Wison Engineering
Builds a Better World

2020 ANNUAL REPORT

Wison Engineering Services Co. Ltd.

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

wison

WISON ENGINEERING

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

CONTENTS

Corporate Information

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Yan Shaochun* *(Chief Executive Officer)*
Mr. Zhou Hongliang
Mr. Dong Hua
Mr. Zheng Shifeng

Non-executive Director

Mr. Liu Hongjun* *(Chairman)*

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

* *Mr. Yan Shaochun had been appointed as Executive Director and Chief Executive Officer on 5 February 2021.*

Mr. Liu Hongjun had been appointed as Chairman on 5 February 2021.

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

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

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

Corporate Information

HONG KONG SHARE REGISTRAR

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

COMPANY SECRETARY

Ms. Tsang Chi Ka*

AUTHORISED REPRESENTATIVES*

Mr. Yan Shaochun*
Ms. Tsang Chi Ka*

AUDITORS

Ernst & Young

PRINCIPAL BANKS

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

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY'S WEBSITE

www.wison-engineering.com

STOCK CODE

2236

* *Mr. Yan Shaochun had been appointed as authorised representative on 5 February 2021.*

Ms. Tsang Chi Ka had been appointed as Company Secretary and authorised representative on 18 February 2021.

Financial Summary

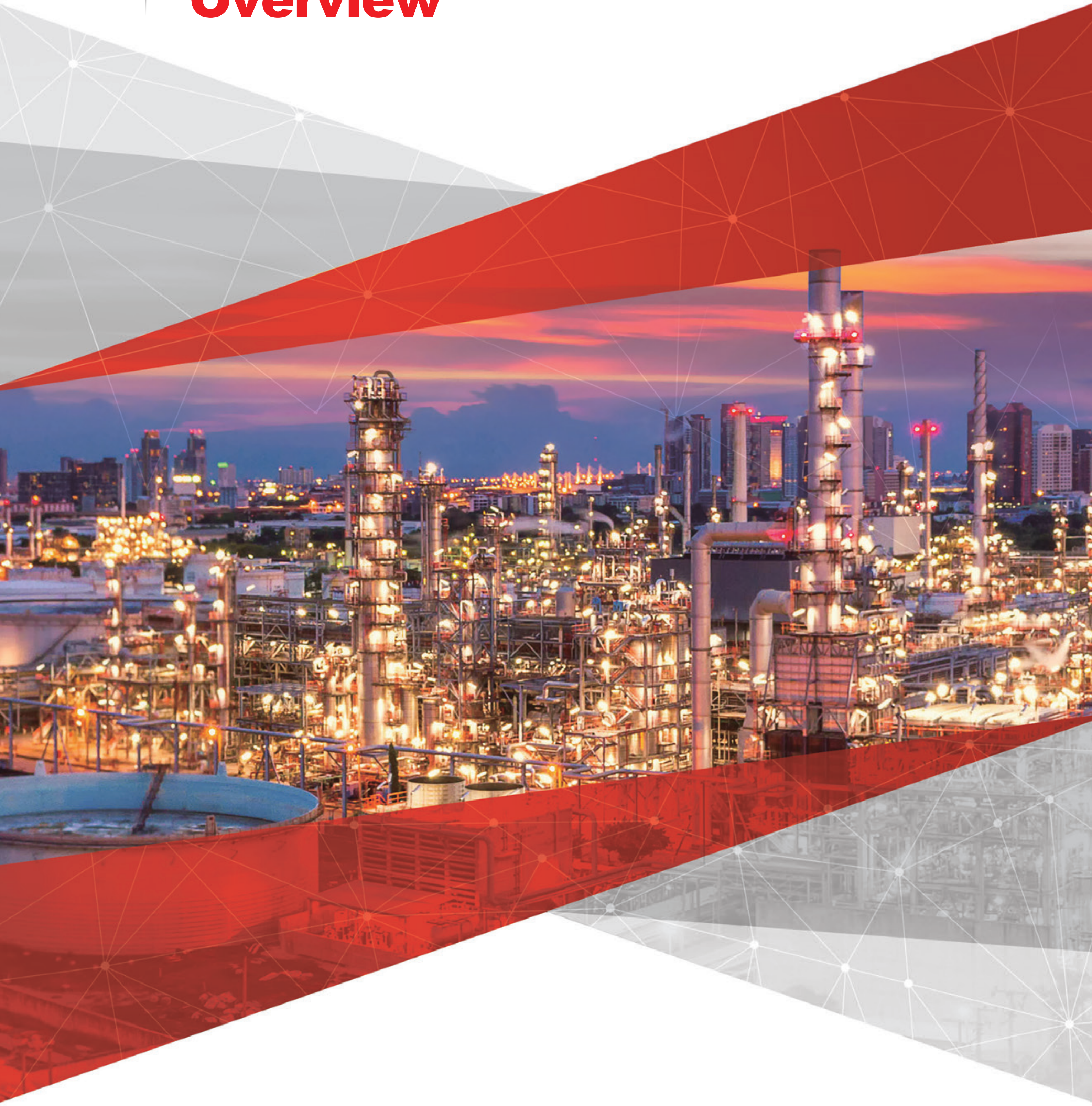
Financial Summary

	For the year ended 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Restated)
Results					
Revenue	**5,296,064**	4,367,271	3,256,478	4,124,790	3,041,877
Gross profit	**301,202**	408,227	498,872	861,158	931,233
(Loss)/profit before tax	**(283,820)**	89,775	72,739	229,124	121,217
Income tax credit/ (expenses)	**12,309**	(39,217)	(12,786)	(63,405)	(98,822)
(Loss)/profit for the year	**(271,511)**	50,558	59,953	165,719	22,395
Attributable to:					
Owners of the parent	**(271,238)**	50,609	56,301	138,306	15,179
Non-controlling interests	**(273)**	(51)	3,652	27,413	7,216
Earnings per share – Basic and diluted	**RMB(0.07)**	RMB0.01	RMB0.01	RMB0.03	RMB0.00

Financial Summary

	As at 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Restated)
Assets and liabilities					
Non-current assets	**4,192,588**	1,432,965	1,131,114	1,116,712	1,195,846
Current assets	**4,665,778**	4,287,999	4,618,231	6,496,159	6,524,839
Current liabilities	**4,639,282**	3,456,486	3,988,387	5,229,976	5,532,446
Net current assets	**26,496**	831,513	629,844	1,266,183	992,393
Total assets less current liabilities	**4,219,084**	2,264,478	1,760,958	2,382,895	2,188,239
Non-current liabilities	**427,340**	460,851	11,139	23,513	30,777
Net assets	**3,791,744**	1,803,627	1,749,819	2,359,382	2,157,462
Share capital	**330,578**	330,578	330,299	329,968	329,809
Reserves	**3,461,490**	1,473,100	1,419,520	1,853,056	1,632,560
Non-controlling interests	**(324)**	(51)	–	176,358	195,093
Total equity	**3,791,744**	1,803,627	1,749,819	2,359,382	2,157,462

Business Overview



Business Overview

REVIEW OF 2020 ANNUAL RESULTS AND OUTLOOK

(I) BUSINESS OVERVIEW

In 2020, the Group continued to uphold the strategy of "improving people's livelihood with innovative technology". Taking full advantage of the rapid and flexible operating mechanism of a private enterprise, the Group proactively responded to the challenges and changes in the market and the industry. Meanwhile, the Group continued to optimize the organization structure, refined project management, increased the value creation of digitalization and modularization, and boosted the strategic investment in technology R&D and industry chain extension. The Group forged ahead overcoming difficulties, actively explored new opportunities, and earnestly implemented the philosophy of "technology-oriented development", striving to become a leading and renowned energy and chemical technology engineering solutions provider in the domestic and international markets.

For the twelve months ended 31 December 2020 (the "Period under Review"), the global economy was affected by the outbreak of the novel coronavirus ("COVID-19") pandemic and the tense global trade relations, resulting in weak demand for crude oil and chemical market at home and abroad. During the Period under Review, total new contract secured by the Group amounted to approximately RMB10,657.2 million (net of estimated value added tax), representing a year-on-year decrease of 16.6%. As at 31 December 2020, the Group's total backlog value was approximately RMB27,172.9 million (net of estimated value added tax), representing an increase of 24.3% compared to that as at 31 December 2019. During the period, the main reason for the decrease in total new contract value was the global rampage of COVID-19, which caused uncertainties for macroeconomy and the industry and therefore delayed the planning and contract progress for some potential projects. In addition, the planning and progress of certain projects have been affected due to the adjustments to the environmental policy in places where the projects were located.

Business Overview

Market Environment

Global crude oil prices fluctuated in 2020. The crude oil market saw a historic plunge and a sluggish recovery in the first half of the year and gradually regained its confidence in the second half of the year. At the end of February, crude oil demand showed a steep decline due to the travel restrictions imposed by governments following the global outbreak of COVID-19. On the other hand, the Organization of the Petroleum Exporting Countries and its allies ("**OPEC+**") failed to agree on the terms of output cut of crude oil in March and led to a freefall in oil price. The price of WTI crude oil futures contract for May delivery, traded on New York Mercantile Exchange, hit historic low at US$-37.63 per barrel since its listing. During the period, major economies in Europe and America were still greatly affected by the epidemic and economic activities were significantly disrupted. Facing unprecedented pressure on the operations, most energy and chemical enterprises around the world significantly announced to scale-down their investment and budget, and cancelled or postponed a number of projects. However, with the conclusion of a record deal by OPEC+ to cut production by 9.7 million barrels per day in early May, oil prices were well supported and the international crude oil market rebounded.

On another front, China's economy has recovered rapidly since April and registered a year-on-year GDP growth of 6.5% in the fourth quarter, due to the containment of COVID-19 within its borders following rigorous pandemic control measures in the second quarter, coupled with economic stimulus policies issued by the central and local governments, boosting the domestic energy and chemical markets and thus enabling the Asia Pacific region to be the main driving force for the recovery of the global oil market. Following the stepping up efforts of various countries in launching fiscal relief measures in the second half of the year in tandem with the anticipation of availability of effective vaccines, the market has gradually regain confidence in recovery. Brent crude oil prices climbed slowly and returned to the level of over US$50 per barrel at the end of the year.

During the Period under Review, benefitting from low oil price, as well as low cost and their competitive advantage arising from economies of scale and refinery-petrochemical integration, refinery-petrochemical enterprises in China achieved speedy turnaround in profit in the second quarter amid fluctuations in the crude oil market. Driven by the demand for medical protective supplies and packaging, the olefin industry recorded highest profit for these two years amid the downward cycle. In the coming years, propped up by the macroeconomy of the development of Midwestern China and the promotion of "Domestic and International Dual Circulation strategy", the demand for energy and chemical materials in China will continue to grow, thus promoting more investment. In the short term, foreign investment will decline due to the impact of the pandemic and low oil prices. It is expected that the chemical industry will start an upward cycle after 2022 along with the recovery of the economy and oil prices, ramping up investment in the industry.

Business Overview

Constantly enhancing the ecosystem and promoting diversified business development

During the Period under Review, the Group established headquarters-level and project-level disease emergency response task forces at home and abroad in line with the anti-pandemic government policies issued to implement stringent infection control measures including the procurement, customs clearance and transportation of disease prevention materials worldwide. To reduce the impact of the pandemic on projects, the Group developed a COVID-19 emergency response plan to ensure the safety and health of employees and construction workers before an orderly reopening.

The Group implemented stringent pandemic prevention and control measures to ensure "zero infection" of employees and construction workers

To address the changing market, Wison Engineering was committed to enhancing its institutional structure, cutting costs and boosting efficiency in addition to strengthening technological research, development and innovation and refined management. The Group continued to optimize its supply chain and extend its industrial chain, while looking for premium investment opportunities to explore new markets and business opportunities. On 19 May, Wison Engineering entered into a strategic cooperation agreement with Shenyang Blower Works Group Corporation (瀋陽鼓風機集團股份有限公司), pursuant to which both parties agreed to carry out all-round cooperation in market expansion, product research and development and service provision in relation to refinery, petrochemical, coal-to-chemicals. On 22 June, the Group entered into a limited partnership agreement with Silver Saddle Equity Investment Management (Shanghai) Company Limited (上海銀鞍股權投資管理有限公司) and other limited partners including Sinochem International to establish a limited partnership for carrying out investments in new materials, fine chemicals and other projects related to national strategic emerging industries, with a target total capital contribution size of RMB950 million.

Business Overview

Meanwhile, Wison Engineering not only focused on petrochemical engineering and other core business activities, but also strived to explore new business and markets to achieve diversified development. During the Period under Review, the Group successfully established its presence in the municipal engineering market through the public-private partnership ("**PPP**") model, undertaking a total of three ongoing and newly contracted PPP projects. As the Group's first important municipal engineering livelihood project, the Yangtze River diversion project in Xinghua City, Jiangsu, with a total planned capacity of 430,000 tonnes per day, will ensure the water supply to approximately 1.58 million residents upon its completion scheduled for 2021. Wison Engineering will stick to high standards, high quality and refined management in its PPP business, aiming to create a new area of profit growth for the Group.

