥工業大學) with a major in welding technology and equipment in 1990. 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. Mr. Zheng has 27 years' experience in the petrochemicals industry.

Biographies of the Directors and Senior Management

Mr. Yang Zhimin (楊志敏), age 58, is a vice president of our Group and a general manager of Henan branch of Wison Engineering. He is mainly responsible for overseeing business qualifications management, the management of external industrial associations and management of the Henan branch office and design center in Henan. He graduated from Lanzhou Petroleum College (蘭州石油學校) with a major in petroleum machinery, Renmin University of China (中國人民大學) with a major in industrial and economic management, and received his master's degree (EMBA) from Guanghua School of Management of Peking University. Mr. Yang has over 36 years of experience in chemical design and management. He successively served as the dean, party secretary and chairman of the board of directors. Mr. Yang has won approximately 30 prizes such as scientific and technological progress awards of national, ministerial and provincial levels (國家和省部級科技進步獎) and outstanding engineering consulting and design awards (優秀工程設計諮詢獎). He has also obtained "Cross-century Pioneer in academics and technology (跨世紀學術和技術帶頭人)" of Henan Province in 1999, "Expert in special allowance (特殊津貼專家)" by the State Council of the People's Republic of China (中華人民共和國國務院) in 2002 and 60th Anniversary of Nationwide Engineering Design Industry "Top Ten Entrepreneurs" (全國工程設計行業國慶60周年「十佳現代管理企業家大獎」) in 2009. He was also a senior engineer of professor level, State-registered consultant engineer and State-registered mechanical engineer. He joined our Group as a deputy general manager of Wison Engineering and a general manager of Henan branch office of Wison Engineering in November 2007.

Mr. Li Yansheng (李延生), age 52, is the chief engineer and the chief scientist of our Group. He is mainly responsible for guiding and leading the technology development of Wison Engineering and supporting and participating in internal technology research and development of Wison Engineering. Mr. Li graduated from Qingdao Institute of Chemical Technology (青島化工學院) with a bachelor's degree in organic chemical engineering. Mr. Li also obtained a certificate in business administration (MBA core course) from Antai College of Economics and Management of Shanghai Jiao Tong University (上海交通大學安泰經濟與管理學院) in 2006. Mr. Li then obtained an executive education program certificate from Cheung Kong Graduate School of Business (長江商學院) in 2010. Prior to joining our Group, Mr. Li worked at Shandong Qilu Petrochemical Engineering Co. Ltd as vice chief engineer from 1987 to 2004. Mr. Li joined our Group in 2004 and worked at the technical department of Wison Engineering. He then worked in the design management department and technical management department of Wison Engineering as a manager and vice chief engineer in 2005 and 2006, respectively. Since 2008, Mr. Li has been working at Wison Engineering as an assistant to general manager and technical director. Mr. Li also received various awards such as First-class Technical Progress Award (科技進步一等獎) from All-China Federation of Industry & Commerce (中華全國工商業聯合會) and the nationwide outstanding chemical engineering worker (全國化工優秀科技工作者) from China Petroleum and Chemical Industry Federation (中國石油和化學工業聯合會) in 2010. He earned the title as a master of exploration design in the petroleum industry of the PRC in 2013.

Biographies of the Directors and Senior Management

Ms. Catherine Yin (尹秋), age 60, is a vice president of human resources of our Group. She joined the Group in January 2017 and is mainly responsible for enhancing organizational capability, performance management, talent development and training, culture building and leadership pipeline building in order to support the achievement of business objectives and business growth. From April 2012 to September 2013, she served as a senior human resources consultant of Wison Engineering to initiate and implement key projects such as on talent appraisals, middle-level leadership development and training programmes for new recruits. Ms. Yin graduated from Beijing University of Science and Technology, majoring in computer science, with a bachelor's degree in Engineering in March 1982. Ms. Yin has nearly 30 years of extensive working experience in well-known multinational companies, mainly in IBM and Schneider Electric, and worked in different positions such as a senior human resources manager, director of corporate university, vice president of Asia Pacific talent learning and development, etc. She also has many years of overseas working experience in managing Asia Pacific affairs and leading multinational teams, accumulating extensive international collaboration and management experience.

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 2016.

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 39 to the financial statements.

Report of the Directors

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

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

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, the aggregate purchases of raw materials attributable to the Group's five largest suppliers accounted for approximately 17.4% of the Group's total purchases. Our purchases attributable to the single largest supplier accounted for approximately 5.4% of the Group's total purchases for the same period.

Report of the Directors

For the year ended 31 December 2016, our five largest clients, in aggregate, counting each subsidiary of PetroChina Company Limited ("PetroChina") on a standalone basis, accounted for approximately 85.9% of our total revenue. For the same period, our five largest clients, in aggregate, counting revenue derived from PetroChina and its subsidiaries on a group basis, accounted for approximately 87.6% of our total revenue. Our revenue derived from the single largest client for the same period, amounted to approximately 42.6% of our total revenue (counting each subsidiary of PetroChina in a standalone basis).

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 2016.

SUBSIDIARIES AND ASSOCIATE

Particulars of the Company's subsidiaries and the Group's associate as at 31 December 2016 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 2016 and the Group's financial position as at that date are set out in the financial statements on pages 58 to 142 of this report.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016.

DONATIONS

No donations were made by the Group during the year ended 31 December 2016 (2015: 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 30 and 31 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 2016 are set out in the consolidated statement of changes in equity. Changes to the reserves of the Company during the year ended 31 December 2016 are set out in Note 41 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands comprise the share premium and retained earnings totaling approximately RMB825,820,000.

Report of the Directors

DIRECTORS

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

Executive Directors

Mr. Liu Haijun *(Chief Executive Officer)*
Mr. Zhou Hongliang
Mr. Li Zhiyong *(Chief Financial Officer)*
(appointed on 13 January 2017)
Mr. Dong Hua (appointed on 13 January 2017)

Non-executive Director

Mr. Cui Ying

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. Cui Ying and Mr. Lawrence Lee 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. Li Zhiyong and Mr. Dong Hua will retire at the forthcoming annual general meeting of the Company, and being eligible, offers themselves for re-election.

None of Mr. Cui Ying, Mr. Lawrence Lee, Mr. Li Zhiyong and Mr. Dong Hua 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 2016, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

Name of Director	Company/ Name of Group Company	Capacity/ Nature of interest	Number of Shares[1]	Approximate percentage of shareholding
Mr. Liu Haijun	Company	Beneficial owner	3,040,000 (L)[2]	0.07%
Mr. Cui Ying	Company	Beneficial owner	3,040,000 (L)[2]	0.07%
Mr. Zhou Hongliang	Company	Beneficial owner	3,040,000 (L)[2]	0.07%
Mr. Dong Hua	Company	Beneficial owner	2,660,000(L)[2]	0.07%

Notes:

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

(2) Shares in respect of options granted under the pre-IPO share option scheme of the Company.

Save as disclosed above, as at 31 December 2016, 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.

Report of the Directors

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 2016, the total number of shares which may be issued on the exercise of options to be granted under the Share Option Scheme and any other schemes is 400,000,000, representing approximately 9.84% 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.

As at 31 December 2016, no option has been granted or agreed to be granted under the Share Option Scheme.

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 2016, 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 153,672,000 shares, representing approximately 3.78% 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 2016, options to subscribe for an aggregate of 153,672,000 shares representing 3.78% of the total issued share capital of our Company as at the date of this report have been granted by our Company and remain outstanding under the Pre-IPO Share Option Scheme for a consideration of HK$1.00 per option. 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	No. of shares involved in the options outstanding at 1 January 2016	Exercised during the year	Lapsed during the year	Reassigned during the year	No. of Shares involved in the options outstanding at 31 December 2016
The Group						
Directors, chief executive or substantial shareholders of the Company or subsidiaries, or their respective associates						
Liu Haijun	0.837	3,040,000	–	–	–	3,040,000
Cui Ying	0.837	3,040,000	–	–	–	3,040,000
Zhou Hongliang	0.837	3,040,000	–	–	–	3,040,000
Dong Hua	0.837	2,660,000	–	–	–	2,660,000
Qu Song	0.837	3,648,000[(b)]	–	–	–	3,648,000
Employees of the Group	0.837	123,158,000	(68,400)	(10,381,600)	(3,610,000)[(a)]	109,098,000
Wison Holding and its subsidiaries						
Employees, executives and officers of Wison Holding or any of its subsidiaries	0.837	30,096,000[(b)]	–	(4,560,000)	3,610,000[(a)]	29,146,000
Total		168,682,000	(68,400)	(14,941,600)	–	153,672,000

Notes:

(a) *Options representing 3,610,000 Shares were held by certain then employees of the Group at the beginning of the year, who were reassigned as employees of Wison Holding or its subsidiaries during the year.*

(b) *Mr. Qu Song was reassigned as a director of a subsidiary of the Company during the year while remaining as a director of Wison Holding. Options representing 3,648,000 Shares held by Mr. Qu at 1 January 2016 was reclassified to the Group,*

The outstanding options granted under the Pre-IPO Share Option Scheme above were granted on 30 November 2012. During the year ended 31 December 2016, options representing 68,400 shares have been exercised by the holders, options to subscribe for an aggregate of 14,941,600 shares have lapsed.

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

Report of the Directors

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

As at 31 December 2016, 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	3,175,520,000 (L)	78.12%
Wison Holding[2]	Company	Interest in controlled corporation	3,175,520,000 (L)	78.12%
Mr. Hua Bangsong[3]	Company	Interest in controlled corporation	3,175,520,000 (L)	78.12%
Ms. Huang Xing[4]	Company	Interest of spouse	3,175,520,000 (L)	78.12%

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 2016, no persons (other than the Directors or the chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

CONNECTED TRANSACTIONS

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

Wison Holding, a company wholly-owned by Mr. Hua, holds 100% of Wison Investment. Wison Investment owns approximately 78.12% of our Company as at the date of this report, and therefore is a controlling shareholder and a connected person of the Company under the Listing Rules.

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

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

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

Report of the Directors

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

Continuing Connected Transactions

For the financial year ended 31 December 2016, all the continuing connected transactions (the "Continuing Connected Transactions") have not exceeded their respective annual caps:

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

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

Lesser	Lessee	Leased Properties	Duration of Lease	g.f.a of Leased Properties (m^2)	Annual Rental (RMB in thousands)	Annual Property management services fee (RMB in thousands)
Wison Engineering	Wison (China) Investment	• Certain premises located at 6th Floor, Block A, No. 699 Zhongke Road, Pudong New District, Shanghai, PRC.	1 January 2014 to 31 December 2016 (Note 1)	2,000	2,920	528
Wison Engineering	Wison Nantong	• Certain premises located at 9th Floor and 10th Floor, Block C, No. 699 Zhongke Road, Pudong New District, Shanghai, PRC.	1 January 2014 to 31 December 2016 (Note 2)	4,000	5,840	1,056
Wison Engineering	Wison Nantong	• Certain premises located at Room 401, 4th Floor, Block A and Room 501, 5th Floor, Block A No. 699 Zhongke Road, Pudong New District, Shanghai, PRC.	1 September 2016 to 31 December 2018 (Note 3)	3,000	4,818	792

Note 1: Pursuant to a property leasing agreement and a property management services agreement entered into by Wison Engineering and Wison (China) Investment on 19 December 2016, the lease and the property management services relating to the premises located at 6th Floor, Block A, No. 699 Zhongke Road, Pudong New District, Shanghai, PRC are renewed and the renewed term is from 1 January 2017 to 31 December 2018. The monthly rental is RMB267,666 (representing annual rental of approximately RMB3,211,000) and the monthly property management services fee is RMB44,000 (representing annual fee of RMB528,000). The rental and the property management services fee are determined with reference to the gross floor area of the premises and market rates of rentals and fees for comparable properties.