The Group established presence in the municipal engineering market through the PPP model

(II) BUSINESS AND OPERATIONS REVIEW

(1) International Markets

During the Period under Review, the global economy and the energy and chemical markets were seriously affected by the COVID-19 pandemic. The overall chemical market declined both at home and abroad and investment projects suffered different levels of delay worldwide. During the period, the Group remained committed to the internationalization strategy and constantly improved its international marketing, project execution and management team. Moreover, based on the demand in the overseas market, it further strengthened its modular prefabrication capability and enhanced its market competitiveness. During the period, Wison Engineering successfully secured new customers and explored new markets overseas and further established its presence in regions such as Russia, Central Asia and Southeast Asia, and is expected to make breakthrough in securing projects in emerging markets.

The Middle East:

The Middle East is a global energy hub. Meanwhile, the petrochemical industry has taken steps for a downstream transformation, becoming more active in gas field development, LNG and investment in major petrochemical projects in addition to crude oil mining, and has therefore generated new opportunities for engineering companies. With nearly ten years of presence in the Middle East, Wison Engineering continued to enhance its competitiveness in the region by establishing the

Business Overview

operating centre in the Middle East to quickly respond to the needs of local owners. Thanks to its outstanding capabilities in project execution, engineering quality, safety management and resource integration, the Group has delivered a number of quality projects for clients including Saudi Aramco, Abu Dhabi National Oil Company ("ADNOC") and Saudi Basic Industries Corporation ("SABIC"), and has therefore established a premium brand image and reputation.

The Group secured the first EPC project from Saudi Aramco in the Middle East

During the Period under Review, Wison Engineering entered into an EPC contract with Saudi Aramco for the dew point control device in Shaybah, Saudi Arabia. This project is the first oil and gas upstream EPC project in relation to natural gas processing secured by Wison Engineering in the Middle East market, marking Wison Engineering's first breakthrough achieved in Saudi Arabia in terms of modular solutions. Wison Engineering will construct a new dew point control device in the desulfurization unit of the natural gas processing plant in the upstream on behalf of Saudi Aramco, at the same time increasing the natural gas processing capacity of the relevant devices downstream. The project is the first EPC project secured by Wison Engineering from Saudi Aramco independently, giving full play to Wison Engineering's excellent project execution and management capability in the Middle East and the recognition of its modular solutions by international top-class owners.

During the Period under Review, the STC-J UPP project of SABIC, undertook by the Group under EPC, was in progress as scheduled. The project is an interim test plant project for polyolefin of SABIC's research and development ("R&D") centre, and is the largest R&D investment project for SABIC so far. It will be the largest global R&D centre for SABIC after its completion, providing technical assurance for SABIC in developing and applying new products of polyolefin for commercial use. The project has now entered into the peak construction stage as scheduled.

The EPC Project for Saudi Aramco Total Refining and Petrochemical Company ("SATORP")'s Refinery Debottlenecking Project jointly obtained by the Group and Kellogg Brown & Root ("KBR") during the Period under Review, was in progress as scheduled. The project has achieved mechanical completion with high standards in mid-October 2020.

Business Overview

North America:

North America is another major market for the Group's global strategy. In view of issues such as high labour cost and delay in engineering progress in the North American market, the Group developed modularized EPC delivery services. The Group, through means of modularized factory prefabrication, assembly and integrated delivery, has reduced the cost of construction for projects in North America and significantly shortened the construction cycle, thus enhancing the economic efficiency of the projects. The modularized EPC service products enabled the Group to increase the competitiveness in the U.S market and have set a new benchmark for Chinese engineering enterprises.

The Group explored the North American market through modularized EPC delivery services

During the Period under Review, the Group was awarded an engineering, procurement and modular service contract by Air Products & Chemicals, Inc ("AP") for a petrochemical project in the Gulf of Mexico in the United States. The construction is expected to commence in 2021 and the start-up in the first half 2023. AP is one of Wison Engineering's major clients in the expansion of its global EPC business. This project, representing the first collaboration between Wison Engineering and AP in the North America market, is a major milestone in Wison Engineering's business development in the United States, marking the entry into the growth phase by the Group's business in North America.

During the Period under Review, the Group strengthened its whole-process management of the petrochemical EPC project located in Texas of the United States amid the outbreak of COVID-19 pandemic to minimize the impact of the pandemic on construction. As the largest general contractor contract solely undertaken in the United States by a EPC engineering company in the petrochemical industry in China, the successful execution of the project again proves the Group's capability in managing engineering, procurement, construction and transportation for the modular EPC delivery project throughout the whole process, hence building up the Group's brand image as being outstanding in EPC project execution capability in the global market.

Other regions:

In addition to the key regions such as the Middle East and North America, the Group is determined to implement its international strategy and will continue to strengthen strategic investment in its global marketing layout by establishing branches in the countries in Central Asia, Southeast Asia as well as those along the "Belt and Road" initiative. During the period under review, the Group's MTO Front End Engineering Design (Pre-FEED) Project in Russia was successfully delivered as planned, laying the foundation for further expansion in Russian natural gas chemical EPC projects.

Business Overview

(2) Domestic markets

During the Period under Review, the Group actively consolidated its leading position in traditional fields such as ethylene and coal-to-chemicals in the core domestic market, and proactively explored emerging fields, which led to breakthroughs in aspects such as PDH, PTA and new chemical materials. During the Period under Review, with upgrading consumption and increasing environmental protection regulatory requirements in Mainland China, coupled with successive commencement of operation of large-scale integrated joint devices, and in particular, strong investment by large-scale private petrochemical enterprises in the bulk basic chemicals and fine chemicals market, the industry was injected with new impetus. In 2020, Wison Engineering had made significant progress on multiple key domestic projects in the PRC and gained high recognition.

Wison Engineering has allocated more resources for construction staff, machinery and equipment in key projects since March

SP Chemicals project group set a new benchmark for Taixing Chemical Industrial Park: On 12 October 2020, Wison Engineering officially entered into a PC contract with SP Chemicals for devices with annual production capacity of 400,000 tons of chloroethylene, 500,000 tons of polyvinyl chloride and 310,000 tons of high impact polystyrene with a total contract value of approximately RMB2 billion. This contract involves multiple projects. Leveraging its experience in overall coordination and management of EPC projects accumulated over the years, the Group will tackle challenges such as short construction period, concentrated management difficulties, coordination of multiple production lines, excessive cross-operation and long term equipment, striving to achieve the goal of completing the construction and delivery of the project by mid-2022. This is the first cooperation between Wison Engineering and SP Chemicals, laying a foundation for a more extensive and in-depth cooperation between both parties in fields such as new materials in the future.

PDH facilities for Shandong Binhua accelerated the build-up of advantages in the PDH field: In June 2020, Wison Engineering successfully entered into a general contractor contract with Shandong Binhua New Material Co., Ltd. ("Shandong Binhua") for the PDH facilities for a C3C4 comprehensive use project with a capacity of 600kta. As a core project in Shandong Province, the construction of this project was jointly invested by Binhua Group and Beijing Tsinghua Industrial Development Research Institute with more than RMB10 billion. Upon completion of this project, various indicators such as device technology, energy consumption and resource consumption will serve as the best standards in the industry, which is of major strategic significance in terms of accelerating the development and construction of Binzhou Lingang High-end

Business Overview

Petrochemical Industrial Park and building a large-scale refining and chemical integrated base. This project helps Wison Engineering to continuously strengthen its design and enhancement standards in the PDH field, and raises the capacity for the construction of PDH facilities to create a higher economic value for its customers.

The Group entered into a general contractor contract with Shandong Binhua for the PDH facilities project

PTA project for Dongying Weilian was built as a benchmark project for the PTA field: In June 2020, Wison Engineering entered into a contract with Dongying Weilian Chemical Co., Ltd. ("Dongying Weilian") for a purified terephthalic acid ("PTA") project with a capacity of 2,500kta. The contract covered the project design and procurement services of PTA process facilities as well as supporting public and auxiliary projects. As one of the key construction projects in Shandong Province in 2020, Dongying Weilian's PTA project of 2,500kta will, upon completion, further improve the company's crude oil-aromatic hydrocarbon-polyester industrial chain, which is of great significance in terms of the transformation and upgrade of local refining enterprises as well as the extension of the regional petrochemical industrial structure to a pattern with high-end and refined development. Following the Xinfengming project, this project is the second collaborated PTA project between Wison Engineering and British Petroleum ("BP"), which will further establish the Group's position as a leading player in the PTA field.

Ethylene plant project for Zhejiang Petrochemical highlighted the Group's capabilities in project execution and global procurement: As the general contractor of Zhejiang Petroleum & Chemical Co., Ltd. ("Zhejiang Petrochemical") for 2# 1,400kta ethylene plant, the Group fully leveraged its modular design, manufacturing experience and global procurement capabilities as well as project management experience. The construction progress beat expectations after a large number of construction staff as well as machinery and equipment were added since March, achieving an accumulated completion rate of 98%. Since the ethylene plant project is one of the principal part of Zhejiang Petrochemical's integrated refining and chemical project with a capacity of 40,000kta, the Group placed great emphasis on project safety, construction and management in a disciplined manner. The Company received a number of awards for this project, such as "HSE Model Project", "First Place in Quality Management" and "First Place in Disciplined Construction", signifying the wide recognition from project owners and the industry.

The ethylene project for Zhejiang Petrochemical won a number of awards for quality and construction management

Business Overview

Fujian ShenYuan's Coal-to-Hydrogen and Synthetic Ammonia Project set a new benchmark for safe environmental protection: The EPC project of 75,000Nm3/h Coal-to-Hydrogen Plant and 300kta Synthetic Ammonia Plant of Fujian ShenYuan New Materials Co., Ltd. (福建申遠新材料有限公司) ("Fujian ShenYuan"), undertaken by the Group under a general contractor contract, was in progress in a steady manner during the Period under Review. Its scope includes engineering management, basic design and detailed design of the project, supply of equipment and materials, construction and construction management as well as instructing the commissioning and start-up. Once completed, the Coal-to-Hydrogen and Synthetic Ammonia Project, which is a key part of the second phase of the 400kta integrated polyamide project of Fujian ShenYuan, will achieve upstream and downstream integration as well as production capacity expansion of the world's largest production base for caprolactam, and become a new industrial benchmark that is safe, reliable, energy-saving and environment-friendly. It also marks another breakthrough of the Group in the new material application area as well as a significant strategic presence for the Group to deepen its expansion in the South China market.

Wison Taizhou New Materials Project has achieved preliminary breakthroughs: The High-performance Polyamide EPC Project of Wison (Taizhou) New Material Technology Co., Ltd. (惠生(泰州)新材料科技有限公司) ("Wison Taizhou"), undertaken by the Group under a general contractor contract, achieved significant breakthroughs. Currently, the construction and intermediate handover of PA10T device and public and auxiliary projects as well as PA12T device of the project have been completed. This project fully demonstrated the Group's capabilities in technological engineering conversion and will become a benchmark of Wison Engineering in the new material sector.

(3) Technological Research and Development and Social Recognition

In 2020, keeping abreast of the global technological development trend of the industry and in congruence with the Chinese government's strategic framework on sustainable development, the Group closely monitored and maintained strategic investment in, amongst others, green chemistry, energy conservation process, high-end new material intermediates and breakthrough technology of basic chemicals, putting in continuous effort to implement its strategic objective of "improving people's livelihood with innovative technology". During the Period under Review, the Group successfully passed the re-evaluation of its High and New Technology Enterprise status, while the Shanghai Green Chemical and Energy Conservation Engineering Research Center also passed the evaluation and was approved for establishment. In addition, The Group continued to enrich its intellectual property portfolio by securing 20 new licensed patents and 7 new patent applications during the year, up to a total of 118 licensed patents and 177 patent applications.

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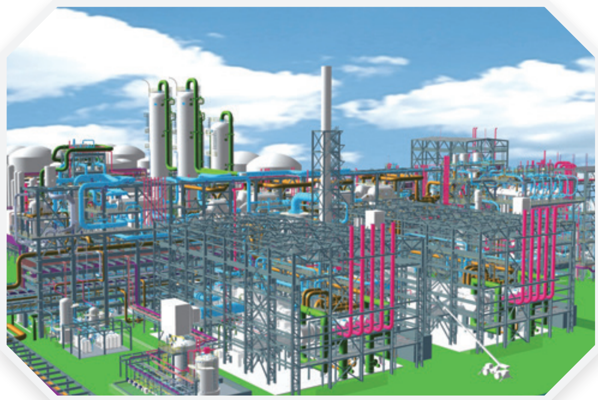
In 2020, China undertook that it would achieve the goals of carbon peak in 2030 and carbon neutral in 2060. Under this context, the Group continued to deepen its green and low-carbon development strategies and proactively promoted the implementation of the national key research and development project titled as "new technology for efficient CO_2 synthesis of chemicals". During the Period under Review, given that the construction of the testing platform for ethylene carbonate and hydrogen was basically completed, the Group started the preparation for various productions, at the same time pushing ahead the relevant IP application and subsequent design of technology packages for 100kta projects.