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

Note 2: The 2014 Wison Nantong Property Leasing Agreement and the 2014 Wison Nantong Property Management Services Agreement were terminated with effect from 31 August 2016.

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

Report of the Directors

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

The rental and property management services fee payable by each of Wison (China) Investment and Wison Nantong to the Group under the Leases (where applicable, as amended) and Property Management Services Agreements (where applicable, as amended) are consistent with the prevailing market rates for similar properties in similar locations as of the commencement date of their respective tenancies (or where appropriate, as of the effective date of the amendments). The annual cap for the aggregate amounts of the rental and the property management services fees payable by Wison (China) Investment to Wison Engineering under the 2014 Wison (China) Investment Property Leasing Agreement and the 2014 Wison (China) Investment Property Management Services Agreement for each of the three years ending 31 December 2014, 2015 and 2016 is RMB3,500,000, and the annual caps for the aggregate amounts of the rental and the property management services payable fees by Wison Nantong to Wison Engineering under the 2014 Wison Nantong Property Leasing Agreement (as amended) and the 2014 Wison Nantong Property Management Services Agreement (as amended) for each of the three years ending 31 December 2014, 2015 and 2016 are RMB12,100,000, RMB10,400,000 and RMB7,000,000, respectively. The annual caps for the aggregate amounts of the rental, property management services fee and electricity fee payable by Wison Nantong to Wison Engineering under the 2016 Wison Nantong Property Leasing Agreement (as amended) and the 2016 Wison Nantong Property Management Services Agreement (as amended) for the year ended 31 December 2016 and for the years ending 31 December 2017, 2018 are RMB1,900,000, RMB5,000,000 and RMB4,800,000 respectively. The annual caps for the aggregate amounts of the rental, property management services fee and electricity fee payable by Wison (China) Investment to Wison Engineering under the 2017 Wison (China) Investment Property Leasing Agreement (as amended) and the 2017 Wison (China) Investment Property Management Services Agreement (as amended) for the two years ending 31 December 2017 and 2018 are RMB4,400,000 and RMB4,600,000. As at 31 December 2016, the amounts of outstanding rental and property management services fees due from Wison (China) Investment and Wison Nantong are RMB1,022,000 and RMB3,355,000, respectively.

Report of the Directors

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 2016 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 2016 are set out in Note 32 to the financial statements. During the year ended 31 December 2016, the related party transactions set out in Notes 32(a)(iii) and (a)(iv) are regarded as continuing 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%, while the related party transactions set out in Notes 32(a)(i), (a)(ii), (a)(vi) and (a)(xi) are regarded as exempt continuing connected transactions of the Group under Rule 14A.76(1) of the Listing Rules, and the financial assistances provided by Wison (China) Investment, Wison Nantong and Zhoushan Wison set out in Notes 32(a)(ix), 32(a)(x) and 32(a)(xii) are exempt financial assistances under Rule 14A.90 of the Listing Rules.

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

EQUITY-LINKED AGREEMENTS

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

Report of the Directors

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 2016.

FIVE YEAR FINANCIAL SUMMARY

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

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2016 are set out in Note 26 to the financial statements.

EMOLUMENT POLICY

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

EMPLOYEE RETIREMENT BENEFITS

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

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.

Report of the Directors

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 2016. The Audit Committee noted that as at 31 December 2016, the Group had trade receivables of RMB55,937,000 and amounts due from contract customers of RMB951,169,000, respectively, which have been identified as overdue in accordance with the contract terms and the Group has made an impairment provision of RMB643,629,000 for these amounts due from contract customers in the year ended 31 December 2016. For details relating to the impairment provision and the basis for the management for determining whether trade receivables and amounts due from contract customers are recoverable, please refer to page 21 of this annual report.

When determining whether trade receivables and amounts due from contract customers are recoverable, significant management judgment is involved, taking into account various factors such as the age of the balances, existence of disputes, historical payment patterns and other available information concerning the creditworthiness of the customers. The Audit Committee discussed with the management on the factors taken into account by the management and the actions taken by the Company to collect the overdue trade receivables and amounts due from contract customers as well as the basis of the management's judgment. In addition, the Audit Committee also considered the qualified opinion and the matters raised by the Company's independent auditor and reviewed the Company's internal control system. The Audit Committee does not have any disagreement with the management's position relating to the recoverability of trade receivables and amounts due from contract customers and the making of impairment provision in 31 December 2016.

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
Liu Haijun
Executive Director and Chief Executive Officer

Hong Kong, 28 March 2017

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 2016, 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 Mr. Liu Haijun (Chief Executive Officer), Mr. Zhou Hongliang, Mr. Li Zhiyong (Chief Financial Officer) and Mr. Dong Hua as executive Directors, Mr. Cui Ying as non-executive Director, Mr. Lawrence Lee, Mr. Tang Shisheng and Mr. Feng Guohua as independent non-executive Directors. There is no financial, business, family or other material relationship among the members of the Board. The Board has a balance of skills and experience appropriate for the requirements of the business of the Company.

The Company has recently restructured and streamlined the management structure of the Group and after the restructuring, the Group has 18 departments which are led by the directors of the Company and senior management of the Group.

The biographies of the Directors and senior management are set out on pages 22 to 29 of this report.

Each of Mr. Liu Haijun and Mr. Zhou Hongliang has entered into a service contract with us for a term of three years commencing from 28 December 2015 and 10 September 2016, respectively and shall continue thereafter unless terminated by not less than six months'

Corporate Governance Report

written notice. Each of Mr. Li Zhiyong and Mr. Dong Hua has entered into a service contract with us for an initial term of three years commencing from 13 January 2017 and shall continue thereafter unless terminated by not less than six months' written notice. Each of Mr. Cui Ying, 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 October 2015, 30 March 2015, 7 December 2015 and 28 December 2015, respectively unless terminated by three months' written notice or in certain circumstances in accordance with the terms of the relevant letter of appointment. Notwithstanding the above, all Directors, including the independent non-executive Directors, are subject to retirement by rotation at least once every three years in accordance with the Listing Rules and the articles of association of the Company. A retiring director is eligible for re-election.

Under the service contracts, our executive Directors are entitled to aggregate annual salaries of approximately RMB6.1 million, plus a discretionary bonus as determined by the Board and our Remuneration Committee. Mr. Cui 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 2016 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 2016.

Each of the Directors (other than Mr. Li Zhiyong and Mr. Dong Hua who were each appointed an 13 January 2017) attended various trainings in 2016, including the training on regulatory updates for Main Board listed companies (namely on environmental, social and governance reporting and the 2016 Auditor's Report pursuant to new and revised International Standards on Auditing), as part of their profession development. The Company will arrange suitable training for all Directors in order to develop and refresh their knowledge and skills as part of their continuous professional development.

In 2016, the Board held 6 meetings. A total of 29 proposals were considered at these Board meetings, including proposals for the consideration of the Company's 2015 annual report, 2016 interim report, transaction involving disposal of a property and certain 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 (other than Mr. Li Zhiyong and Mr. Dong Hua who were each appointed on 13 January 2017) during the year ended 31 December 2016.

Corporate Governance Report

Director	Number of meetings requiring attendance	Number of meetings attended in person
Liu Haijun	6	5
Zhou Hongliang	6	6
Cui Ying	6	6
Lawrence Lee	6	5
Feng Guohua	6	5
Tang Shisheng	6	5

In 2016, the Company convened and held one shareholders' general meeting, being the 2015 annual general meeting held on 22 June 2016. Mr. Liu Haijun, Mr. Zhou Hongliang, Mr. Cui Ying, Mr. Lawrence Lee, Mr. Tang Shisheng and Mr. Feng Guohua attended the shareholders' 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. Lawence Lee is the chairman of the committee and the other two members are Mr. Feng Guohua and Mr. Tang Shisheng. All members of the Audit Committee are independent non-executive directors.

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

In 2016, the Audit Committee held 3 meetings, at which a total of 11 proposals were considered, including proposals for the consideration of the Company's 2015 annual report, 2016 interim report and the appointment of auditors for 2016. The Audit Committee also assessed the risk management and internal control measures and the internal audit function of the Company.

Corporate Governance Report

The table below sets out the details of meetings attendance of each member of the Audit Committee during the year ended 31 December 2016.

Director	Number of meetings requiring attendance	Number of meetings attended in person
Lawrence Lee	3	3
Tang Shisheng	3	3
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. In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board. Diversity of the Board will be considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, and length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

In 2016, the Nomination Committee held 1 meeting, at which a total of 3 proposals were considered, including proposals for re-election of directors.

Corporate Governance Report

The table below sets out the details of meetings attendance of each member of the Nomination Committee during the year ended 31 December 2016.

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 2016, the Remuneration Committee held 3 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 2016.

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

For the year ended 31 December 2016, the number of senior management (excluding directors) whose remuneration fell within the following bands is as follows:

HK$1,000,001 to HK$1,500,000	1
HK$1,500,001 to HK$2,000,000	10
HK$2,000,001 to HK$2,500,000	2
HK$2,500,001 to HK$3,000,000	1

Further details of the remuneration of the Directors (other than Mr. Li Zhiyong and Mr. Dong Hua who were each appointed on 13 January 2017) and the five highest paid employees are set out in note 9 to the financial statements.

Corporate Governance Report

CORPORATE GOVERNANCE FUNCTIONS

Risk Management and Internal control

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

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

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

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code during the year ended 31 December 2016.

Corporate Governance Report

EXTERNAL AUDITORS

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

In addition, Ernst & Young (China) Advisory Limited ("Ernst & Young Advisory", a member firm of Ernst & Young Global Network) has provided other non-audit service to the Group in 2016.

For the year ended 31 December 2016, the external auditors received the following remuneration for audit and non-audit services provided to the Group in respect of the following:

	RMB'000
Audit services provided by Ernst & Young	3,880
Audit services provided by other local auditors	748
Non-audit service provided by Ernst & Young Advisory for environmental, social and governance service	92
	4,720

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of the financial statements which give a true and fair view of the financial position of the Company and its subsidiaries and of the financial performance and cash flow during the reporting period. A statement from the auditors about their reporting responsibilities on the financial statements is set out on pages 52 to 57 of this report. In preparing the financial statements for the year ended 31 December 2016, 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. However, Ernst & Young, the independent auditor expressed a qualified opinion in its independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2016. Details of the independent auditor's opinion are set out in the Independent Auditor's Report.

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 2016, no material weakness on risk management and internal control measures has been identified. In addition, the Board considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function.

Corporate Governance Report

SHAREHOLDERS

The Company is incorporated in the Cayman Islands. Pursuant to the articles of association of the Company, extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary and deposited at the Company's principal place of business in Hong Kong at Room 24A, 24th Floor, Tai Yau Building, 181 Johnston Road, Wan Chai, Hong Kong, for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

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

During the year ended 31 December 2016 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)

QUALIFIED OPINION

We have audited the consolidated financial statements of Wison Engineering Services Co. Ltd. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

As set out in notes 20 and 21 to the consolidated financial statements, the Group had trade receivables of RMB55,937,000 (31 December 2015: RMB59,933,000) and amounts due from contract customers of RMB951,169,000 (31 December 2015: RMB1,037,066,000) as at 31 December 2016, respectively, which have been identified as overdue in accordance with the contract terms. The Group has made an impairment provision of RMB643,629,000 for these amounts due from contract customers in the year ended 31 December 2016 (year ended 31 December 2015: nil). The Group is still in negotiation with these customers for the settlement of the outstanding balances. We have been unable to obtain sufficient audit evidence to support the provision made by management and whether any of such provision should be charged to the statement of profit or loss for the year ended 31 December 2015 or previous years. Accordingly, we were unable to satisfy ourselves regarding the appropriateness of the impairment provision against the balance of amounts due from contract customers as mentioned above and the recoverability of the remaining overdue trade receivables of RMB55,937,000 (31 December 2015: RMB59,933,000) and amounts due from contract customers of RMB307,540,000 (31 December 2015: RMB1,037,066,000) as at 31 December 2016. Any adjustments to the provision for these balances would have impact on the net assets of the Group as at 31 December 2016 and 2015 and the net profit for years ended 31 December 2016 and 2015, respectively.

Our report dated 24 March 2016 on the Group's consolidated financial statements for the year ended 31 December 2015 was also qualified for the above matter.

Independent Auditor's Report

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 International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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. In addition to the matters described in the *Basis for Qualified Opinion section*, we have determined the matters described below to be the key audit matters to be communicated in our report. 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 qualified opinion on the accompanying consolidated financial statements.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Revenue recognition and measurement	
The Group provides engineering, procurement and construction management services. Revenue from construction contract was recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract, which requires significant management estimates. Relevant disclosures are included in note 4 to the consolidated financial statements.	We tested the controls of the Group over its process to record contract costs and contract revenues and the calculation of the percentage of completion. We discussed the status of significant projects in progress with management and assessed management's estimates of the total budget of contract costs and forecast costs to complete, taking into account the historical accuracy of such estimates. We checked the related project documents, such as invoices, contracts with subcontractors, variation orders between the Group and subcontractors and the independent surveyor's assessment on the progress of the work performed by the subcontractors for the significant projects.
Recoverability of trade receivables and amounts due from contract customers	
As at 31 December 2016, trade receivables and amounts due from contract customers of the Group amounted to RMB186,899,000 and RMB3,821,694,000, respectively. Provision for impairment of RMB643,629,000 was made for amounts due from contract customers. When determining whether trade receivables and amounts due from contract customers are recoverable, significant management judgment is involved, taking into account various factors such as the age of the balances, existence of disputes, historical payment patterns and other available information concerning the creditworthiness of the customers. Relevant disclosures are included in notes 4, 20 and 21 to the consolidated financial statements.	Our audit procedures included (i) assessing and testing the Group's processes and controls relating to the monitoring of trade receivables and amounts due from contract customers, and the Group's granting of credit terms and contract terms relating to billing milestones, and (ii) circularizing direct confirmations for the trade receivable balances on a sampling basis. We also evaluated the Group's provision for trade receivables and amounts due from contract customers by assessing the Group's debtor collection history, the ageing of trade receivable balances and amounts due from contract customers, bank receipts for the payments received subsequent to year end, and the customers' relationship with the Group and their financial background.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
28 March 2017

Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	**2016 RMB'000**	2015 RMB'000
REVENUE	6	**3,041,877**	5,413,531
Cost of sales		**(2,110,644)**	(4,596,651)
GROSS PROFIT		**931,233**	816,880
Other income and gains	6	**590,017**	513,805
Selling and marketing expenses		**(60,616)**	(56,097)
Administrative expenses		**(208,017)**	(287,863)
Other expenses		**(816,231)**	(254,299)
Finance costs	7	**(283,228)**	(421,877)
Share of profit of an associate		**463**	458
PROFIT BEFORE TAX	8	**153,621**	311,007
Income tax	10	**(100,251)**	(72,491)
PROFIT FOR THE YEAR		**53,370**	238,516
Attributable to:			
Owners of the parent		**42,914**	205,106
Non-controlling interests		**10,456**	33,410
		53,370	238,516
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
— Basic and diluted		**RMB1.06 cents**	RMB5.05 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	2016 **RMB'000**	2015 RMB'000
PROFIT FOR THE YEAR	**53,370**	238,516
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**21,159**	3,764
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**21,159**	3,764
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**21,159**	3,764
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**74,529**	242,280
Attributable to:		
Owners of the parent	**64,073**	208,870
Non-controlling interests	**10,456**	33,410
	74,529	242,280

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**983,635**	1,028,287
Investment properties	14	**12,976**	13,556
Prepaid land lease payments	15	**159,114**	163,272
Goodwill	16	**15,752**	15,752
Other intangible assets	17	**7,048**	10,372
Investment in an associate	18	**2,500**	2,037
Long-term prepayments	22	**13,996**	128,042
Deferred tax assets	28	**825**	–
Total non-current assets		**1,195,846**	1,361,318
CURRENT ASSETS			
Inventories	19	**20,241**	177,581
Gross amounts due from contract customers	20	**3,821,694**	4,033,219
Trade and bills receivables	21	**381,813**	311,209
Due from a related company	32	**256**	–
Due from fellow subsidiaries	32	**4,377**	27
Due from the ultimate holding company	32	**–**	87
Prepayments, deposits and other receivables	22	**562,632**	656,408
Pledged bank balances and time deposits	23	**1,106,803**	1,257,417
Cash and bank balances	23	**701,000**	1,253,436
		6,598,816	7,689,384
Assets classified as held for sale	34	**–**	116,210
Total current assets		**6,598,816**	7,805,594
CURRENT LIABILITIES			
Gross amounts due to contract customers	20	**542,208**	1,637,037
Trade and bills payables	24	**3,034,461**	3,335,388
Other payables, advances from customers and accruals	25	**1,114,872**	1,437,512
Interest-bearing bank and other borrowings	26	**426,721**	230,049
Due to a related company	32	**–**	78
Due to an associate	32	**630**	630
Dividends payable		**272,674**	272,674
Tax payable		**140,880**	100,985
Total current liabilities		**5,532,446**	7,014,353
NET CURRENT ASSETS		**1,066,370**	791,241
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,262,216**	2,152,559

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES			
Financial lease payables	27	**–**	–
Deferred tax liabilities	28	**28,895**	24,284
Government grants	29	**5,144**	5,275
Total non-current liabilities		**34,039**	29,559
NET ASSETS		**2,228,177**	2,123,000
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	**329,809**	329,803
Share premium	30	**846,250**	846,077
Other reserves		**849,628**	755,086
		2,025,687	1,930,966
Non-controlling interests		**202,490**	192,034
Total equity		**2,228,177**	2,123,000

Liu Haijun
Director

Li Zhiyong
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the parent											
	Share capital RMB'000 (note 30)	Share premium RMB'000 (note 30)	Share option reserve* RMB'000 (note 31)	Capital reserve* RMB'000	Redemption reserve* RMB'000	Statutory surplus reserves* RMB'000 (note 30)	Statutory expansion reserve* RMB'000 (note 30)	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 2015	329,803	846,077	156,984	–	1	35,514	26,697	8,191	263,464	1,666,731	118,624	1,785,355
Profit for the year	–	–	–	–	–	–	–	–	205,106	205,106	33,410	238,516
Exchange differences related to foreign operations	–	–	–	–	–	–	–	3,764	–	3,764	–	3,764
Total comprehensive income for the year	–	–	–	–	–	–	–	3,764	205,106	208,870	33,410	242,280
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	40,000	40,000
Equity-settled share option arrangements (note 8)	–	–	55,365	–	–	–	–	–	–	55,365	–	55,365
As at 31 December 2015 and 1 January 2016	**329,803**	**846,077**	**212,349**	**–**	**1**	**35,514**	**26,697**	**11,955**	**468,570**	**1,930,966**	**192,034**	**2,123,000**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**42,914**	**42,914**	**10,456**	**53,370**
Exchange differences related to foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**21,159**	**–**	**21,159**	**–**	**21,159**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**21,159**	**42,914**	**64,073**	**10,456**	**74,529**
Exercise of share options	**6**	**173**	**(131)**	**–**	**–**	**–**	**–**	**–**	**–**	**48**	**–**	**48**
Equity-settled share option arrangements (note 8)	**–**	**–**	**30,600**	**–**	**–**	**–**	**–**	**–**	**–**	**30,600**	**–**	**30,600**
As at 31 December 2016	**329,809**	**846,250**	**242,818**	**–**	**1**	**35,514**	**26,697**	**33,114**	**511,484**	**2,025,687**	**202,490**	**2,228,177**

* These reserve accounts comprise the consolidated other reserves of RMB849,628,000 and RMB755,086,000 in the consolidated statement of financial position as at 31 December 2016 and 2015, respectively.

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	**2016** **RMB'000**	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**153,621**	311,007
Adjustments for:			
Depreciation of property, plant and equipment and investment properties	8,13,14	**46,855**	72,407
Amortisation of other intangible assets	8,17	**5,082**	5,368
Amortisation of prepaid land lease payments	8,15	**4,158**	4,453
Impairment for inventories	8,19	**2,248**	–
Recognition of government grants	6,29	**(8,995)**	(696)
Share of profit of an associate		**(463)**	(458)
Loss on disposal of items of property, plant and equipment	8	**973**	389
Gain on disposal of assets classified as held for sale	6	**(220,189)**	–
Equity-settled share option expenses	8	**30,600**	55,365
Impairment for gross amounts due from contract customers	8,20	**643,629**	–
Finance costs	7	**283,228**	421,877
Interest income	6	**(263,626)**	(394,194)
		677,121	475,518
Decrease in inventories		**155,092**	255,586
Decrease in trade and bills receivables		**189,664**	1,090,227
(Increase)/decrease in prepayments, deposits and other receivables		**(31,177)**	595,955
Decrease/(increase) in long-term prepayment		**4,890**	(6,058)
Increase in amounts due from contract customers		**(432,104)**	(790,945)
Decrease in amounts due to contract customers		**(1,094,829)**	(134,278)
Decrease in trade and bills payables		**(300,927)**	(605,665)
(Increase)/decrease in amounts due from fellow subsidiaries		**(4,350)**	14,748
(Increase)/decrease in an amount due from a related company		**(256)**	646
Decrease in an amount due from holding company		**87**	–
Decrease in an amount due to a related company		**(78)**	–
(Decrease)/increase in other payables, advances from customers and accruals		**(322,640)**	1,099,232
Decrease in derivative financial instruments		**–**	(725)
Decrease/(increase) in pledged bank balances and time deposits		**150,614**	(954,225)
		(1,008,893)	1,040,016
Interest received		**3,358**	8,015
Interest paid		**(22,960)**	(35,698)
Tax paid		**(56,570)**	(25,414)
Net cash flows (used in)/from operating activities		**(1,085,065)**	986,919