During the Period under Review, the Group entered into an agreement with Qingdao Sanli Group on the "development, design and technological services in relation to the technology packages of methyl methacrylate ("MMA")". This was the first project in China to develop ethylene-MMA industrial production equipment, which adopted leading technologies of olefin hydrogen formylation and one-step oxidation and esterification of methacrylaldehyde. These technologies have successfully passed the assessment by the China Petroleum and Chemical Industry Federation, and was identified as the first scientific achievement in China and certified to reach international advanced standards. The implementation of the project will effectively change the current predicament of the production of MMA in China using primarily the acetone cyanohydrin process, which involves heavy contamination and high energy consumption, offering advanced technical solutions for achieving green and sustainable development in this field. By continuously leveraging its extensive engineering capability and practical experience regarding this new technology, the Group will work together with its domestic and foreign partners to push forward the industrial application of this new technology so as to boost the quality and sustainable development of the industry.

During the Period under Review, the Group completed the development of DME-based ethanol technology package for 100kta projects, and will actively expand industrial applications in dimethyl ether, methanol, acetic acid, polyvinyl alcohol, pharmaceutical intermediaries and other industries, as well as in the comprehensive use of tail gas resources mainly in coking and calcium carbide, so as to help the above industries achieve industrial upgrading through extension of the value chain and develop toward a differentiated and efficiency direction. Besides, the Group completed the design and delivery of the technology packages for the acid gas removal unit of the technical transformation project of the 45,000Nm3/h syngas plant for Huayuan New Material Co., Ltd.. The technology, self-developed by the Group, is used to provide qualified clean gas for downstream butanol plants by removing the acid gas in upstream syngas. This licensed technology has once again highlighted the Group's leading edges in the efficient and environment-friendly use of new coal-to-chemicals in the industry.



Wison Engineering endeavored to enhance digital capability and gradually developed "Intelligent Factory" through conducting "Smart Project"

(4) Digitalization

Adopting a digital and smart operational approach is the development trend for the energy and chemical engineering industry. During the Period under Review, the Group proactively promoted digital transformation, and implemented the mission of "enhancing the digital capability of Wison and supporting the One-Core and Two- Wing strategy". By enhancing its digital capability involved in "client-oriented" EPC, project management and other processes, the Group gradually developed "Intelligent Factory" through conducting "Smart Project". Simultaneously, the Group enhanced its operating efficiency and effectiveness by constantly improving its digital system with a focus on building up "Wison's digital strength", and continuously carrying out the reform of its institutions and operational models, procedures and methods, as well as systems and platforms. Wison Engineering's industry leading digital capability and system will continue to create values for customers.

In terms of Smart Project, Wison Engineering commenced the development of a digitalized engineering platform during the Period under Review. Propped up by the trend of digitalized engineering in various disciplines, such as process, piping, instruments and electricity, this project, pursuing the philosophy of Digital Thread, researched and identified the demands for the cross-disciplinary data transmission among various design models and relevant information, thereby effectively strengthening cross-disciplinary information sharing and operation synergy, as well as improving design efficiency and quality. Furthermore, by virtue of the latest information technology, including big data, mobile internet and application of QR code, the Groups has self-developed a QR code-based management system ("**WQRS**") for engineering materials, ensuring information tracing, dynamic monitoring, process examination and status enquiry of the materials from ordering to on-site installation in order to improve efficiency and cut costs.

During the Period under Review, Wison Engineering has adopted digitalized engineering in various new projects in China and abroad, with a view to enhancing design capability and work efficiency. In particular, the domestic Wanhua ethylene project of 100 kta has completed the delivery of digitalized engineering; the SRU project and STC project in the Middle East were in the process of digital delivery, near the final phase of the design stage. The SRU project represents the world's highest standards of digital delivery in the design phase, the completion of which will facilitate the Group to formulate a complete set of digital delivery standards in the design phase and the corresponding documentation system. In addition, Wison Engineering continued to deepen the cooperation with Honeywell, the leading enterprise implementing intelligent factory, by jointly forming a task group to focus on petrochemical ethylene business and collaborate on data integration and smart application in the process of digital delivery and intelligent factory construction in potential ethylene projects.

Business Overview

(5) Going Modular

Modular prefabrication, assembly and integrated delivery can effectively diminish constraints of the construction environment, significantly shorten construction period and improve work efficiency. Especially for regions with high construction costs, resource shortage and higher construction risks, modular construction of large-scale petrochemical plants is a highly effective solution. The Group has set up a modular master planning working office and established a dedicated professional modular design and execution team. During the Period under Review, with sustainable improvement in capabilities of planning and design of process modules and refined construction, Wison Engineering collated and compiled the FEED execution plan and work procedures for modular projects, promoted the use of three-dimensional models to complete modular research and layout design, and facilitated the seamless connection between modular and digital operations, thereby solidifying the foundation for the Company's modular business.

The Group has integrated capabilities in modular design, construction and delivery

Meanwhile, the Group is equipped with the capabilities of module feasibility studies, basic design, detailed design and construction for medium and large-scale land facility. Combining with its sea and land transport and lifting design, the Group has integrated capabilities in modular "design, construction and delivery", thereby establishing its leading competitiveness in both the domestic and international energy and chemical engineering markets. During the Period under Review, the Group successfully adopted advanced modular technology in various domestic and overseas projects, which was indispensable for reducing construction cost and enhancing work efficiency.

The Group continued to employ high-end talents and optimize organizational structure

(6) Talent Scheme and Organizational Structure

The Group adhered to the philosophy of being "market-oriented and customer focused" amid market changes, continued to introduce high-end talents based on its business needs to improve its internal management, and enhance its organizational structure, so as to achieve a quick response to customers' needs and satisfy the demand of human resources for new project orders. During the period, the Group introduced outstanding postdoctoral researchers through its corporate postdoctoral workstations, enhancing the capability and creativity of its research team.

Adhering to the philosophy of being "business-oriented and project-focused", the Group continued to optimize the organizational structure of the Company based on the transformation in the petrochemical engineering industry and the development needs of the Company. The new structure achieved enhancements in the allocation of talents and resources without compromising either the focus or flexibility, and attained a flexible and responsive approval procedure with an efficient, simple and convenient flattened matrix structure.

While enhancing its new organizational structure, the Group established an incentive scheme with order acquisition and project execution as its core elements to lay emphasis on value contribution, increase awareness of competition and develop a champion mindset. The Group strengthened its performance management system in line with the implementation of the incentive scheme, and improved its performance management process. By promoting project delivery responsibilities featuring low cost and high quality, the Group encouraged its employees to achieve better performance, thus improving the performance of both the individual entities and the Company. In addition, Wison Engineering attached great importance to talent cultivation and kept improving leadership and management capabilities of the middle management and the core roles. During the pandemic, the Group continued to provide quality training via online platforms and enhance employees' management and problem-solving skills through case studies with individual guidance and support.

(III) OUTLOOK

The year 2021 marks the beginning of China's "14th Five-Year Plan" and the petrochemical energy industry will encounter new challenges and opportunities. The COVID-19 pandemic, how far the crude oil production cut agreement can be performed and geopolitics will continue to affect the trend of global economy and oil price. On the other hand, as various countries put more efforts in implementing financial relief measures and vaccines are gradually becoming available, market confidence will continue to be boosted, which will be beneficial to the global economic recovery and increase the market demand for energy and chemical products. With the launch of environmental policies such as carbon peak and carbon neutral by the Chinese government, new processes for energy saving and emission reduction, new energy and new technology of environmental protection will become the key development direction of the industry, at the same time clean energy represented by LNG will also be widely employed.

The petrochemical industry will continue to explore new development direction in the new market environment. In the long run, new project investment will focus more on individual areas and reasonable extension of its regional competitive edges, which in turn highlights integration advantages, and hence resisting the impact of industrial volatility and maximizing the benefit. Geographically, the China-led Asia-Pacific region is still a region with the largest trading volume and fastest growth rate in the global petrochemical market, and in particular has a strong demand for fine chemical industry. The trend of future

Business Overview

development in the EPC engineering market will concentrate on the richly assorted fine chemical products and by-products, while the production of which requires a high level of engineering technology and design capability.

Faced with new challenges and opportunities, Wison Engineering upholds its operation tenet of "integrity-oriented, customer-oriented, innovation-oriented, achieving mutual success in harmony" (誠信為本、客户為尊、創新為要、和諧共贏), promptly responds to market demand by leveraging its advantages of high efficiency and flexibility as a private enterprise, pushes forward innovation in technology and management, and enhances its new technology engineering and design capabilities through continuous consolidation of research and development of its core technology and expansion of technological collaboration, with a view to developing the leading edges of its core products and enabling them to become the major growing business segment of the Company.

The Group enhanced its comprehensive competitiveness through R&D of proprietary technology and technology licensing cooperation

Benchmarking international leading enterprises, Wison Engineering strives to increase the application of digitalization and provides support to owners to achieve full-life cycle intelligent management in their factories through digitalization in the entire process of delivery with high standards. It focuses on enhancing control of the refined process based on data as well as the flexible and efficient on-site intelligent management system to enhance its management and delivery capabilities, thereby increasing the core competitiveness of the Company. On the other hand, the Group continues to enhance its overall advantages of modularized planning, design, manufacturing and on-site construction, demonstrating its operation edges in short construction period with high quality at low cost, which has achieved significant effectiveness and secured new orders in markets such as North America and Middle East. In addition, the Group continues to optimize its talent team and institution restructuring, develops the potential of its employees at all levels, strengthens collaboration between departments and systems, and highlights Wison Engineering's advantages in refined management, responsive and flexible mechanisms as well as efficient innovation.

Business Overview

(1) Building on local market and grasping new opportunities in domestic market, while being committed to the internationalization strategy

Faced with new challenges and fully leveraging the advantages of private enterprises in responsiveness and flexibility, Wison Engineering promptly responds to changes in the market and the industry. Meanwhile, the Group upholds the development strategy of building on local market and expanding into the international market. Domestic market will remain the world's biggest growth driver as well as the core market of Wison Engineering. Following a series of reform policies, domestic oil and gas, petrochemical and coal-to-chemical markets will gradually open to private and foreign enterprises, so as to attract more capital into domestic market and propel its rapid growth. With years of presence in the industry, Wison Engineering has established good cooperative relationship with a number of domestic outstanding petrochemical enterprise customers. Facing the intensifying competition in the industry, the Company has reinforced its focus on the high-quality execution, delivery and services of the existing contracted projects, hence gaining the trust from the customers and securing new collaborative opportunities in the course of upgrade, transformation and expansion of production in industries where its existing customers operate; at the same time, Wison Engineering will continue to optimize the procurement and execution of its projects and unleash value by means of shortening the construction period and reducing procurement and construction cost in a reasonable manner, aiming to secure new customers and new orders. In terms of domestic foreign-funded market, in virtue of its experience and edges in the international market, Wison Engineering will actively expand its customer coverage and further enhance its cooperation with renowned foreign enterprises such as Shell, BASF, SABIC, Air Liquide and Evonik Wynca in new domestic projects with a focus on clients' intellectual property protection.

Expanding into the overseas market is an inevitable step for the Group to become an international engineering company. With development of over a decade, Wison Engineering has developed well-established reputation and brand advantages. Wison Engineering has formulated prioritized development strategies catering to the characteristics of different markets in order to invest with corporate resources in a more effective manner. Given its abundant energy resources, the Middle East region actively developed refining and chemical industry, bringing new opportunities to the petrochemical industry. As the oil price recovered to a reasonable level, it is expected that the economic vitality of the region will increase significantly in the second half of 2021, which will further promote the regional development of the petrochemical industry. Wison Engineering has a high-quality customer base and sound reputation in the Middle East. The Company will devote greater efforts and focus on the expansion of the Middle East market to seize new opportunities. The Company's operation center in the Middle East

Business Overview

which has been operating for years has achieved outstanding performance. With quality services, cost and working period control, the operation center has made breakthroughs in orders obtained from different sectors. In particular, the Group obtained the EPC contract from Saudi Aramco for the first time during the Period under Review, which was the first EPC project for upstream oil and gas relating to natural gas treatment of Wison Engineering in the Middle East, marking the Group's breakthrough in modularized solutions in Saudi Arabia. In addition to the Middle East, emerging markets such as Russia, Central Asia and Southeast Asia are growing rapidly with huge market potential, which are also the key regions developed by Wison Engineering. Currently, the Group has obtained the front-end engineering design projects in Russia and other regions and is expected to further expand the market in the region. Furthermore, despite the fierce competition in the well-developed energy and chemical market in North America, the market in North America region has still provided sufficient market potential for Chinese enterprises with high execution efficiency and cost advantages. By leveraging its advantages in modularized construction and refined management, Wison Engineering will resolve the weaknesses of high labour costs and long working period for owners located in North America, thereby creating more value for customers and building a leading international brand image for the Company.

(2) Consolidating the advantages in core energy and chemical markets and accelerating the expansion of new energy and fine chemicals

In terms of industrial expansion, Wison Engineering will consolidate its core advantages in traditional energy and chemicals and step up efforts to explore new energy markets. The Group has significant advantages in technologies and project implementation in respect of core products, including ethylene and its downstream products, PDH, PTA, MTO, coal gasification and cracking furnace, and it is one of the industrial leaders with engineering design and EPC capabilities in olefins process technologies and PTA facilities in China. The Company will optimize its advantages in core technologies to continuously expand market shares and strive to increase profitability.

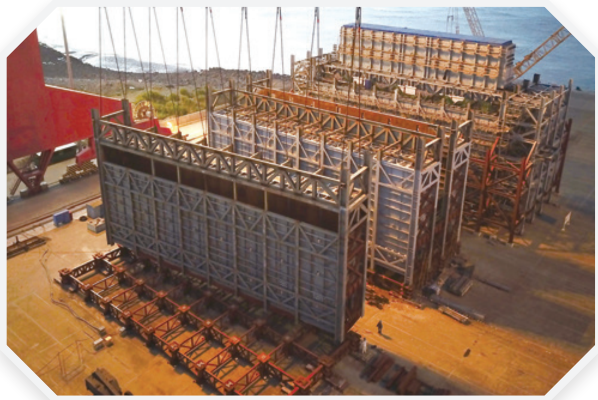
On the other hand, China has put forward the development goal to reach a peak in carbon dioxide emission by 2030 and achieve carbon neutral by 2060. Hence, China is vigorously planning and developing new energy industry and successively promulgated a series of supporting policies, enabling the new energy and clean energy industry to embrace opportunities for prosperity. This field, from technological research and development to effective fulfilling the production capacity, is at a stage when new technologies are booming, therefore, there will be huge demand for high-end and refined engineering, which has provided a valuable market opportunity for quality engineering companies excelling in utilizing new technologies. Wison Engineering has established a designated "New Energy Business Department" which is committed to developing a product line for comprehensive use of clean energy, including technologies such as comprehensive use of solar energy, wind power, downstream natural gas and hydrogen power as well as carbon capture and treatment. Meanwhile, the Group will also put more efforts in exploring new market segments such as biodegradable plastics and fine chemical.

(3) Accelerating the implementation of digitalization and modularization to build a technology-based engineering service enterprise

Wison Engineering believes that "technology-driven development", digital transformation and smart technology and modular operations will become the future core competitiveness of engineering companies. Digital transformation will be the overall trend of the industry and smart technology will be more widely applied in energy and chemical engineering. New technology empowers traditional industry while the significance of application of Digital Twin, Industrial Internet of Things (IoT), Cloud computing, artificial intelligence and other high and new technologies in the EPC engineering industry is growing. Through self-development and collaborations with global leading enterprises, the Group will continue to strengthen R&D in digital transformation and smart technology with a view to setting a new benchmark in the industry.

Digitization and smart technology will change the operation and work model of the engineering construction industry. The Group is committed to the in-depth application of digitization and smart technology by developing a digital design platform with dataflow, stream of technology and management as the core to realize digital transmission. By accumulating experience with professional experts specializing in software integration, the Group is aimed to improve quality and efficiency. The Group will also promote workflow optimization to increase effectiveness and build competitiveness through technologies such as big data analysis and Cloud computing. The Group will vigorously promote application of smart technology in its engineering projects and develop smart applications in, among others, procurement source tracing, logistics tracking, material management, progress deviation rectification, construction guidance, QHSE and emergency training, which will significantly improve construction quality and working efficiency, mitigate safety risks and reduce construction costs. Wison Engineering will adopt digital delivery throughout the whole process of design and project construction to help owners carry out lean and effective practice control, supply chain optimization, production process optimization and full-life cycle asset management so as to reduce maintenance costs and increase efficiency of facilities.

Business Overview



The Group endeavored to enhance the R&D and application of modular operations technologies

Modulization is another significant development trend. Through continuous optimization of modularized solutions for process facilities as well as accumulation of experience, more on-site installation work of steel structures, equipment, pipes and electrical instruments can be transferred to module processing plants so as to further increase working efficiency, shorten construction cycle at a lower cost and reduce the impact on the environment, which will also minimize project risks, improve quality and efficiency and foster mutual benefits with owners. Wison Engineering expects that as modulization will be applied in more scenarios and the value will improve continuously, it will be applied in projects with more technological complexity, larger in scale and longer in distance. As a benchmark enterprise in China in respect of modularized design and manufacturing, Wison Engineering will continuously enhance its standard and capability in modulization planning, design and implementation to further increase the Group's competitive edge in large-scale domestic and overseas petrochemical EPC projects, thereby exploring domestic market and potential markets in, among other regions, the United States, the Middle East, Central Asia, Southeast Asia and Russia.

(4) Putting greater efforts in technological R&D and technological cooperation to realize new growth points and facilitate diversified development

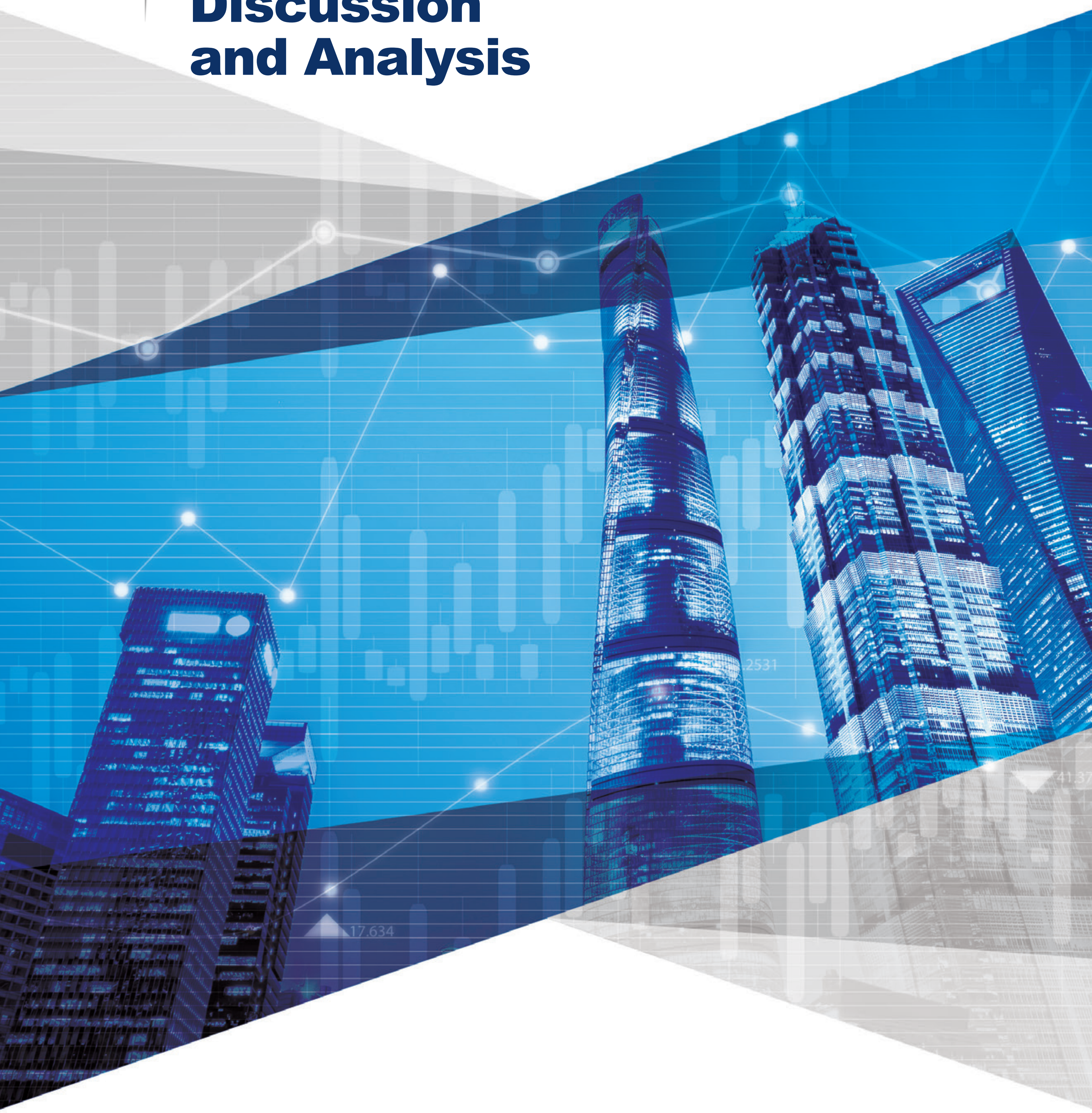
By firmly adhering to the strategic measure of "Promoting development and strengthening business with technologies", the Group closely tracks the popular research projects and development trends in the global energy and chemical industry, deeply explores the technological gap in the industrial market, actively matches the engineering and industrial requirements between research institutions of upstream base and end users for production in terms of energy conservation and consumption reduction as well as quality and efficiency enhancement, continuously focuses on breakthrough technologies of basic chemicals and chemical intermediates, green and clean production process and catalyzing technology, identifies the segmented markets in the comprehensive use of waste resources, high-value CO_2 chemical use and circular economy, and develops technological reserve. Having established its "new technological institute" to be more devoted to technological R&D and cooperation, Wison Engineering will develop an extensive global technical cooperation ecochain, enabling it to become the powerful support for the Group's development. The Group will create advantages in differentiated and diversified core technologies and march toward the goal of becoming "an engineering service enterprise with the most advanced technologies" with best endeavors.

Business Overview

Wison Engineering established "new technological institute" to be devoted to technological R&D and Cooperation

Since the establishment of the new technological institute, the Group has carried out in-depth research on various bottleneck technologies in chemical industry as well as energy conservation and environment protection processes and continuously made breakthroughs. Wison Engineering has made substantial progress in R&D of the catalyst sector and has entered its promotion stage. The Group has also made good progress in the technological development and product research of polyglycolic acid (PGA) in biodegradable plastics and is currently carrying out the construction of demonstration facilities with business partners. The successful development and potential application of the technology will be a favourable start for Wison Engineering to rapidly tap into the sector of new environmentally-friendly materials. In addition, the demonstration facility for ethylene-based MMA engineering technology with a capacity of 50kta co-developed by Wison Engineering, Benzo and Dalian Institute of Chemical Physics, Chinese Academy of Sciences has entered the implementation stage. The energy-saving and environmentally-friendly technology will significantly reduce the production costs of widely-used PMMA materials. In the future, Wison Engineering will further explore the technological collaboration in the sectors of hydrogen power, renewable energy and environmental protection technology and actively carry out investment and operation of industries which can be an effective extension of its principal business, with a view to promoting long-term sustainable development of the Group.

Management Discussion and Analysis



Management Discussion and Analysis

FINANCIAL REVIEW OF 2020

During the Year, revenue of the Group amounted to approximately RMB5,296.1 million (for the year ended 31 December 2019: approximately RMB4,367.3 million), representing a year-on-year increase of 21.3%. Despite the impact of the COVID-19 pandemic worldwide, the Group has accelerated the progress of those delayed projects after the pandemic came under control, coupled with the year-on-year increase in the number of the Group's project entering principal construction phase, giving rise to the increase in recognized revenue for the Year. Gross profit of the Group amounted to approximately RMB301.2 million (for the year ended 31 December 2019: approximately RMB408.2 million), representing a year-on-year decrease of 26.2%. Loss attributable to owners of the parent amounted to approximately RMB271.2 million (for the year ended 31 December 2019: profit attributable to owners of the parent of approximately RMB50.6 million), representing a year-on-year decrease of 636.0%, which was mainly attributable to the decline in gross profit margin of EPC projects due to intensified market competition and increase in construction costs during the Year under the impact of the pandemic. In addition, the Group's depreciation and amortization expenses also increased due to the change of the accounting policy during the Year. Meanwhile, the Group also recognised provision for impairment losses on financial and contract assets for certain projects as well as the fair value losses on financial assets at fair value through profit or loss.