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(3,207)**	(4,136)
Proceeds from disposal of items of property, plant and equipment		**611**	132
Proceeds from disposal of assets classified as held for sale		**331,399**	–
Purchase of other intangible assets	17	**(1,758)**	(2,606)
Receipt of government grants	29	**8,864**	3,834
Decrease in unpledged time deposits with original maturity of more than three months		**9,000**	133,832
Net cash flows from investing activities		**344,909**	131,056
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution from non-controlling interests		**–**	40,000
Net proceeds from issue of new shares		**48**	–
Capital element of finance lease payments		**(49)**	(122)
New bank loans		**456,121**	348,800
Repayment of bank loans		**(259,400)**	(658,649)
Net cash flows from/(used in) financing activities		**196,720**	(269,971)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(543,436)**	848,004
Cash and cash equivalents at beginning of year		**1,244,436**	396,432
CASH AND CASH EQUIVALENTS AT END OF YEAR		**701,000**	1,244,436
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**688,900**	549,512
Unpledged time deposits with original maturity of less than three months when acquired		**12,100**	694,924
Unpledged time deposits with original maturity of more than three months when acquired		**–**	9,000
CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF FINANCIAL POSITION	23	**701,000**	1,253,436
Unpledged time deposits with original maturity of more than three months when acquired		**–**	(9,000)
CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF CASH FLOWS		**701,000**	1,244,436

Notes to Financial Statements

Year ended 31 December 2016

1. CORPORATE AND GROUP INFORMATION

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

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

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

Information about subsidiaries

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

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

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

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

*** Wison Yangzhou is a wholly-foreign-owned enterprise established in the PRC.

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

Notes to Financial Statements

Year ended 31 December 2016

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. Assets classified as held for sale are stated at the lower of their carrying amounts and fair value less costs to sell as further explained in note 3 to the financial statements. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

Notes to Financial Statements

Year ended 31 December 2016

2.2 CHANGE 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 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRSs

Except for the amendments to IFRS 10, IFRS 12 and IAS 28, amendments to IFRS 11, IFRS 14, amendments to IAS 16 and IAS 41, amendments to IAS 27, and certain amendments included in the *Annual Improvements 2012–2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in IAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

Notes to Financial Statements

Year ended 31 December 2016

2.2 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) *Annual Improvements to IFRSs 2012–2014 Cycle* issued in September 2014 sets out amendments to a number of IFRSs. Details of the amendments are as follows:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in IFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
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 as follows:

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to Financial Statements

Year ended 31 December 2016

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

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

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

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

Notes to Financial Statements

Year ended 31 December 2016

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

IFRS 16 replaces IAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lase liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

Notes to Financial Statements

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in an associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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

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

Business combinations and goodwill

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

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

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

Notes to Financial Statements

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (Continued)

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

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

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

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

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

Fair value measurement

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

Notes to Financial Statements

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (Continued)

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.

Impairment of non-financial assets

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

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

Notes to Financial Statements

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (Continued)

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

(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.

Notes to Financial Statements

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

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

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

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

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

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

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

Investment properties

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

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

Notes to Financial Statements

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties (Continued)

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

Non-current assets classified as held for sale

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

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

Intangible assets (other than goodwill)

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

Research and development costs

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

Leases

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

Notes to Financial Statements

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

The subsequent measurement of loans and receivables is as follows:

Loans and receivables

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

Notes to Financial Statements

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

Notes to Financial Statements

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

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

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

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

Assets carried at cost

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

Financial liabilities

Initial recognition and measurement

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

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

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

Notes to Financial Statements

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (Continued)

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Notes to Financial Statements

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

Notes to Financial Statements

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

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

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

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to Financial Statements

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

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

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

Revenue recognition

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

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

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

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

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

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

Construction contracts

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

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

Notes to Financial Statements

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction contracts (Continued)

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

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

Contracts for services

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

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

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

Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the financial statements.

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

Notes to Financial Statements

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (Continued)

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

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

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

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

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

Other employee retirement benefits

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

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

Notes to Financial Statements

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

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

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

Notes to Financial Statements

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Operating lease commitments — Group as lessor

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

Classification between investment properties and owner-occupied properties

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

Notes to Financial Statements

Year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

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

Estimated useful lives of property, plant and equipment

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

The carrying value of an item of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. The recoverable amount of an item of property, plant and equipment is calculated as the higher of its fair value less costs to sell and value in use, the calculations of which involve the use of estimates. At 31 December 2016, the carrying value of property, plant and equipment was RMB983,635,000 (2015: RMB1,028,287,000).

Percentage of completion of construction works

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

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

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

Impairment of non-financial assets (other than goodwill)

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

Notes to Financial Statements

Year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Impairment of trade receivables and amounts due from contract customers

The Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers will deteriorate such that the actual impairment loss might be higher than expected, the Group would be required to revise the basis for making the allowance and its future results would be affected. At 31 December 2016, impairment of RMB643,629,000 (2015: RMB765,000) was recognised for the trade receivables and amounts due from contract customers. The carrying amount of trade receivables and amounts due from contract customers were RMB186,899,000 (2015: RMB227,941,000) and RMB3,821,694,000 (2015: RMB4,033,219,000), respectively.

Impairment test of goodwill

The carrying amount of goodwill of the Group arose from the acquisition of 河南省化工設計院 ("Henan Chemical Industry Design Institute") in 2007. The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the asset and the cash-generating unit to which the asset is allocated. Management considers that the goodwill should be allocated to the Group's operating segment (cash-generating unit) as Henan Chemical Industry Design Institute provides design service (integral to these contracts). Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2016 was RMB15,752,000. Details are set out in note 16.

PRC corporate income tax

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2016 was RMB58,105,000 (2015: RMB48,918,000).

Notes to Financial Statements

Year ended 31 December 2016

5. OPERATING SEGMENT INFORMATION

In light of the Group's integration of resources from each existing business segment for centralized management, the segment information previously presented has been changed from 1 January 2016 onwards, both in the internal management reports adopted by the chief operating decision-makers and in the consolidated financial statements of the Group. The comparative figures have also been reclassified to conform to the new presentation. The above changes in segment information were taken to better reflect the current operations of the Group, as well as the resources allocation and future business developments of the Group.

The Group has following reportable segments for the years ended 31 December 2016 and 2015:

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

— Engineering, consulting and technical services

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

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

Segment liabilities exclude other payables and accruals, interest-bearing bank and other borrowings, an amount due to a related company, an amount due to an associate, dividends payable, tax payable, finance lease payables, government grants and deferred tax liabilities as these liabilities are managed on a group basis.

Notes to Financial Statements

Year ended 31 December 2016

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segments

Year ended 31 December 2016	EPC RMB'000	Engineering, consulting and technical services RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	**2,975,685**	**66,192**	**3,041,877**
Intersegment sales	**9,672**	**—**	**9,672**
Total revenue	**2,985,357**	**66,192**	**3,051,549**
Reconciliation:			
Elimination of intersegment sales			**(9,672)**
Revenue			**3,041,877**
Segment results	**917,705**	**13,528**	**931,233**
Reconciliation:			
Unallocated income			**590,017**
Unallocated expenses			**(1,084,864)**
Share of profit of an associate			**463**
Finance costs			**(283,228)**
Profit before tax			**153,621**
Segment assets	**4,648,742**	**120,904**	**4,769,646**
Reconciliation:			
Elimination of intersegment receivables			**(13,436)**
Corporate and other unallocated assets			**3,038,452**
Total assets			**7,794,662**
Segment liabilities	**4,428,317**	**18,108**	**4,446,425**
Reconciliation:			
Elimination of intersegment payables			**(13,491)**
Corporate and other unallocated liabilities			**1,133,551**
Total liabilities			**5,566,485**
Other segment information			
Share of profit of an associate			
Unallocated			**463**
Depreciation and amortisation			
Unallocated			**56,095**
Investment in an associate			
Unallocated			**2,500**
Capital expenditure*			
Unallocated			**4,965**

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

Notes to Financial Statements

Year ended 31 December 2016

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segments (Continued)

Year ended 31 December 2015	EPC RMB'000	Engineering, consulting and technical services RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	5,301,285	112,246	5,413,531
Intersegment sales	5,696	—	5,696
Total revenue	5,306,981	112,246	5,419,227
Reconciliation:			
Elimination of intersegment sales			(5,696)
Revenue			5,413,531
Segment results	804,247	12,633	816,880
Reconciliation:			
Unallocated income			513,805
Unallocated expenses			(598,259)
Share of profit of an associate			458
Finance costs			(421,877)
Profit before tax			311,007
Segment assets	5,084,913	132,453	5,217,366
Reconciliation:			
Elimination of intersegment receivables			(6,678)
Assets classified as held for sale			116,210
Corporate and other unallocated assets			3,840,014
Total assets			9,166,912
Segment liabilities	6,142,949	17,319	6,160,268
Reconciliation:			
Elimination of intersegment payables			(6,920)
Corporate and other unallocated liabilities			890,564
Total liabilities			7,043,912
Other segment information			
Share of profit of an associate			
Unallocated			458
Depreciation and amortisation			
Unallocated			82,228
Investment in an associate			
Unallocated			2,037
Capital expenditure*			
Unallocated			6,742

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

Notes to Financial Statements

Year ended 31 December 2016

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

Revenue from external customers

	2016 RMB'000	2015 RMB'000
Mainland China	**1,467,478**	3,707,850
Venezuela	**1,296,525**	1,528,369
Saudi Arabia	**246,310**	170,467
United Arab Emirates	**31,564**	6,845
	3,041,877	5,413,531

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:

	2016	2015
Customer A (EPC segment)	**42.6%**	28.2%
Customer B (EPC segment)	**26.9%**	57.5%

Notes to Financial Statements

Year ended 31 December 2016

6. REVENUE, OTHER INCOME AND GAINS

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

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

	2016 RMB'000	2015 RMB'000
Revenue		
Construction contracts	**2,975,685**	5,301,285
Rendering of services	**66,192**	112,246
	3,041,877	5,413,531
Other income		
Government grants*	**8,995**	696
Interest income	**263,626**	394,194
Rental income	**57,296**	46,654
Others	**5,464**	7,278
	335,381	448,822
Gains		
Gain on disposal of assets classified as held for sale	**220,189**	–
Foreign exchange gains	**34,447**	64,983
	254,636	64,983
	590,017	513,805

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

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Year ended 31 December 2016

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 RMB'000	2015 RMB'000
Interest on bank loans wholly repayable within five years	**20,824**	31,772
Interest on discounted bills	**262,404**	390,097
Interest on finance leases	**–**	8
	283,228	421,877

8. PROFIT BEFORE TAX

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

	Notes	**2016 RMB'000**	2015 RMB'000
Cost of services provided		**2,110,644**	4,596,651
Depreciation	13, 14	**46,855**	72,407
Research and development costs		**116,385**	173,506
Amortisation of prepaid land lease payments	15	**4,158**	4,453
Amortisation of other intangible assets	17	**5,082**	5,368
Impairment for inventories	19	**2,248**	–
Impairment for gross amounts due from contract customers	20	**643,629**	–
Loss on disposal of items of property, plant and equipment		**973**	389
Minimum lease payments under operating leases		**16,561**	18,886
Auditors' remuneration		**4,628**	4,588
Employee benefit expense (including directors' and chief executive's remuneration) (note 9):			
Wages and salaries		**524,745**	539,889
Retirement benefit scheme contributions		**62,497**	57,258
Equity-settled share option expenses		**30,600**	55,365
		617,842	652,512
Foreign exchange differences, net		**(34,447)**	(64,983)

Notes to Financial Statements

Year ended 31 December 2016

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

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

	2016 **RMB'000**	2015 RMB'000
Fees	**615**	444
Other emoluments:		
Salaries and allowances	**3,316**	5,083
Discretionary bonuses	**378**	648
Equity-settled share option expenses	**1,815**	2,994
Retirement benefit scheme contributions	**84**	120
Total	**6,208**	9,289

In prior years, 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 31 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.

Notes to Financial Statements

Year ended 31 December 2016

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

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

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Equity-settled share option expenses RMB'000	Retirement benefit scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2016						
— Mr. Liu Haijun (ii)	**–**	**1,658**	**189**	**605**	**42**	**2,494**
— Mr. Cui Ying (iii)	**–**	**–**	**–**	**605**	**–**	**605**
— Mr. Zhou Hongliang	**–**	**1,658**	**189**	**605**	**42**	**2,494**
— Mr. Lawrence Lee (vi)	**205**	**–**	**–**	**–**	**–**	**205**
— Mr. Tang Shisheng (vii)	**205**	**–**	**–**	**–**	**–**	**205**
— Mr. Feng Guohua (viii)	**205**	**–**	**–**	**–**	**–**	**205**
	615	**3,316**	**378**	**1,815**	**84**	**6,208**
Year ended 31 December 2015						
— Mr. Hua Bangsong (i)	–	153	–	–	–	153
— Mr. Liu Haijun (ii)	–	1,694	216	998	40	2,948
— Mr. Cui Ying (iii)	–	1,552	216	998	40	2,806
— Mr. Zhou Hongliang	–	1,684	216	998	40	2,938
— Mr. Liu Ji (iv)	190	–	–	–	–	190
— Mr. Wu Jianmin (v)	93	–	–	–	–	93
— Mr. Lawrence Lee (vi)	146	–	–	–	–	146
— Mr. Tang Shisheng (vii)	13	–	–	–	–	13
— Mr. Feng Guohua (viii)	2	–	–	–	–	2
	444	5,083	648	2,994	120	9,289

Notes to Financial Statements

Year ended 31 December 2016

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

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

(i) Mr. Hua Bangsong retired from his position of executive director of the Company effective from 26 June 2015.

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

(iii) Mr. Cui Ying was re-designated as a non-executive director with effect from 30 October 2015.

(iv) Mr. Liu Ji resigned as an independent non-executive director of the Company with effect from 28 December 2015.

(v) Mr. Wu Jianmin retired from his position of an independent non-executive director of the Company with effect from 26 June 2015.

(vi) Mr. Lawrence Lee was appointed as an independent non-executive director of the Company with effect from 30 March 2015.

(vii) Mr. Tang Shisheng was appointed as an independent non-executive director of the Company with effect from 7 December 2015.

(viii) Mr. Feng Guohua was appointed as an independent non-executive director of the Company with effect from 28 December 2015.

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

(b) Five highest paid employees

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

	2016	2015
Directors	**2**	3
Non-director and non-chief executive employees	**3**	2
	5	5

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

Notes to Financial Statements

Year ended 31 December 2016

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

(b) Five highest paid employees (Continued)

Details of the remuneration of the non-director and non-chief executive highest paid employees for the year ended 31 December 2016 are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and allowances	**4,232**	2,778
Discretionary bonuses	**566**	323
Equity-settled share option expenses	**1,286**	1,646
Retirement benefit scheme contributions	**127**	80
	6,211	4,827

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

	2016	2015
HK$2,000,001 to HK$2,500,000	**2**	1
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$3,500,000	**–**	1
	3	2

During the year ended 31 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 31 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.

During the year ended 31 December 2016, no emoluments were paid by the Group to any of the persons who are directors of the Company, the chief executive or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to Financial Statements

Year ended 31 December 2016

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. 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 and the United States of America as the Group did not have any assessable income arising in Hong Kong and the United States of America during the year ended 31 December 2016 (2015: Nil).

	2016 **RMB'000**	2015 RMB'000
Current		
— Mainland China	**69,942**	47,433
— Elsewhere	**26,523**	24,136
Deferred (note 28)	**3,786**	922
Total tax charge for the year	**100,251**	72,491

Wison Engineering was qualified as a "High and New Technology Enterprise" and was entitled to a preferential corporate income tax ("CIT") rate of 15%. In accordance with the requirements of the tax regulations in the PRC, Wison Engineering submitted its application to renew its "High and New Technology Enterprise" status for another three years ending 4 September 2017 and obtained the certification in 2014. Therefore, Wison Engineering was subject to CIT at a rate of 15% for the years ended 31 December 2016 and 2015.

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

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

Notes to Financial Statements

Year ended 31 December 2016

10. INCOME TAX (CONTINUED)

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

	2016 RMB'000	2015 RMB'000
Profit before tax	**153,621**	311,007
At the statutory income tax rates	**38,405**	77,752
Lower tax rate enacted by local authority	**12,982**	(43,392)
Effect of different tax rates of branches operating in other jurisdictions	**(63,753)**	5,194
Tax losses not recognised	**2,297**	1,007
Effect of withholding taxes on distributable profits of the subsidiaries in Mainland China	**4,611**	14,734
Additional tax deduction	**(12,634)**	(13,091)
Income not subject to tax	**(894)**	–
Expenses not deductible for tax	**119,237**	30,287
Tax charge for the year	**100,251**	72,491

The share of tax attributable to an associate amounting to RMB37,000 (2015: RMB61,000) is included in "Share of profit of an associate" in the consolidated statement of profit or loss.

11. DIVIDENDS

The directors do not declare any dividends for the years ended 31 December 2015 and 2016.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,064,664,000 (2015: 4,064,622,000) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2016 and 2015 as the share options in issue during those years have no dilutive effect.

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Year ended 31 December 2016

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

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

	2016 RMB'000	2015 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**42,914**	205,106
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	**4,064,664,000**	4,064,622,000

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

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Year ended 31 December 2016

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
31 December 2015						
At 31 December 2014 and 1 January 2015:						
Cost	1,300,188	6,285	22,138	27,107	81,250	1,436,968
Accumulated depreciation	(128,003)	(4,070)	(18,426)	(22,435)	(53,153)	(226,087)
Net carrying amount	1,172,185	2,215	3,712	4,672	28,097	1,210,881
At 1 January 2015, net of accumulated depreciation	1,172,185	2,215	3,712	4,672	28,097	1,210,881
Additions	–	–	786	460	3,190	4,436
Write-off	(9,321)	–	–	–	–	(9,321)
Depreciation provided during the year	(47,053)	(118)	(3,551)	(4,016)	(17,089)	(71,827)
Disposals	–	–	–	(42)	(479)	(521)
Transfer to assets classified as held for sale (note 34)	(105,361)	–	–	–	–	(105,361)
At 31 December 2015, net of accumulated depreciation	1,010,450	2,097	947	1,074	13,719	1,028,287
At 31 December 2015:						
Cost	1,127,170	6,285	22,924	27,161	79,843	1,263,383
Accumulated depreciation	(116,720)	(4,188)	(21,977)	(26,087)	(66,124)	(235,096)
Net carrying amount	1,010,450	2,097	947	1,074	13,719	1,028,287

At 31 December 2015, certain of the Group's buildings with a net book value of approximately RMB14,716,000 were pledged to secure general banking facilities granted to the Group (note 26). The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of office equipment at 31 December 2015 amounted to RMB432,000.

At 31 December 2016, the Group's buildings are situated in Mainland China and are held under long term leases except for the buildings with a net book value of RMB933,981,000 (2015: RMB969,684,000) which are held under a medium term lease.

Included in the properties were certain buildings with a carrying value of RMB919,905,000 (2015: RMB954,967,338), of which the property certificates have not been obtained as at 31 December 2016.

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Year ended 31 December 2016

14. INVESTMENT PROPERTIES

	2016 **RMB'000**	2015 RMB'000
Carrying amount at 1 January	**13,556**	14,136
Depreciation	**(580)**	(580)
Carrying amount at 31 December	**12,976**	13,556

The fair value of the Group's investment properties was RMB39,455,000 as at 31 December 2016 (2015: RMB38,625,000), 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.

At 31 December 2015, the Group's investment properties were pledged to secure certain banking facility granted to the Group (note 26).

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 35).

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

	Fair value measurement as at 31 December 2015 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	–	–	38,625	38,625

During the year, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (2015: Nil).

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Year ended 31 December 2016

14. INVESTMENT PROPERTIES (CONTINUED)

Fair value hierarchy (Continued)

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

	Valuation technique	Significant unobservable inputs	Range or weighted average	
			2016	2015
Commercial properties	Income method	Market monthly rental (RMB) (per square meter)	**12 to 12.6**	11 to 12
		Long term vacancy rate	**5%**	5%
		Yield rate	**6.5%**	6.5%

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

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

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

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Year ended 31 December 2016

15. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	**167,430**	182,732
Amortised during the year	**(4,158)**	(4,453)
Transfer to assets classified as held for sale (note 34)	**–**	(10,849)
Carrying amount at end of the year	**163,272**	167,430
Current portion included in prepayments, deposits and other receivables	**(4,158)**	(4,158)
Non-current portion	**159,114**	163,272

The carrying amount of the Group's prepaid land lease payments represents land use rights in Mainland China with land held under the following lease terms:

	2016 RMB'000	2015 RMB'000
Long term lease (≥50 years)	**2,136**	2,257
Medium term lease (<50 years)	**161,136**	165,173
	163,272	167,430

16. GOODWILL

	2016 RMB'000	2015 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.

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16. GOODWILL (CONTINUED)

The recoverable amount of the goodwill is determined from a value in use calculation using a cash flow forecast based on financial budgets. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenue and direct costs during the year. The directors have estimated the discount rate of 12% (2015: 12%) using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Group. The growth rate of 3% (2015: 3%) is based on industry growth forecasts. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for 2016 and extrapolates cash flows for the following five years based on an estimated average industry growth rate. The rate does not exceed the average long-term growth rate for the relevant markets.