During the Year, the Group's total new contract value (net of estimated valued added tax) amounted to approximately RMB10,657.2 million (for the year ended 31 December 2019: RMB12,776.6 million), representing a year-on-year decrease of 16.6%, of which EPC accounted for 97.2%. As at 31 December 2020, the total backlog value (net of estimated value added tax) was approximately RMB27,172.9 million, representing an increase of 24.3% compared to the total backlog value as at 31 December 2019.

Revenue and Gross Profit

The comprehensive revenue of the Group increased by 21.3% from RMB4,367.3 million for the year ended 31 December 2019 to RMB5,296.1 million for the Year.

The gross profit of the Group decreased by 26.2% from RMB408.2 million for the year ended 31 December 2019 to RMB301.2 million for the Year.

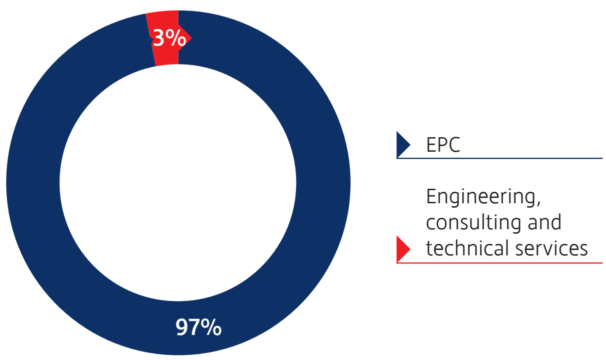
The gross profit margins of the Group for the year ended 31 December 2019 and 2020 were 9.3% and 5.7%, respectively.

Management Discussion and Analysis

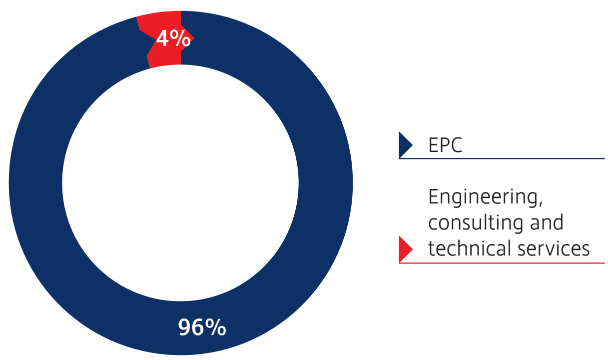
Details of comprehensive revenue and gross profit breakdown by business segments are set out below:

	Segment revenue		Segment gross profit		Segment gross profit margin	
	2020 (RMB'million)	2019 (RMB'million)	**2020 (RMB'million)**	2019 (RMB'million)	**2020 (%)**	2019 (%)
EPC	**5,116.0**	4,201.7	**245.2**	373.8	**4.8%**	8.9%
Engineering, consulting and technical services	**180.1**	165.6	**56.0**	34.4	**31.1%**	20.8%
	5,296.1	4,367.3	**301.2**	408.2	**5.7%**	9.3%

2020



2019



The revenue of EPC of the Group increased by 21.8% from RMB4,201.7 million for the year ended 31 December 2019 to RMB5,116.0 million for the Year. The increase of the revenue of EPC was mainly attributable to the smooth progress of the Group's petrochemical and coal-to-chemicals projects located in China and Middle East, which increased the revenue contribution during the Year. The gross profit margins of EPC of the Group decreased from 8.9% for the year ended 31 December 2019 to 4.8% for the Year. This was mainly because of the intensified competition in EPC market, increasing raw materials costs and costs incurred in project delay arising from outbreak of the COVID-19 pandemic during the Year.

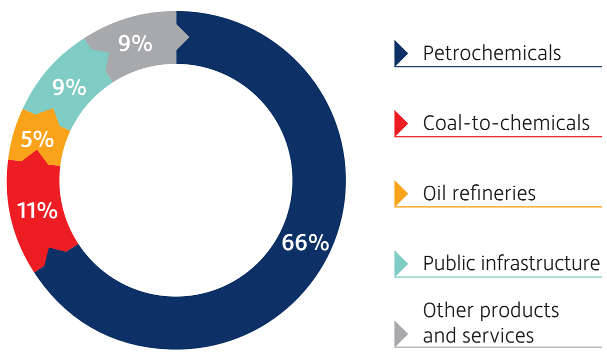
The revenue of engineering, consulting and technical services of the Group increased by 8.8% from RMB165.6 million for the year ended 31 December 2019 to RMB180.1 million for the Year. The gross profit margins of engineering, consulting and technical services of the Group increased from 20.8% for the year ended 31 December 2019 to 31.1% for the Year. This was mainly due to the cost optimization of the Group's certain engineering and consultancy projects, which increased their gross profit margin for the Year.

Management Discussion and Analysis

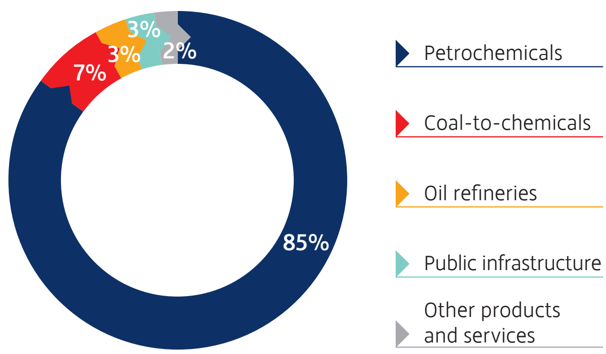
Details of comprehensive revenue breakdown by industries in which our clients operate are set out below:

	2020 (RMB'million)	2019 (RMB'million)	**Change**	Change (%)
Petrochemicals	**3,498.4**	3,711.3	**–212.9**	–5.7%
Coal-to-chemicals	**572.8**	321.7	**251.1**	78.1%
Oil refineries	**270.7**	151.6	**119.1**	78.6%
Public infrastructure	**461.7**	113.6	**348.1**	306.4%
Other products and services	**492.5**	69.1	**423.4**	612.7%
	5,296.1	4,367.3	**928.8**	21.3%

2020



2019



The revenue of petrochemical business segment decreased by 5.7%, essentially remaining the same. As the Group's petrochemical project in the United States approached to the completion stage during the Year, a year-on-year decrease in revenue was recorded. However, the Group's petrochemical projects in China and Middle East were well in progress, which offset the decrease in revenue from the US petrochemical project.

The revenue of coal-to-chemicals business segment increased by 78.1%. The coal-to-chemicals projects located in Fujian newly contracted by the Group in the previous year approached to the principal construction stage during the Year, driving the increase in revenue of the coal-to-chemical business segment.

The revenue of oil refineries business segment increased by 78.6%. This was mainly due to the Group's oil refinery projects located in Abu Dhabi entered the principal construction stage, which contributed to the increase in revenue in oil refinery segment.

Management Discussion and Analysis

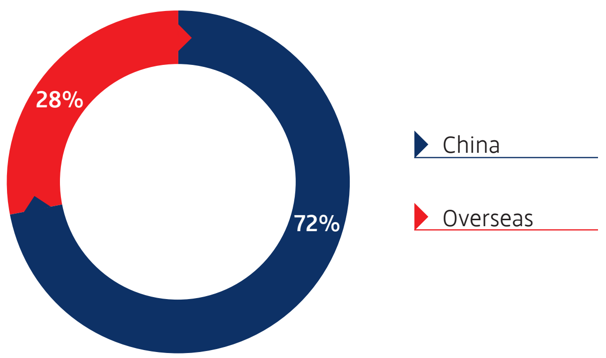
The revenue of public infrastructure business segment increased by 306.4%, which is mainly due to the fact that the Group's domestic water conservancy and sewage infrastructure projects have entered the principal construction stage and were well in progress.

The revenue of other products and services business segment increased by 612.7%. This was mainly due to the increase in revenue driven by the smooth progress of the Group's new materials project in Jiangsu.

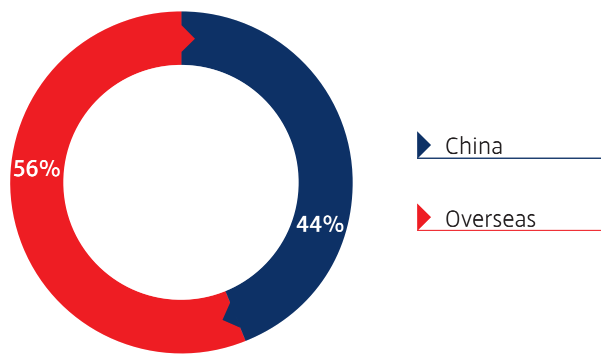
Details of comprehensive revenue breakdown by geographic locations of our projects are set out below:

	Year ended 31 December			
	2020		2019	
	Revenue (RMB'million)	**Percentage of total revenue (%)**	Revenue (RMB'million)	Percentage of total revenue (%)
Mainland China	**3,797.6**	**71.7%**	1,938.0	44.3%
America	**661.0**	**12.5%**	1,929.0	44.2%
Middle East	**824.0**	**15.5%**	482.8	11.1%
Others	**13.5**	**0.3%**	17.5	0.4%
	5,296.1	**100.0%**	4,367.3	100.0%

2020 % of total revenue by geographic locations



2019 % of total revenue by geographic locations



Management Discussion and Analysis

The revenue from overseas projects of the Group accounted for approximately 55.7% of the total revenue for the year ended 31 December 2019, whereas for the Year, revenue from overseas projects accounted for approximately 28.3% of the total revenue. The decrease in percentage weighting of revenue from overseas projects for the Year was mainly because the new orders entered by the Group during last year were primarily domestic projects. In addition, in view of the COVID-19 pandemic outbreak in overseas regions during the Year, the resumption of work and construction progress of the Group's overseas projects were delayed, as compared with domestic projects.

Other Income and gains

Other income and gains decreased by 38.0% from RMB293.9 million for the year ended 31 December 2019 to RMB182.1 million for the Year, in which government grants decreased by RMB95.3 million, net fair value gains decreased by RMB23.2 million, dividend income from equity investments at fair value through other comprehensive income increased by RMB8.0 million. The decrease in net fair value gains was mainly due to the significant decline in the fair value of the Group's financial asset at fair value through profit or loss.

Selling and Marketing Expenses

Selling and marketing expenses decreased by 21.3% from RMB132.9 million for the year ended 31 December 2019 to RMB104.6 million for the Year, which was mainly because the marketing activities diminished across the world due to the outbreak of the COVID-19 pandemic during the Year.

Administrative Expenses

Administrative expenses decreased by 14.9% from RMB288.8 million for the year ended 31 December 2019 to RMB245.8 million for the Year. Although the Group's depreciation and amortization increased as a result of the change of accounting policy, the Group significantly decreased the deployment of personnel of administrative and back office functions. In addition, the Group's expenses in relation to equity-settled share option and legal expenditure also decreased during the Year.

Management Discussion and Analysis

Other Expenses

Details of other expenses breakdown are set out below:

	2020 RMB million	2019 RMB million
Research and development costs	**144.9**	131.7
Expenses in relation to operating lease income	**19.7**	19.1
Bad debt (reversal)/provision	**–2.4**	3.3
Loss on derecognition of financial asset at fair value through profit or loss	**16.5**	–
(Reversal)/Provision of accrued liabilities	**–9.8**	18.7
Others	**3.6**	3.2
	172.5	176.0

Other expenses decreased by 2.0% from RMB176.0 million for the year ended 31 December 2019 to RMB172.5 million for the Year.

Finance Costs

Finance costs increased by 188.1% from RMB22.7 million for the year ended 31 December 2019 to RMB65.4 million for the Year, in which interest on bank loans increased by RMB40.1 million. The increase in interest on bank loans was mainly due to the fact that most of the bank loans and related interest on bank loans were incurred from the third quarter of previous year. Also, during the previous year, the average bank loans balance was less than that during the Year and so was the amount of interest expenses incurred. Please see the section headed "Financial Resources, Liquidity and Capital Structure" below for further details.

Income Tax Credit/Expense

Income tax decreased by 131.4% from income tax expense of RMB39.2 million for the year ended 31 December 2019 to income tax credit of RMB12.3 million for the Year, this was mainly because of the recognition of deferred tax assets arising from the provision of impairment losses on financial and contract assets during the Year.

Loss/profit for the year

Loss/profit for the year decreased by 636.6% from a profit of RMB50.6 million for the year ended 31 December 2019 to a loss of RMB271.5 million for the Year. Our net profit margin was 1.2% for the year ended 31 December 2019 and decreased to –5.1% for the Year. The decline was mainly because of the lower gross profit margins of the Group's major projects under construction during the Year. In addition, the Group's depreciation and amortisation expenses have increased during the Year due to the change of accounting policy. Meanwhile, the provision of impairment losses of financial and contract assets and the fair value losses on financial asset at fair value through profit or loss were also recognised during the Year.