17. OTHER INTANGIBLE ASSETS

	2016 RMB'000	2015 RMB'000
Software		
At 1 January		
Cost	**49,238**	46,632
Accumulated amortisation	**(38,866)**	(33,498)
Net carrying amount	**10,372**	13,134
Cost at 1 January, net of accumulated amortisation	**10,372**	13,134
Additions	**1,758**	2,606
Amortisation provided during the year	**(5,082)**	(5,368)
At the end of the year, net of accumulated amortisation	**7,048**	10,372
At the end of the year		
Cost	**50,996**	49,238
Accumulated amortisation	**(43,948)**	(38,866)
Net carrying amount	**7,048**	10,372

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18. INVESTMENT IN AN ASSOCIATE

	2016 RMB'000	2015 RMB'000
Share of net assets	**2,500**	2,037

Particulars of the associate is as follows:

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

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

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

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

	2016 RMB'000	2015 RMB'000
Share of the associate's profit for the year	**463**	458
Share of the associate's other comprehensive income	**–**	–
Share of the associate's total comprehensive income	**463**	458
Aggregate carrying amount of the Group's investment in the associate	**2,500**	2,037

19. INVENTORIES

	2016 RMB'000	2015 RMB'000
Construction materials, net	**20,241**	175,215
Raw materials, gross	**–**	2,353
Work in progress, gross	**–**	13
	20,241	177,581

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Year ended 31 December 2016

19. INVENTORIES (CONTINUED)

The movements in the provision for inventories are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**3,142**	3,142
Impairment for the year	**2,248**	–
At 31 December	**5,390**	3,142

20. CONSTRUCTION CONTRACTS

	2016 RMB'000	2015 RMB'000
Gross amounts due from contract customers	**3,821,694**	4,033,219
Gross amounts due to contract customers	**(542,208)**	(1,637,037)
	3,279,486	2,396,182

	2016 RMB'000	2015 RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	**35,138,629**	26,065,503
Less: Progress billings	**(31,859,143)**	(23,669,321)
	3,279,486	2,396,182

The movements in the provision for Gross amounts due from contract customers are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**–**	–
Impairment for the year	**643,629**	–
At 31 December	**643,629**	–

As at 31 December 2016, included in the amounts due from contract customers was an amount of RMB951,169,000 (2015: RMB1,037,066,000) which related to the Group's certain EPC projects, and has been identified as overdue in accordance with contract terms. The Group has recorded an impairment provision of RMB643,629,000 as of 31 December 2016.

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21. TRADE AND BILLS RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**186,899**	227,941
Bills receivable	**194,914**	84,033
Impairment	**–**	(765)
	381,813	311,209

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 90 days or the respective retention periods in the contracts. The Group seeks to maintain strict control over its outstanding receivables and minimise credit risk. Overdue balances are reviewed regularly by management.

Trade and bills receivables are unsecured and non-interest-bearing.

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

	2016 RMB'000	2015 RMB'000
Trade and bills receivables:		
Less than 3 months	**197,808**	106,960
4 to 6 months	**74,194**	33,319
7 to 12 months	**6,135**	27,849
Over 1 year	**103,676**	143,081
	381,813	311,209

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Year ended 31 December 2016

21. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

	2016 RMB'000	2015 RMB'000
At 1 January	**765**	765
Written off	**(765)**	–
At 31 December	**–**	765

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

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

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**263,708**	196,204
Less than 3 months	**13,094**	11,395
4 to 12 months	**3,335**	26,862
Over 1 year	**101,676**	76,748
	381,813	311,209

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

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

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Year ended 31 December 2016

21. TRADE AND BILLS RECEIVABLES (CONTINUED)

The amounts due from fellow subsidiaries included in the trade receivables are as follows:

	2016 **RMB'000**	2015 RMB'000
Fellow subsidiaries		
舟山惠生海洋工程有限公司 ("Zhoushan Wison")	–	1,261
Wison Offshore & Marine Ltd. ("Wison Marine Engineering")	–	4,452

At 31 December 2016, certain of the Group's bills receivable of RMB20,000,000 (2015: nil) were pledged to secure general banking facilities granted to the Group (note 26).

Transferred financial assets that are not derecognised in their entirety

At 31 December 2016, Wison Engineering endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB2,600,000 (2015: RMB30,233,000) 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 2016 to which the suppliers have recourse was RMB2,600,000 (2015: RMB30,233,000) as at 31 December 2016.

Transferred financial assets that are derecognised in their entirety

At 31 December 2016, 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 RMB193,600,000 (2015: RMB707,650,000). The Derecognised Bills had a maturity of six to twelve months at 31 December 2016. 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 2016, 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.

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Year ended 31 December 2016

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016	2015
	RMB'000	RMB'000
Current portion of prepaid land lease payments	**4,158**	4,158
Prepayments	**532,462**	688,679
Deposits	**12,257**	9,860
Other receivables	**27,751**	81,753
	576,628	784,450
Less: Non-current portion of prepayments	**(13,996)**	(128,042)
	562,632	656,408

Other receivables are unsecured, non-interest-bearing and have no fixed terms of repayment.

The fair values of other receivables approximated to their corresponding carrying amounts due to their relatively short maturity term.

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

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

	2016	2015
	RMB'000	RMB'000
江蘇新華化工機械有限公司 (Jiangsu Xinhua Chemical Engineering Co., Ltd. "Jiangsu Xinhua")	**1,368**	800

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Year ended 31 December 2016

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016 RMB'000	2015 RMB'000
Cash and bank balances	**1,728,058**	571,577
Time deposits with original maturity of less than three months	**79,745**	695,032
Time deposits with original maturity of more than three months	**–**	1,244,244
	1,807,803	2,510,853
Less: Pledged bank balances and time deposits	**(1,106,803)**	(1,257,417)
Unpledged cash and cash equivalents	**701,000**	1,253,436

At 31 December 2016, bank deposits of RMB1,095,365,000 (2015: RMB1,256,558,000) were placed as guarantee deposits for performance of certain construction contracts and for the tendering process.

At 31 December 2016, bank deposits of RMB11,438,000 (2015: RMB859,000) were pledged to a bank as security to obtain a letter of credit facility for the purchase of imported equipment.

At 31 December 2016, the cash and bank balances of the Group denominated in RMB amounted to RMB108,178,000 (2015: RMB204,079,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

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Year ended 31 December 2016

24. TRADE AND BILLS PAYABLES

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

	2016 **RMB'000**	2015 RMB'000
Less than 1 year	**1,392,366**	2,573,909
1 to 2 years	**1,276,527**	479,091
2 to 3 years	**181,905**	212,502
Over 3 years	**183,663**	69,886
	3,034,461	3,335,388

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

	2016 **RMB'000**	2015 RMB'000
Jiangsu Xinhua	**180**	949

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

25. OTHER PAYABLES, ADVANCES FROM CUSTOMERS AND ACCRUALS

	2016 **RMB'000**	2015 RMB'000
Accruals	**13,354**	9,415
Advances from customers	**856,265**	1,180,923
Other payables	**245,253**	247,174
	1,114,872	1,437,512

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

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Year ended 31 December 2016

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2016 RMB'000	2015 RMB'000
Current		
Bank loans repayable within one year — secured	**426,721**	230,000
Finance lease payables (note 27)	**–**	49
	426,721	230,049
Non-current		
Finance lease payables (note 27)	**–**	–
	426,721	230,049

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

	2016 US$'000	2015 US$'000
US$ denominated	**25,797**	–
	EUR'000	EUR'000
Euro ("EUR") denominated	**796**	–

At 31 December 2016, bank borrowings amounting to RMB58,468,000 (2015: RMB230,000,000) bore interest at fixed rates.

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

Year ended 31 December 2015	4.83% to 7.56%
Year ended 31 December 2016	2.93% to 5.20%

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

	Notes	2016 RMB'000	2015 RMB'000
Buildings	13	**–**	14,716
Investment properties	14	**–**	13,556
Bills receivable	21	**20,000**	–

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Year ended 31 December 2016

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

During the year ended 31 December 2016, 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 RMB430,000,000 (2015: RMB220,000,000). As at 31 December 2016, the loans were drawn down to the extent of RMB316,954,000 (2015: RMB180,000,000)(note 32).

During the year ended 31 December 2016, 惠生(南通)重工有限公司 (Wison (Nantong) Heavy Industry Co., Ltd. ("Wison Nantong") pledged its property, plant, and equipment and land use right and Zhoushan Wison pledged its land use right to execute guarantees for bank facilities of RMB500,000,000 to the Group (2015: Nil). As at 31 December 2016, the loans were drawn down to the extent of RMB89,767,000 (2015: Nil) (note 32).

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

27. FINANCE LEASE PAYABLES

During the year ended 31 December 2015, the Group leased certain of its office machinery for its operation requirements. These leases are classified as finance leases and have remaining lease terms within one year.

At 31 December 2015, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 31 December 2015 RMB'000	Present value of payments 31 December 2015 RMB'000
Amounts payable:		
Within one year	49	49
Total minimum finance lease payments	49	49
Future finance charges	–	
Total net finance lease payables	49	
Portion classified as current liabilities (note 26)	(49)	
Non-current portion	–	

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28. DEFERRED TAX

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

Deferred tax assets

	2016 **RMB'000**	2015 RMB'000
At 1 January	**–**	–
Deferred tax credit to the statement of profit or loss during the year (note 10)	**825**	–
Gross deferred tax assets at 31 December	**825**	–

Deferred tax liabilities

	2016 **RMB'000**	2015 RMB'000
At 1 January	**24,284**	23,362
Deferred tax charged to the statement of profit or loss during the year (note 10)	**4,611**	922
Gross deferred tax liabilities at 31 December	**28,895**	24,284

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Year ended 31 December 2016

28. DEFERRED TAX (CONTINUED)

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

	2016 RMB'000	2015 RMB'000
Deferred tax assets		
Accrual	**825**	–

	2016 RMB'000	2015 RMB'000
Deferred tax liabilities		
Withholding taxes arising from distributable profits of the PRC subsidiaries	**28,895**	24,284

The Group has accumulated tax losses arising in Hong Kong of approximately RMB29,046,000 (2015: RMB28,163,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has accumulated tax losses arising in Mainland China of approximately RMB29,059,000 (2015: RMB20,755,000) which are available for offsetting against future taxable profits in one to five years.

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

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

	2016 RMB'000	2015 RMB'000
Deductible temporary differences	**–**	3,621
Tax losses	**58,105**	48,918
	58,105	52,539

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. According to the tax notice issued by the Shanghai Tax Authority on 13 August 2014, commencing from the following day, the Group is subject to 5% withholding tax levied on dividends declared from a subsidiary established as a foreign investment enterprise in Mainland China.

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29. GOVERNMENT GRANTS

	2016 RMB'000	2015 RMB'000
Carrying amount at beginning of the year	**5,275**	2,137
Received during the year	**8,864**	3,834
Released to profit or loss (note 6)	**(8,995)**	(696)
Carrying amount at end of the year	**5,144**	5,275

30. SHARE CAPITAL AND RESERVES

(a) Shares

	2016	2015
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	**4,064,690,400**	4,064,622,000

	2016 RMB'000	2015 RMB'000
Authorised:		
Ordinary shares of HK$0.1 each	**1,622,757**	1,622,757
Issued and fully paid:		
Ordinary shares of HK$0.1 each	**329,809**	329,803

Notes to Financial Statements

Year ended 31 December 2016

30. SHARE CAPITAL AND RESERVES (CONTINUED)

(a) Shares (Continued)

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

	Number of shares in issue	Share capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2015, 31 December 2015 and 1 January 2016	4,064,622,000	329,803	846,077	1,175,880
Share options exercised	68,400	6	173	179
At 31 December 2016	**4,064,690,400**	**329,809**	**846,250**	**1,176,059**

The subscription rights attaching to 68,400 share options were exercised at the subscription price of HK$0.837 per share, resulting in the issue of 68,400 shares for a total cash consideration, before expenses, of HK$57,251 (equivalent to RMB48,366) and a share premium of HK$50,411 (equivalent to RMB42,588). An amount of RMB131,000 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.

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

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

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

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

Notes to Financial Statements

Year ended 31 December 2016

31. SHARE OPTION SCHEME

The Company operates a share option scheme prior to the public listing of its shares (the "Pre-IPO 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 Scheme are the Company's directors, including independent non-executive directors, other employees of the Group, and certain employees, executive and officers of Wison Holding and its subsidiaries. The Pre-IPO 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 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 Scheme.