Management Discussion and Analysis

Trade and Bills receivables

The Group's trading terms with its customers are mainly on credit where payment in advance is normally required. Trade receivables are non-interest-bearing and on credit terms of a period of 30 days or the respective contracts' retention period. The Group's total trade and bills receivables decreased by approximately 22.8% from RMB1,218.2 million as at 31 December 2019 to RMB941.0 million as at 31 December 2020.

Financial Resources, Liquidity and Capital Structure

As at 31 December 2020, the Group's cash and bank balances amounted to RMB471.0 million, representing approximately 10.1% of the Group's current assets (as at 31 December 2019: RMB814.3 million, representing approximately 19.0% of the Group's current assets).

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

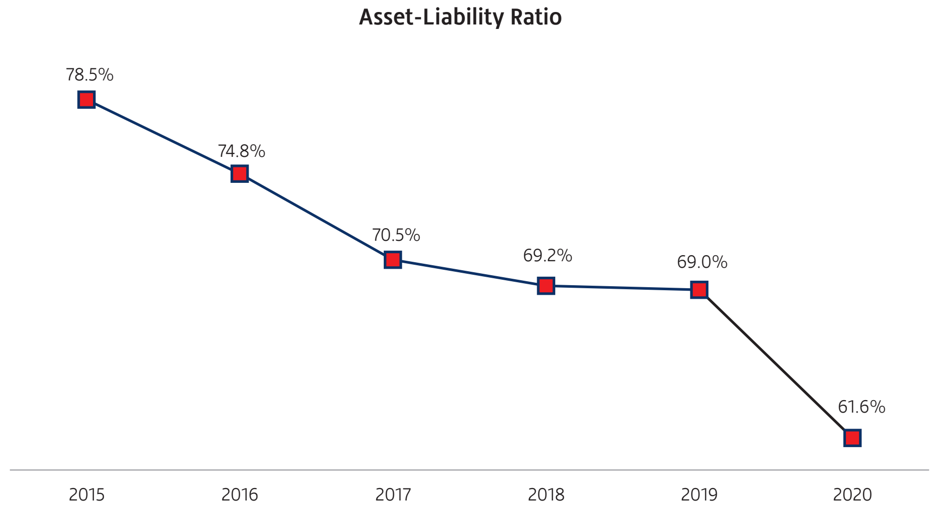
	For the year ended 31 December	
	2020	2019
	RMB million	RMB million
Net cash flows from operating activities	**(335.1)**	(271.1)
Net cash flows from investing activities	**(142.8)**	(338.0)
Net cash flows from financing activities	**156.6**	483.5

As at 31 December 2020, the Group's pledged and unpledged cash and bank balances included the following amounts:

	As at 31 December	
	2020	2019
	RMB million	RMB million
Hong Kong Dollar	**9.5**	7.6
US Dollar	**293.6**	714.8
Renminbi	**926.3**	786.4
Saudi Riyal	**58.6**	80.3
Euro	**1.0**	14.6
South African Rand	**2.7**	8.3
UAE Dirham	**2.7**	1.3

Management Discussion and Analysis

The Asset-Liability Ratio of the Group, which was derived by dividing average total liabilities by average total assets, is set out below. The Asset-Liability Ratio of the Group has exhibited a downward trend. The decrease in Asset-Liability Ratio for the Year was mainly attributable to the increase in the proportion of the Group's total assets.



Interest-bearing bank and other borrowings of the Group as at 31 December 2020 and 2019 were set out in the table follow. The short-term bank borrowings of the Group accounted for 100.0% of the total bank borrowings (31 December 2019: 40.5%).

	As at 31 December	
	2020	2019
	RMB million	RMB million
Current		
Bank loans repayable within one year		
— secured	**134.3**	252.0
Current portion of long-term bank loans		
— secured	**805.0**	52.8
	939.3	304.8
Non-Current		
Bank loans repayable after one year		
— secured	**–**	447.2

Bank borrowings were denominated in RMB and USD at 31 December 2020 and 2019. As at 31 December 2020, bank borrowings amounting to RMB939,327,000 (31 December 2019: RMB62,000,000) 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 2019	4.79% to 5.88%
Year ended 31 December 2020	2.60% to 5.88%

The maturity profile of interest-bearing bank and other borrowings as at 31 December 2020 and 2019, based on contractual undiscounted payments, is as follows:

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
			RMB million		
31 December 2020 Interest-bearing bank and other borrowings	**–**	**927.9**	**59.5**	**287.3**	**1,274.7**
31 December 2019 Interest-bearing bank and other borrowings	–	213.7	122.1	632.8	968.6

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

Material Acquisitions and Disposals

Reference is made to the discloseable transaction announcements dated 22 June 2020 and 4 December 2020 of the Company. The Company declared in the announcement that on 22 June 2020, a wholly-owned subsidiary of the Company, Shanghai Huicheng Enterprise Management Limited ("Shanghai Huicheng") entered into the Limited Partnership Agreement (the "Previous Limited Partnership Agreement") with Silver Saddle Equity Investment Management (Shanghai) Co., Ltd. ("Silver Saddle") and the Other Limited Partners, pursuant to which, Shanghai Huicheng (as limited partner), the Other Limited Partners and Silver Saddle (as general partner) agreed to establish the Limited Partnership for carrying out equity and equity-related investments in new materials, fine chemicals and other fields and projects related to national strategic emerging industries. The Previous Limited Partnership Agreement has a target total capital contribution size of RMB950,000,000 and the capital contribution by Shanghai Huicheng is RMB160,000,000, representing approximately 30.2% of the Initial Capital Contribution.

On 4 December 2020, Shanghai Huicheng, Other Limited Partners and general partner entered into a new limited partnership agreement (the "New Limited Partnership Agreement") to amend the terms of the Previous Limited Partnership Agreement. Pursuant to the New Limited Partnership Agreement, a new limited partner had been added to the Limited Partnership and the New Limited Partnership Agreement shall replace and supersede the Previous Limited Partnership Agreement. Pursuant to the new Limited Partnership Agreement, the target total capital contribution size of the Limited Partnership has been reduced from

Management Discussion and Analysis

RMB950,000,000 to RMB910,000,000. There is no change to the contribution amount of Shanghai Huicheng in the Limited Partnership (being RMB160,000,000), representing approximately 21.11% of the Initial Capital Contribution. Shanghai Huicheng has completed the related agreed capital contribution pursuant to the New Limited Partnership Agreement.

Capital Expenditure

The capital expenditure of the Group amounted to RMB11.7 million for the Year (2019: RMB32.8 million).

Foreign Exchange Risk Control

The business transactions of the Group are mainly settled in Renminbi and US dollars. The Group is exposed to currency risks in relation to the bank balances denominated in currency other than the functional currencies of the relevant entities. The Group has formulated and strictly adheres to a currency hedging policy against the foreign currency risk.

Contingent Liabilities

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

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

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

(4) During 2020, a sub-contractor of Wison Engineering applied for arbitration in Shanghai Arbitration Committee for additional payment of construction costs, guarantee deposits, loss expenses and the interest arising from the overdue payment of above mentioned expenses mentioned of approximately RMB48,966,000.

(5) During 2020, a sub-contractor of Jiangsu Wison filed a claim to the Jintan District People's Court in Mainland China against Jiangsu Wison for an overdue payment of construction cost of approximately RMB9,668,000. As at 31 December 2020, certain bank account of Jiangsu Wison of RMB9,700,000 were frozen by Jintan District People's Court for property preservation.

(6) During 2020, a sub-contractor of Jiangsu Wison filed a claim to the Jiangsu Province's People's Court in Mainland China against Jiangsu Wison for additional payment of construction costs and the interest arising from the overdue payment of construction costs of approximately RMB17,655,000. As at 31 December 2020, certain bank account of Jiangsu Wison of RMB20,000,000 were frozen by Jiangsu Province's People's Court for property preservation.

Management Discussion and Analysis

(7) During 2020, a sub-contractor of Jiangsu Wison filed a claim to the Taixing People's Court in Mainland China against Jiangsu Wison and Wison Engineering as a defendant to undertake the joint liability for an additional payment of construction costs and the interest arising from the overdue payment of construction costs of approximately RMB11,657,000. As at 31 December 2020, certain bank account of Jiangsu Wison of RMB10,500,000 were frozen by Taixing People's Court for property preservation.

As of the date of approval of the financial statements, for case (1) and case (2) Wison Engineering and the subcontractors have completed judicial cost audit by an independent third party arranged by the court and trials are yet to be scheduled. For case (3) Wison Engineering and the sub-contractors have completed the first pre-trial evidence exchange in court and cross-examination, and trials are yet to be scheduled. The trial of case (4), case (5), case (6) and case (7) are yet to be scheduled.

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

The directors of the Company have made additional related provision of RMB73,210,000 in its financial statements for the year ended 31 December 2020 for case (1) and case (2) due to the possibility of the Group to take responsibility for the additional settlement on the basis of the available evidence and legal advice taken.

Pledge of Assets

As at 31 December 2020, certain buildings of RMB3,603.5 million, as well as future years right of receiving rental income from certain properties, were pledged as security for bank facilities of the Group.

Human Resources

As at 31 December 2020, the Group had 1,538 employees (31 December 2019: 1,694 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. During the Year, the total staff cost of the Group (including salaries, bonuses, insurance and share option schemes) amounted to RMB665.5 million (during the year ended 31 December 2019: RMB619.3 million). The Group adopted the Pre-IPO Share Option Scheme and the Share Option Scheme on 30 November 2012 as encouragement and reward for the contributions of employees to the Company.

Biographies of the Directors and Senior Management

Biographies of the Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yan Shaochun (閆少春), aged 56, was appointed as an executive Director of our Company and the Chief Executive Officer of our Group on 5 February 2021. He has approximately 35 years of experience in oil refining, petrochemical, coal-to-chemicals and other energy chemical industries. Prior to joining our Group, Mr. Yan served as the general manager of Wood Zone Co., Ltd. from 2019 to 2021, the deputy director of the engineering department at Sinopec Group from 2017 to 2018, an executive director and the general manager of Sinopec Engineering (Group) Co., Ltd. from 2012 to 2017, the general manager of Luoyang Petrochemical Engineering Corporation Ltd. from 2004 to 2012, the deputy general manager of Sinopec Engineering Incorporation from 1998 to 2004 and various other positions within the Sinopec Group from 1986 to 1998.

Mr. Yan obtained a bachelor degree in engineering and majored in petroleum refining from Fushun Petroleum Institute in 1986 and completed the Advanced Management Program of Harvard Business School in 2005. Mr. Yan is a professor-level senior engineer in oil refining and petrochemical specialty and is a registered senior project manager and a registered chemical engineer in the PRC.

Mr. Zhou Hongliang (周宏亮), age 51, is a senior vice president of our Group and was appointed as an executive Director of our Company on 10 September 2013. He is mainly responsible for the Company's brand operation and system establishment in terms of quality and safety. He graduated from Liaoning Shihua University (遼寧石油化工大學), formerly known as the Fushun Petroleum Institute (撫順石油學院) in 1991. He received his master's degree in business administration from China Europe International Business School (中歐國際工商學院) in 2014. He obtained the qualification of constructor from the Ministry of Construction of the People's Republic of China (中華人民共和國建設部) in 2006. He was responsible for project management in Sinopec Ningbo Engineering Co., Ltd. from 1991 to 2002. From 2002 to 2004, Mr. Zhou worked as a deputy manager in the Ethylene Project Team in Shanghai SECCO Petrochemical Company Limited (上海賽科石油化工有限責任公司). Mr. Zhou joined our Group in January 2005 as a manager of the construction management department of Wison Engineering and was appointed as the deputy general manager of Wison Engineering in January 2008. He has 27 years' experience in the petrochemicals industry.

Biographies of the Directors and Senior Management

Mr. Dong Hua (董華), age 53, was appointed as an executive Director of our Company on 13 January 2017. Mr. Dong joined the Group in July 2006 and served as the assistant to general manager and the manager of Beijing Design Centre. In the second half of 2008, he served concurrently as the general manager of the International Business Division, responsible for the business expansion in international markets and foreign-funded projects in the domestic market. Mr. Dong is also a senior vice president of the Group and the manager of Wison Petrochemicals (NA), LLC, an indirect wholly-owned subsidiary of the Company. Mr. Dong is mainly responsible for supervising overseas marketing and overseeing the international business, and is also responsible for supervising the overseas regional sales and overseas branches. Mr. Dong graduated from Lanzhou Petroleum College (蘭州石油學校), the PRC, with a major in chemical equipment in 1988 and subsequently graduated from China Three Gorges University (三峽大學), the PRC, with a major in law in 2006. Mr. Dong obtained an EMBA from The Hong Kong University of Science and Technology, Hong Kong in 2015. Mr. Dong joined Sinopec Engineering Incorporation (SEI) in 1988, where he engaged in project management and served as the design or EPC general contracting project manager and construction manager for a number of petrochemical projects. From 2001 to 2005, he participated in the project construction of the 800-kt ethylene integration plant of CNOOC and Shell Petrochemicals Company Limited (CSPC) Nanhai Petrochemicals, which features the highest standards to date, and served successively as the deputy general project manager, deputy general whole-plant construction manager, and government relations and approval manager for the project management company (PCM) BSF China Company Limited, a PCM comprising three internationally renowned engineering companies: BECHTEL (USA), FOSTER WHEELER (UK), and SEI (China). Mr. Dong has over 31 years' experience in the petrochemicals industry.

Mr. Zheng Shifeng (鄭世鋒), age 53, is a senior vice president of our Group and was appointed as an executive Director of our Company on 1 September 2020. He is responsible for the execution of domestic and overseas projects. Mr. Zheng graduated from Hefei University of Technology (合肥工業大學) with a major in welding technology and equipment in 1990 and obtained a bachelor's degree in engineering. He has been engaging in the project management in the petrochemicals and coal-to-chemicals industries and gained extensive experience. He holds the title of senior engineer and the qualification of registered qualification certificate professional constructor of electrical and mechanical engineering in the PRC (國家註冊機電工程專業一級建造師). He also holds an EMBA degree from China Europe International Business School (中歐國際工商學院). From 1996 to 2004, he worked as a project manager in the engineering department of Sinopec Qilu Petrochemical Corporation. Mr. Zheng joined our Group in 2004 and has successively served as the deputy manager and the general manager of the Project Management Department as well as the vice president of our Group and was once in charge of the execution of Group's domestic and overseas projects and international business in the Middle East and partial region of Africa. Mr. Zheng is a member of council of Shanghai Association of International Services Trade. Mr. Zheng has 30 years' experience in the petrochemicals industry.

Biographies of the Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. Liu Hongjun (劉洪鈞), aged 48, joined our Company as a non-executive Director on 19 February 2020 and appointed as Chairman on 5 February 2021. He obtained a bachelor degree in chemical engineering and processes and a master degree in chemical engineering from Tsinghua University in the PRC in 1996 and 1999, respectively, and an Executive Master of Business Administration (EMBA) degree from China Europe International Business School in the PRC in 2010.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lawrence Lee (李磊), age 56, joined our Company as an independent non-executive Director on 30 March 2015. Mr. Lee has been an independent director of Guangdong New Jingang Technology Limited (a China GEM Board Company) since August 2017 to January 2019. During his career of over 25 years, Mr. Lee also held several senior finance positions, serving as the Chief Financial Officer at Synutra International, Inc. (a company listed on NASDAQ) from October 2007 to October 2009; as a vice president and the Chief Financial Officer of Kasen International Holdings Limited (卡森國際控股有限公司) (a company listed on the Stock Exchange) from August 2004 to September 2007; as the Chief Financial Officer of Eagle Brand Holdings Limited (a company listed on the Singapore Stock Exchange), from July 2001 to April 2004; and as a financial controller at the Korean division of Exel Plc of the United Kingdom from January 1999 to July 2001. Mr. Lee received a bachelor's degree in management and engineering from the Beijing Institute of Technology in 1984. Mr. Lee also obtained a master's degree in economics from the Renmin University of China in 1987 and a master's degree in accounting and finance from the London School of Economics and Political Science in 1992. He is also a fellow member of the Association of Chartered Certified Accountants.

Biographies of the Directors and Senior Management

Mr. Tang Shisheng (湯世生), age 64, joined our Company as an independent non-executive Director on 7 December 2015. Mr. Tang, PhD in economics, is a senior economist. Mr. Tang was admitted to Hunan College of Finance and Economics in September 1978 and became a teacher in the college after graduation in August 1981. From August 1988 to July 1994, Mr. Tang served successively as deputy general manager of the international business department of Hainan branch and branch president of Yangpu branch of the Hainan Province of China Construction Bank. From July 1994 to February 1997, Mr. Tang served successively as person in charge of preparation team and vice president of China International Capital Corporation Limited (中國國際金融有限公司) (now known as China International Capital Corporation Limited (中國國際金融股份有限公司)). From February 1997 to September 2009, Mr. Tang served successively as vice president of China Cinda Trust Investment Company (中國信達信託投資公司), vice president of China Galaxy Securities Limited Liability Company (中國銀河證券有限責任公司) (now known as China Galaxy Securities Co., Ltd. (中國銀河證券股份有限公司)), chairman of Hong Yuan Securities Co., Ltd. (a company listed on Shenzhen Stock Exchange, Stock Code: 000562). Mr. Tang acted as senior vice president of Peking University Founder Group Co., Ltd. from September 2009 to June 2012; and as chairman of Founder Capital Holdings Limited from October 2010 to June 2012. Mr. Tang served as supervisor, chairman and director of Hodojou Technology Co., Ltd. (華多九州科技股份有限公司), formerly known as Beijing HODOJOU Technology Co., Ltd (北京華多九州科技有限公司) (a company listed on National Equities Exchange and Quotations, Stock Code: 834567) from March 2012 to October 2018. Mr. Tang was an independent director of Geo-Jade Petroleum Corporation (洲際油氣股份有限公司) (formerly known as Hainan Zhenghe Industrial Group Co., Ltd. (海南正和實業集團股份有限公司), a company listed on Shanghai Stock Exchange, Stock Code: 600759) from December 2013 to July 2019. Mr. Tang has been an independent director of China CITIC Bank International Limited (中信銀行(國際)有限公司) since November 2013.

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

Biographies of the Directors and Senior Management

Mr. Feng Guohua (馮國華), age 52, joined our Company as an independent non-executive Director on 28 December 2015. Mr. Feng has over 25 years of experience in information technology and management of consultancy services. Mr. Feng has extensive international exposure and experience in providing consulting services to multinational companies, state-owned enterprises and private enterprises.

Mr. Feng is currently served as an executive director and the Chief Executive Officer of Man Wah Holdings Limited (Stock code: 01999.HK) and he is also an independent director of Shanghai Jahwa United Co., Ltd. (Stock code: 600315.SH), (which is listed on Shanghai Stock Exchange).

Prior to that, Mr. Feng had served as general Manager of The Greater China Corporate Services Department of Microsoft (China) ("Microsoft") from April 2016 to September 2020. Before he joined Microsoft, he had also been a Vice President and the managing partner at IBM Global Business Consulting Services Department.

Mr. Feng graduated from the University of Science and Technology of China in 1990 with a Bachelor's degree which majors in economic management and minors 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 53, is a senior vice president of our Group. She is responsible for the professional talent resource efficiency, professional technical capabilities and enhancement of corporate productization capabilities of Wison Engineering, and at the same time, is a senior supporter of various domestic and overseas projects. Ms. Chen graduated from Xi'an Jiaotong University (西安交通大學) with a bachelor's degree in chemistry and chemical engineering in 1989, and had the qualification of senior engineer. From 1998 to 2007, Ms. Chen successively worked at Petrochina Lanzhou Petrochemical Company (中石油蘭州石化工程公司) as project manager, project director and the manager of technology management department. Ms. Chen joined our Group in 2007 and successively worked at Wison Engineering as deputy manager of the quality and safety department, manager of the technical management department, manager of the research and development center and vice president of the Group, and was once in charge of technology research, engineering design, information technology as well as quality and safety. Ms. Chen has 29 years' experience in the petrochemicals industry. She obtained an EMBA degree from the Chinese University of Hong Kong in 2015.

Biographies of the Directors and Senior Management

Mr. Li Yansheng (李延生), age 56, is the chief engineer and the chief scientist of our Group. He is mainly responsible for guiding and leading the technology development of Wison Engineering and supporting and participating in internal technology research and development of Wison Engineering. Mr. Li graduated from Qingdao Institute of Chemical Technology (青島化工學院) with a bachelor's degree in organic chemical engineering. Mr. Li also obtained a certificate in business administration (MBA core course) from Antai College of Economics and Management of Shanghai Jiao Tong University (上海交通大學安泰經濟與管理學院) in 2006. Mr. Li then obtained an executive education program certificate from Cheung Kong Graduate School of Business (長江商學院) in 2010. Prior to joining our Group, Mr. Li worked at Shandong Qilu Petrochemical Engineering Co. Ltd as vice chief engineer from 1987 to 2004. Mr. Li joined our Group in 2004 and worked at the technical department of Wison Engineering. He then worked in the design management department and technical management department of Wison Engineering as a manager and vice chief engineer in 2005 and 2006, respectively. Mr. Li was working at Wison Engineering as an assistant to general manager and technical director in 2008. Since 2017, Mr. Li has been working at Wison Engineering as chief engineer and chief scientist. Mr. Li also received various awards such as First-class Technical Progress Award (科技進步一等獎) from All-China Federation of Industry & Commerce (中華全國工商業聯合會) and the nationwide outstanding chemical engineering worker (全國化工優秀科技工作者) from China Petroleum and Chemical Industry Federation (中國石油和化學工業聯合會) in 2010. He earned the title as a master of exploration design in the petroleum industry of the PRC in 2013. In 2018, he was awarded the "Nomination Award for Meritorious Figure" from Shanghai Exploration & Design Trade Association for echoing 40th anniversary of Reform and Opening up.

Mr. Pang Xiongying (龐雄鷹), age 55, is the chief technology officer of Wison Engineering, mainly responsible for global technology cooperation, global market strategic research and marketing, and in charge of the product technology centre, the technology development centre and the marketing department. Mr. Pang has 30 years of professional experience in energy and chemical industry management, market analysis, business planning, operation, engineering and technology, specializing in corporate strategy and market analysis. Mr. Pang started his career as a R&D researcher with SINOPEC in Research Institute of Petroleum Processing. He also worked as an engineer and business planner for ExxonMobil from December 1995 to March 2003. He joined CMAI Consulting in 2003; became a partner and then established CMAI's China business, which he served as the president from January 2006 to May 2011. After IHS acquired CMAI in May 2011, he served as a vice president, leading Greater China and then later Asia Pacific chemical business. Mr. Pang graduated from South China University of Technology with a bachelor's degree in chemical engineering in 1988. He also obtained a master's degree in chemical engineering from National University of Singapore in 1995 and a master's degree in economics from University of Houston, the United States in 2001. Mr. Pang joined the Group in February 2019.

Biographies of the Directors and Senior Management

Mr. Cui Hongxing (崔洪星), age 55, is the senior vice president and chief scientist of Wison Engineering, responsible for assisting in the global development of the Group's international business, and fully in charge of the expansion and growth of international business in emerging markets and regions, such as Africa. Mr. Cui has approximately 32 years of experience in the petrochemical industry. He is familiar with the development trends of domestic and international refining industry, product development directions and technical developments, and has won various technical progress awards. Mr. Cui worked as a deputy chief engineer, general manager of the overseas department and director of the consulting office in Beijing for SINOPEC Luoyang Petrochemical Engineering Co., Ltd. from July 1988 to October 2006 and received training at JGC Corporation at an earlier time. He worked as a senior process specialist for Jacobs Canada Limited from November 2006 to July 2011 and served as a senior technology responsible officer of the chief representative office in Beijing and senior project development manager for Qatar Petroleum International from August 2011 to July 2015. Mr. Cui is a senior expert in refining technology, design management and project development, with achievements covering consulting, planning, technical demonstrations and patent technology selections, engineering designs, project investment demonstrations and opportunity researches for large-scale refining projects, biddings and quotations for domestic and overseas projects, and overseas project development and cultivation. Mr. Cui joined the Group in August 2015 and was appointed as a technical director of the design centre, corporate refining technology director, and deputy general manager of the product technology centre. Mr. Cui graduated from Dalian University of Technology with a master's degree in 1988.

Report of the Directors

Report of the Directors

The board of directors of the Company (the "**Board**") is pleased to present this annual report together with the audited financial statements of the Company and its subsidiaries (the "**Group**"), for the year ended 31 December 2020.

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

Overview and Performance of the Year

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

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

Environmental Policies and Performance

The Group has established and implemented environmental management systems in accordance with the GB/T 24001-2004/ISO14001:2004 standards, and 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

Report of the Directors

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.

Compliance with Relevant Laws and Regulations

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

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

SUBSEQUENT EVENTS

The Group incurred a net loss attributable to owner of the Company of RMB271,238,000 during the year ended 31 December 2020 and the Group had net current assets of RMB26,496,000 as at 31 December 2020.

As a result of net loss recorded by the Group, the Group is in breach of financial covenant with a certain bank (the "**Bank**") which is entitled to demand for immediate repayment of the principal amount of RMB805,000,000 and accrued interest as at 31 December 2020 as stipulated in the provisions in the loan agreement.

In order to improve the Group's operating and financial position, the directors of the Company have taken certain measures. For details, please refer to note 2.1 of the consolidated financial statements on page 94 of this report.

The Directors have reviewed the Group's cash flow forecast covering a period of twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future.