As at 31 December 2016, the maximum number of shares could be issued in respect of the pre-IPO options granted under the Pre-IPO Scheme was 153,672,000 shares, representing approximately 3.8% 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 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 Scheme, outstanding and unexercised options may be exercisable in tranches during the option period (which shall expire on the last business day of the 96th month after the Listing Date) such that each 20% of such options shall be exercisable at any time on or after the first business day following each of the 36th, 48th, 60th, 72th and 84th month after the Listing Date, respectively.

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

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

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Year ended 31 December 2016

31. SHARE OPTION SCHEME (CONTINUED)

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

	2016		2015	
	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	168,682	0.837	184,414
Forfeited during the year	0.837	(14,942)	0.837	(15,732)
Exercised during the year	0.837	(68)	–	–
At 31 December	0.837	153,672	0.837	168,682

The weighted average share price at the end of exercise for share options exercised during the year was HK$0.837 per share (2015: No share options were exercised).

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

2016

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

Notes to Financial Statements

Year ended 31 December 2016

31. SHARE OPTION SCHEME (CONTINUED)

2015

Number of options	**Exercise price*** HK$ per share	**Exercise period**
33,736,400	0.837	29/12/2015–28/12/2020
33,736,400	0.837	29/12/2016–28/12/2020
33,736,400	0.837	29/12/2017–28/12/2020
33,736,400	0.837	29/12/2018–28/12/2020
33,736,400	0.837	29/12/2019–28/12/2020
168,682,000		

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

The fair value of the share options granted during the year ended 31 December 2012 was RMB376,883,000 (RMB1.904 each), of which the Group recognised a share option expense of RMB30,600,000 (2015: RMB55,365,000) during the year ended 31 December 2016.

During the year ended 31 December 2016, 14,941,600 of options were forfeited as the employees have terminated their employment and the vesting conditions have not been satisfied. (2015: 15,732,000).

The 68,400 share options exercised during the year resulted in the issue of 68,400 ordinary shares of the Company and new share capital of HK$6,840 (equivalent to RMB5,778) (before issue expenses). As further detailed in note 30 to the financial statements.

At the end of the reporting period and at the date of approval of these financial statements, the Company had 153,672,000 share options outstanding under the Pre-IPO Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 153,672,000 additional ordinary shares of HK$0.1 each of the Company and additional share capital of HK$15,367,000 (equivalent to RMB13,746,000) and share premium of HK$113,256,000 (equivalent to RMB101,309,000) (before issue expenses).

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

Notes to Financial Statements

Year ended 31 December 2016

31. SHARE OPTION SCHEME (CONTINUED)

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

As at 31 December 2016, no option has been granted or agreed to be granted under the Share Option Scheme.

32. RELATED PARTY TRANSACTIONS

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

	Notes	**2016** **RMB'000**	2015 RMB'000
Related companies:			
Purchase of products	(a)(i)	**2,553**	39
Rental income	(a)(ii)	**730**	730
Rendering of services	(a)(ii), (a)(vii)	**132**	937
Fellow subsidiaries:			
Rental income	(a)(iii), (a)(iv)	**8,419**	11,680
Services received	(a)(viii)	**–**	1,360
Rendering of services	(a)(iii), (a)(iv), (a)(v), (a)(vii)	**1,496**	4,249

Notes to Financial Statements

Year ended 31 December 2016

32. RELATED PARTY TRANSACTIONS (CONTINUED)

Name of the related party	Relationship
Jiangsu Xinhua	Chinese joint venture partner of Wison Engineering
上海惠生通訊技術有限公司 (Wison (Shanghai) Telecommunication Technology Company Limited "Wison Telecommunication")	Subsidiary of Jiangsu Xinhua
Wison Holding	Wholly-owned by Mr. Hua Bangsong (the controlling shareholder of the Company who was during 2014 and 2015 also a director of the Company) and the ultimate holding company of the Company
Wison Nantong	Indirectly wholly-owned by Wison Holding and is a fellow subsidiary of the Company
惠生(南京)清潔能源股份有限公司 ("Wison Nanjing")	Prior to August 2015, indirectly owned as to 52.8% by Wison Holding and was a fellow subsidiary of the Company
Wison (China) Investment	Indirectly wholly-owned by Wison Holding and is a fellow subsidiary of the Company
Wison Marine Engineering	Indirectly wholly-owned by Wison Holding and is a fellow subsidiary of the Company
Zhoushan Wison	Indirectly wholly-owned by Wison Holding and is a fellow subsidiary of the Company
陝西長青能源化工有限公司 ("Shaanxi Changqing")	Prior to August 2015, indirectly owned as to 13.2% by Wison Holding and was a related company of the Company

Notes:

(a)(i) The Group and Jiangsu Xinhua entered into a new framework agreement effective on 25 April 2014 based on the framework agreement entered into between the Group and Jiangsu Xinhua on 25 April 2011 for a term of three years whereby the Group will purchase anchor, refractory support plunge hook and other ancillary accessories from Jiangsu Xinhua. Under the Renewed Framework Agreement, the annual consideration payable by Wison Engineering to Jiangsu Xinhua for the years ended 31 December 2014, 2015 and 2016 will not be more than RMB12,000,000. During the year ended 31 December 2016, the Group's purchases of heat-resistant alloy pipes and other ancillary accessories from Jiangsu Xinhua amounted to RMB2,553,000 (2015: RMB39,000). The purchases were made by reference to the published prices and conditions offered by Jiangsu Xinhua to its customers. The prepayments and trade payables relating to Jiangsu Xinhua are set out in notes 22 and 24.

Notes to Financial Statements

Year ended 31 December 2016

32. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes: (Continued)

(a)(ii) On 12 December 2013, the Group and Wison Telecommunication entered into a lease agreement, pursuant to which the Group leased out office space in its office building to Wison Telecommunication for RMB730,000 per annum for a three-year period commencing from 1 January 2014. The rental income for the year ended 31 December 2016 from Wison Telecommunication amounted to RMB730,000 (2015: RMB730,000).

On 12 December 2013, the Group and Wison Telecommunication entered into a property management services agreement, pursuant to which the Group would provide property management services in relation to the premises leased to Wison Telecommunication for RMB132,000 per annum for a three-year period commencing from 1 January 2014. The service income for the year ended 31 December 2016 from Wison Telecommunication amounted to RMB132,000 (2015: RMB132,000).

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

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

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

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

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

The rental income and services income for the year ended 31 December 2016 from Wison Nantong amounted to RMB5,499,000 (2015: RMB8,760,000) and RMB968,000 (2015: RMB1,584,000), respectively.

(a)(iv) On 12 December 2013, the Group and Wison (China) Investment entered into a lease agreement, pursuant to which the Group leased out office space in its office building to Wison (China) Investment for RMB2,920,000 per annum for a three-year period commencing from 1 January 2014. The rental income for the year ended 31 December 2016 for Wison (China) Investment amounted to RMB2,920,000 (2015: RMB2,920,000).

On 12 December 2013, the Group and Wison (China) Investment entered into a property management services agreement, pursuant to which the Group would provide property management services in relation to the premises leased to Wison (China) Investment for RMB528,000 per annum, for a three-year period commencing from 1 January 2014. The services income for the year ended 31 December 2016 from Wison (China) Investment amounted to RMB528,000 (2015: RMB528,000).

(a)(v) On 4 July 2014, the Group and Wison Nanjing entered into a framework agreement, pursuant to which the Group provided miscellaneous engineering design and technology services to Wison Nanjing and/or its subsidiaries in relation to their manufacturing facilities, public utility engineering systems and ancillary production systems. The framework agreement expired on 31 December 2016. The annual cap for the amount payable by Wison Nanjing to the Group under the framework agreement was expected not to exceed RMB2,000,000 for each of the years ended 31 December 2014, 2015 and 2016, respectively. Wison Nanjing was not a fellow subsidiary of the Group from August 2015. The Group recognised services income of RMB1,385,000 during the year ended 31 December 2015.

(a)(vi) Wison Holding, as licensor, entered into three trademark licensing agreements with the Group to grant the rights to use the trademarks on a perpetual and non-exclusive basis for nil consideration during the years ended 31 December 2015 and 2016.

Notes to Financial Statements

Year ended 31 December 2016

32. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes: (Continued)

(a)(vii) During the year ended 31 December 2011, the Group and Shaanxi Changqing entered into a construction contract whereby Shaanxi Changqing engaged the Group to undertake the construction of its coal-to-chemicals production facilities for a contract value of RMB2,186,500,000. The Group and Shaanxi Changqing agreed to increase the contract consideration by RMB305,220,000 due to variation orders. The Group recognised revenue of RMB805,000 on this contract during the year ended 31 December 2015. Shaanxi Changqing was not a related company of the Group from August 2015.

During the year ended 31 December 2013, the Group and Wison Marine Engineering entered into a service contract for a total contract value of RMB3,850,000. The Group recognised revenue of RMB752,000 on this contract during the year ended 31 December 2015. The trade receivables relating to Wison Marine Engineering are set out in note 21 to the financial statements.

(a)(viii) In January 2014, the Group and Wison Nanjing entered into the SNG cooperation agreement pursuant to which Wison Nanjing shall 1) provide the Group with the right to use the land and facilities owned by Wison Nanjing located at the Nanjing Chemical Industrial Park at a total consideration of RMB600,000; 2) provide the Group with certain gases such as hydrogen, carbon monoxide and carbon dioxide and utilities such as water and mid-pressure steam at a price which shall be either the actual costs to Wison Nanjing for such gases or utilities or the lowest price charged to other customers; and 3) second experienced staff to assist in the Group's project at 1.5 times of the basic salary of such staff, which after taking into account insurance, pension and other staff benefits, represents the costs to Wison Nanjing. During the year ended 31 December 2015, the Group has paid RMB1,360,000 to Wison Nanjing for the use of the gases and facilities.

(a)(ix) During the year ended 31 December 2016, Wison (China) Investment executed guarantees to certain banks for bank facilities to the Group of RMB430,000,000 (2015: RMB220,000,000) at nil consideration. As at 31 December 2016, the loans were drawn down to the extent of RMB316,954,000 (2015: RMB180,000,000) (note 26).

(a)(x) During the year ended 31 December 2016, Wison Nantong pledged its property, plant, and equipment and land use right and Zhoushan Wison pledged its land use right to execute guarantees for bank facilities of RMB500,000,000 to the Group (2015: nil). As at 31 December 2016, the loans were drawn down to the extent of RMB89,767,000 (2015: nil) (note 26).

(a)(xi) 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)(xii) On 15 December 2016, Wison (China) Investment has issued a letter of comfort for which Wison (China) Investment agreed to provide continuing financial support to the Company for a period of at least 12 months as from 31 December 2016 in order to enable the Company to continue its operations in the ordinary course of business and to meet its obligations for nil consideration.

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

Notes to Financial Statements

Year ended 31 December 2016

32. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes: (Continued)

(b) Balances with related parties:

	2016 **RMB'000**	2015 RMB'000
Due from a related company:		
Wison Telecommunication	**256**	–
Due from fellow subsidiaries:		
Wison Nantong	**3,355**	27
Wison (China) Investment	**1,022**	–
	4,377	27
Due from the ultimate holding company:		
Wison Holding	**–**	87
Due to a related company:		
Jiangsu Xinhua	**–**	78
Due to an associate:		
Henan Chuangsite	**630**	630

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

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

	2016 **RMB'000**	2015 RMB'000
Short term employee benefits	**16,742**	16,396
Equity-settled share option expenses	**5,463**	9,005
Total compensation paid to key management personnel	**22,205**	25,401

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

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Year ended 31 December 2016

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

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

Wison Engineering:

	2016	2015
Percentage of equity interest held by non-controlling interests	**25%**	25%

	2016 **RMB'000**	2015 RMB'000
Profit for the year allocated to non-controlling interests	**10,456**	33,410
Accumulated balances of non-controlling interests at the reporting dates	**202,490**	192,034

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

	2016 **RMB'000**	2015 RMB'000
Revenue	**3,004,067**	5,487,742
Total expenses	**(2,899,505)**	(5,153,642)
Profit for the year	**104,562**	334,100
Total comprehensive income for the year	**126,771**	338,233
Current assets	**6,507,697**	7,699,163
Non-current assets	**1,147,019**	1,425,230
Current liabilities	**(6,412,808)**	(8,009,125)
Non-current liabilities	**(5,144)**	(5,275)
Net cash flows (used in)/from operating activities	**(1,055,428)**	1,003,902
Net cash flows from investing activities	**335,403**	153,196
Net cash flows from/(used in) in financing activities	**185,918**	(312,133)
Net (decrease)/increase in cash and cash equivalents	**(534,107)**	844,965

Notes to Financial Statements

Year ended 31 December 2016

34. ASSETS CLASSIFIED AS HELD FOR SALE

During the year ended 31 December 2015, the Group entered into a letter of intent with a third party to dispose of certain office buildings together with a parcel of land. On 22 March 2016, the Group entered into a property sale and purchase agreement with a purchaser with a total consideration of RMB390,000,000. The office buildings and the parcel of land to be sold in the next 12 months with aggregate carrying values of RMB105,361,000 and RMB10,849,000, respectively, have been recognised as assets classified as held for sale by the Group as at 31 December 2015. In August 2016, the office buildings and the parcel of land have been formally transferred to the buyer.

35. OPERATING LEASE ARRANGEMENTS

As lessor

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

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

	2016 **RMB'000**	2015 RMB'000
Within one year	**42,016**	55,138
In the second to fifth years, inclusive	**48,851**	15,668
After five years	**49**	82
	90,916	70,888

As lessee

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

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

	2016 **RMB'000**	2015 RMB'000
Within one year	**8,172**	12,408
In the second to fifth years, inclusive	**2,288**	11,531
After five years	**–**	–
	10,460	23,939

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Year ended 31 December 2016

36. CONTINGENT LIABILITIES

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

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

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

In 2010, the Group submitted its application for the above equity transfer transactions to qualify for the special tax treatment under Circular No. 59 to the relevant tax bureau. To the date of approval of these financial statements, the relevant tax bureau has not reverted on this application. In December 2011, the Group computed the tax liability in relation to the transfer of equity interests in Wison Engineering based on the relevant PRC tax regulations and submitted a payment of RMB10.4 million to the relevant tax bureau. In prior years, the Group assessed and computed the tax liability in relation to the transfer of equity interests in Wison Yangzhou based on the relevant PRC tax regulations and made a provision of RMB4.4 million accordingly which has been considered by the Company's directors to be adequate. Such provision remained unsettled as at 31 December 2016. In the opinion of the directors of the Company, the PRC tax authorities may not accept the Group's application and the Group may fail to obtain the preferential tax treatment under Circular No.59. and this could result in additional tax to be paid.

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37. FINANCIAL INSTRUMENTS BY CATEGORY

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

31 December 2016

Financial assets

	2016 RMB'000	2015 RMB'000
Loans and receivables		
Trade and bills receivables	**381,813**	311,209
Financial assets included in prepayments, deposits and other receivables (note 22)	**40,008**	91,613
Due from fellow subsidiaries	**4,377**	27
Due from a related company	**256**	–
Due from the ultimate holding company	**–**	87
Pledged bank balances and time deposits	**1,106,803**	1,257,417
Cash and bank balances	**701,000**	1,253,436
	2,234,257	2,913,789

Financial liabilities

	2016 RMB'000	2015 RMB'000
Financial liabilities at amortised cost		
Trade and bills payables	**3,034,461**	3,335,388
Financial liabilities included in other payables, advances from customers and accruals (note 25)	**90,498**	85,976
Due to a related company	**–**	78
Due to an associate	**630**	630
Dividends payable	**272,674**	272,674
Interest-bearing bank borrowings	**426,721**	230,000
Finance lease payables	**–**	49
	3,824,984	3,924,795

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38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

39. 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 with related companies, amounts due from fellow subsidiaries and an amount due from the ultimate holding company, an amount due to an associate, interest-bearing bank and other borrowings and finance lease payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables, trade and bills payables and other payables, which arise directly from its operations.

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

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

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

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Year ended 31 December 2016

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Interest rate risk

The Group's exposure to risk for changes in market interest rates relates primarily to the Group's bank and other borrowings and finance lease payables set out in notes 26 and 27. 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 2016		
— RMB denominated loans	**20**	**(484)**
— RMB denominated loans	**(20)**	**484**
— US$ denominated loans	**20**	**(358)**
— US$ denominated loans	**(20)**	**358**
— EUR denominated loans	**20**	**(12)**
— EUR denominated loans	**(20)**	**12**

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
Year ended 31 December 2015		
— RMB denominated loans	20	(460)
— RMB denominated loans	(20)	460

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Year ended 31 December 2016

39. 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$, HK$, Venezuelan Bolivar ("VEF") and Saudi Riyal ("SAR") against RMB.

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

	Increase/ (decrease) in rate %	Increase/ (decrease) in profit before tax RMB'000
Year ended 31 December 2016		
If the RMB weakens against the US$	5	75,672
If the RMB strengthens against the US$	5	(75,672)
If the RMB weakens against the SAR	5	1,419
If the RMB strengthens against the SAR	5	(1,419)
If the RMB weakens against the HK$	5	242
If the RMB strengthens against the HK$	5	(242)
If the RMB weakens against the VEF	5	13
If the RMB strengthens against the VEF	5	(13)
Year ended 31 December 2015		
If the RMB weakens against the US$	5	117,869
If the RMB strengthens against the US$	5	(117,869)
If the RMB weakens against the SAR	5	961
If the RMB strengthens against the SAR	5	(961)
If the RMB weakens against the HK$	5	452
If the RMB strengthens against the HK$	5	(452)
If the RMB weakens against the VEF	5	367
If the RMB strengthens against the VEF	5	(367)

Notes to Financial Statements

Year ended 31 December 2016

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Credit risk

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

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

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

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

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

(d) Liquidity risk

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

Notes to Financial Statements

Year ended 31 December 2016

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Liquidity risk (Continued)

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

Group

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

	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 2015					
Interest-bearing bank and other borrowings	–	3,488	234,461	–	237,949
Trade and bills payables	–	3,335,388	–	–	3,335,388
Other payables and accruals	–	256,589	–	–	256,589
Finance lease payables	–	29	20	–	49
Due to a related company	78	–	–	–	78
Due to an associate	630	–	–	–	630
Dividends payable	272,674	–	–	–	272,674

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Year ended 31 December 2016

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(e) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to equity holders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

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

	2016 **RMB'000**	2015 RMB'000
Interest-bearing bank borrowings	**426,721**	230,000
Finance lease payables	**–**	49
Total debt	**426,721**	230,049
Total equity	**2,228,177**	2,123,000
Gearing ratio	**19%**	11%

40. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2015, the Group recorded addition of property, plant and equipment of RMB300,000 and the corresponding amount of decrease in long-term prepayments which did not result in any cash flows.

During the year ended 31 December 2015, the Group wrote off property, plant and equipment of RMB9,321,000 and derecognised the corresponding amount of other payables which did not result in any cash flows.

Notes to Financial Statements

Year ended 31 December 2016

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:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**1**	1
Total non-current assets	**1**	1
CURRENT ASSETS		
Due from subsidiaries	**962,828**	951,180
Other receivables	**746**	461
Dividends receivables	**696,609**	696,609
Cash and cash equivalents	**5,211**	9,190
Total current assets	**1,665,394**	1,657,440
CURRENT LIABILITIES		
Other payables and accruals	**3,432**	2,065
Due to subsidiaries	**30,110**	30,109
Dividends payable	**233,406**	233,406
Total current liabilities	**266,948**	265,580
NET CURRENT ASSETS	**1,398,446**	1,391,860
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,398,447**	1,391,861
NET ASSETS	**1,398,447**	1,391,861
EQUITY		
Share capital	**329,809**	329,803
Reserves	**1,068,638**	1,062,058
TOTAL EQUITY	**1,398,447**	1,391,861

Notes to Financial Statements

Year ended 31 December 2016

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	Retained profits RMB'000	Total RMB'000
1 January 2015	156,984	846,077	58,522	1,061,583
Net loss and total comprehensive expense for the year	–	–	(54,890)	(54,890)
Equity-settled share option arrangements	55,365	–	–	55,365
At 31 December 2015 and 1 January 2016	212,349	846,077	3,632	1,062,058
Net loss and total comprehensive expense for the year	–	–	(24,062)	(24,062)
Exercise of share options	(131)	173	–	42
Equity-settled share option arrangements	30,600	–	–	30,600
At 31 December 2016	242,818	846,250	(20,430)	1,068,638

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

42. SUBSEQUENT EVENTS

On 24 March 2017, the Group entered into a supplemental agreement with Wison Nantong to amend certain terms of the previous property leasing agreement and property management services agreement dated 26 August 2016 which shall be effective from 1 April 2017. The rental shall be adjusted proportionally from RMB4,818,000 per annum to approximately RMB4,015,000 per annum by reference to the size of the reduced gross floor area of the subject premises, the property management services fee shall be adjusted from RMB792,000 per annum to RMB690,000 per annum and the electricity fee shall be adjusted to RMB36,000 per annum.

The annual consideration payable by Wison Nantong to Wison Engineering under the supplemental agreements for the years ending 31 December 2017 and 2018 will not be more than RMB5,000,000 and RMB4,800,000, respectively.

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

The annual consideration payable by Wison (China) Investment to Wison Engineering under the supplemental agreements for the years ending 31 December 2017 and 2018 will not be more than RMB4,400,000 and RMB4,600,000, respectively.

Notes to Financial Statements

Year ended 31 December 2016

42. SUBSEQUENT EVENTS (CONTINUED)

On 24 March 2017, the Group entered into a renewed framework agreement ("Renewed Framework Agreement") with Jiangsu Xinhua based on the framework agreement entered into between the Group and Jiangsu Xinhua on 26 March 2014 whereby the Group will purchase anchor, refractory support plunge hook and other ancillary accessories from Jiangsu Xinhua. The Renewed Framework Agreement has a term of three years from 25 April 2017 and will be renewable for another three years upon the Group giving notice in writing to Jiangsu Xinhua at least one month prior to the expiry of the original term. Under the Renewed Framework Agreement, the annual consideration payable by Wison Engineering to Jiangsu Xinhua for each of the three years ending 31 December 2017, 2018 and 2019 will be not more than RMB12.0 million.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2017.