As at the date of this report, the Bank has not raised any demand for immediate repayment.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, the aggregate purchases of raw materials attributable to the Group's five largest suppliers accounted for approximately 22.6% of the Group' s total purchases. Our purchases attributable to the single largest supplier accounted for approximately 8.4% of the Group's total purchases for the same period.

For the year ended 31 December 2020, our five largest clients, in aggregate, accounted for approximately 69.6% of our total revenue. Our revenue derived from the single largest client for the same period amounted to approximately 31.6% of our total revenue.

None of our Directors, any of their close associates or any shareholders that, to the knowledge of our Directors, own more than 5% of the issued share capital of our Company had any interest in any of our five largest suppliers or clients during the year ended 31 December 2020.

SUBSIDIARIES AND ASSOCIATE

Particulars of the Company's subsidiaries and the Group's associate as at 31 December 2020 are set out in Notes 1 and 18 to the financial statements respectively.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on page 86 of this annual report.

FINAL DIVIDEND

The Board has resolved not to declare a dividend for the year ended 31 December 2020 (2019: HK$0.0040 per ordinary share).

DONATIONS

No donations were made by the Group during the year ended 31 December 2020 (2019: NIL).

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTION SCHEMES

Details of the Company's share capital and share option schemes are set out in Notes 31 and 32 to the financial statements and the paragraph "Share Option Schemes" below, respectively.

RESERVES

Changes to the reserves of the Group during the year ended 31 December 2020 are set out in the consolidated statement of changes in equity. Changes to the reserves of the Company during the year ended 31 December 2020 are set out in Note 39 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands comprise the share premium and retained earnings totaling approximately RMB872,486,000.

Report of the Directors

DIRECTORS

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

Executive Directors

Ms. Rong Wei *(Chief Executive Officer)*(1)
Mr. Yan Shaochun *(Chief Executive Officer)*(2)
Mr. Zhou Hongliang
Mr. Li Zhiyong *(Chief Financial Officer)*(3)
Mr. Dong Hua
Mr. Zheng Shifeng(4)

Non-executive Director

Mr. Liu Hongjun *(Chairman)*(5)

Independent Non-executive Directors

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

(1) Ms. Rong has resigned with effect from 5 February 2021.

(2) Mr. Yan was appointed with effect from 5 February 2021.

(3) Mr. Li has resigned with effect from 7 August 2020.

(4) Mr. Zheng was appointed with effect from 1 September 2020.

(5) Mr. Liu was appointed as the Chairman with effect from 5 February 2021.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and the senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 41 to 47 of this annual report.

SERVICE CONTRACTS OF THE DIRECTORS

Each of the executive Directors has entered into a three-year service contract with the Company and effective from their respective appointment dates, is subject to termination before expiry by either party giving not less than six months' notice in writing to the other. Each of the independent non-executive Directors has entered into a letter of appointment with the Company which commenced from their respective appointment dates for an initial term of three years and shall be terminable by either party giving not less than three months' notice in writing to the other.

All Directors are subject to retirement by rotation and re-election at annual general meeting at least once every three years, and will continue thereafter until terminated in accordance with the terms of the service contract/letter of appointment.

In accordance with Article 108 of the Company's Articles of Association, Mr. Liu Hongjun, Mr. Dong Hua and Mr. Feng Guohua will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

In accordance with Article 112 of the Company's Articles of Association, Mr. Yan Shaochun and Mr. Zheng Shifeng will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

None of Mr. Liu Hongjun, Mr. Dong Hua, Mr. Feng Guohua, Mr. Yan Shaochun and Mr. Zheng Shifeng 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.

Report of the Directors

REMUNERATION OF THE DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' remuneration and the five highest paid individuals in the Group are set out in note 9 to the consolidated financial statements in this annual report.

EMPLOYEES AND REMUNERATION POLICIES

A review of the employees and remuneration policies of the Group during the Year are set out in the section headed "Management Discussion and Analysis" on page 39 of this annual report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rule. The Company considers that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

MANAGEMENT CONTRACTS

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

Report of the Directors

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

As at 31 December 2020, 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:

(a) Long position in the ordinary share of the Company (the "Share")

Name of Director	Company/Name of Group Company	Capacity/ Nature of interest	Number of Shares[1]	Approximate percentage of shareholding
Zhou Hongliang	Company	Beneficial owner	3,250,000(L)	0.08%
Dong Hua	Company	Beneficial owner	2,440,000(L)	0.06%
Zheng Shifeng	Company	Beneficial owner	2,250,000(L)	0.06%
Liu Hongjun	Company	Beneficial owner	1,000,000(L)	0.02%

Notes:

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

(b) Long position in underlying Shares — share options

The following directors of the Company have personal interests in options to subscribe for the Shares:

			Number of share options				
Name	Date of grant	Exercisable period	Balance as at 1 January 2020	Granted during the Year	Exercised during the Year	Balance as at 31 December 2020	Exercise price per share (HK$)
Lawrence Lee	14 November 2017	15 November 2018 to 14 November 2022	1,000,000	–	–	1,000,000	1.744
Tang Shisheng	14 November 2017	15 November 2018 to 14 November 2022	1,000,000	–	–	1,000,000	1.744
Feng Guohua	14 November 2017	15 November 2018 to 14 November 2022	1,000,000	–	–	1,000,000	1.744

Report of the Directors

Save as disclosed above, as at 31 December 2020, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEMES

Share Option Scheme of the Company

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

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

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of our Company shall not exceed such number of shares as shall represent 30% of the issued share capital of our Company from time to time. Subject to the above, the Board may grant options under the Share Option Scheme in respect of such number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes in aggregate not exceeding 10% of the issued share capital of the Company as at the date on which dealings in the Shares commenced on the main board of the Stock Exchange (the "**Scheme Mandate Limit**") (being 400,000,000 Shares). Therefore, as at 31 December 2020, the total number of shares which may be issued on the exercise of options granted or to be granted under the Share Option Scheme and any other schemes is 256,277,200, representing approximately 6.29% 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.

Report of the Directors

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

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

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

(iii) the nominal value of the Shares.

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

On 14 November 2017, the Company granted share options to the eligible participants to subscribe for a total of 134,200,000 Shares under the Share Option Scheme. The following table discloses movements in the outstanding share options granted under the Share Option Scheme during the Year:

			Number of share options						
Category	Date of grant	Exercisable period	Balance as at 1 January 2020	Granted during the period	Exercised during the period	Lapsed/ forfeited during the period	Cancelled during the period	Balance as at 31 December 2020	Exercise price per share HK$
Independent non-executive directors	14 November 2017	15 November 2018 to 14 November 2022	3,000,000	–	–	–	–	3,000,000	1.744
Employees	14 November 2017	15 November 2018 to 14 November 2022	123,800,000	–	–	4,050,000	–	119,750,000	1.744
Total			**126,800,000**	**–**	**–**	**4,050,000**	**–**	**122,750,000**	

No option has been granted under the Share Option Scheme during the year ended 31 December 2020. Save as disclosed above, no option has been cancelled or lapsed during the year ended 31 December 2020.

Pre-IPO Share Option Scheme of the Company

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

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

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

As at 31 December 2019, the maximum number of shares in respect of which pre-IPO options have been granted and outstanding under the Pre-IPO Share Option Scheme is 130,527,000 shares, representing approximately 3.20% of the issued share capital of our Company as at the date of this report. These pre-IPO options have an exercise price of HK$0.837 per share. No further options can be granted under the Pre-IPO Share Option Scheme after the Listing Date.

As at 31 December 2020, all outstanding pre-IPO options have lapsed and the pre-IPO Share Option Scheme has therefore been terminated.

Report of the Directors

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

As at 31 December 2020, the following persons (other than the Directors or the chief executive of the Company) has interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name	Company/Name of Group Company	Capacity/ Nature of interest	Number of Shares directly or indirectly held[1]	Approximate percentage of shareholding
Wison Engineering Investment Limited ("Wison Investment")	Company	Beneficial owner	3,088,782,146(L)	75.82%
Wison Holding[2]	Company	Interest in controlled corporation	3,088,782,146(L)	75.82%
Mr. Hua Bangsong[3]	Company	Interest in controlled corporation	3,088,782,146(L)	75.82%
Ms. Huang Xing[4]	Company	Interest of spouse	3,088,782,146(L)	75.82%

Notes:

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

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

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

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

Save as disclosed above, as at 31 December 2020, there are no other persons (other than Directors or chief executives of the Company) who had or are taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register required to be kept by the Company under Section 336 of the SFO, or which are notified to the Company.

Report of the Directors

CONNECTED TRANSACTIONS

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

Wison Holding, a company wholly-owned by Mr. Hua, holds 100% of Wison Investment. Wison Investment owns approximately 75.82% of our Company as at the date of this report, and therefore is a controlling shareholder and a connected person of the Company under the Listing Rules.

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

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

Shanghai Wison Offshore & Marine Co., Ltd. ("**Wison Marine**") is an indirect subsidiary of Wison Holding. Wison Marine is therefore an associate of Mr. Hua and a connected person of our Company under the Listing Rules.

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

Wison USA, LLC (formerly known as Wison Petrochemicals (NA), LLC) is an indirect wholly-owned subsidiary of the Company.

Wison Holding and its subsidiaries are referred to as Wison Group herein.

One-off Connected Transaction

The following transactions are one-off connected transactions entered into by our Group during the year ended 31 December 2020:

Technical Collaboration Agreement

On 30 June 2020, Wison Engineering and Wison Taizhou entered into a technical collaboration agreement (the "**Technical Collaboration Agreement**"), pursuant to which the parties agreed to jointly develop certain technologies and scale up engineering in relation to efficient synthesis of CO2 to chemicals. The total amount payable by Wison Engineering under the Technical Collaboration Agreement is expected to be no more than RMB12,000,000, which covers the costs of manpower and resources and the amount of capital to be incurred in the project. This maximum amount is determined based on an estimation of the man hours required and the associated costs of manpower required and the costs of materials and site preparation. The final total amount payable by Wison Engineering will depend on the actual costs to be incurred in the project. For the year ended 31 December 2020, the relevant cost of service fee recognized by the Group for this project during the year was nil.

The connected transaction contemplated under the Technical Collaboration Agreement was announced on 30 June 2020.

Report of the Directors

Wison Taizhou CO2 to Chemicals EPC Contract

On 18 September 2020, Wison Engineering and Wison Taizhou entered into an EPC general contractor contract (the "**Wison Taizhou CO2 to Chemicals EPC Contract**"), pursuant to which Wison Engineering was engaged by Wison Taizhou as the EPC general contractor for its project in relation to efficient synthesis of CO2 to chemicals in Taixing Economic Development Zone, Jiangsu Province, the PRC. The total contract price payable by Wison Taizhou to Wison Engineering under the Wison Taizhou CO2 to Chemicals EPC Contract was expected to be RMB8,300,000, which comprises payment for the design fees, the equipment and materials procurement fees, the construction fees and the project management and other fees. The total amount finally receivable by Wison Engineering under the Wison Taizhou CO2 to Chemicals EPC Contract will be determined after completion of the project and will depend on the actual amount of engineering work and the prevailing market price of the equipment and materials involved in the project. The total amount finally receivable by Wison Engineering under the Wison Taizhou CO2 to Chemicals EPC Contract will be calculated by the parties after completion of the project. For the year ended 31 December 2020, the relevant revenue recognized by the Group for this project during the year was nil.

The connected transaction contemplated under the Wison Taizhou CO2 to Chemicals EPC Contract was announced on 18 September 2020.

Supplemental Agreement to the Wison Taizhou EPC Contract

On 30 October 2020, Wison Engineering and Wison Taizhou entered into a supplemental Agreement to the Wison Taizhou EPC Contract (the "**Supplemental Agreement to the Wison Taizhou EPC Contract**") to amend certain terms under the EPC general contractor contract dated 12 March 2019 and entered into between the same parties for the high performance polyamide project of Wison Taizhou in Taixing Economic Development Zone, Jiangsu Province, the PRC (the "**Wison Taizhou EPC Contract**"). Pursuant to the Supplemental Agreement to the Wison Taizhou EPC Contract, the parties agreed to (i) increase the total contract price payable by Wison Taizhou to Wison Engineering to RMB714,301,800, being the New Contract Price, (ii) amend the maximum amount for the final total amount receivable by Wison Engineering from RMB537,500,000 to no more than 105% of the New Contract Price (the "**Receivable Limit**"), and (iii) temporarily extend the expected timeline of intermediate handover of certain works by Wison Engineering, the latest being to 31 May 2021 (the "**Extension**"). The Supplemental Agreement to the Wison Taizhou EPC Contract was entered into after taking into account the updated volume and scope of work undertaken by Wison Engineering during the performance of the Wison Taizhou EPC Contract including additional piling foundation, floor deck, heavy-duty flooring and gravel flooring, as well as additional costs in renovation and greening and increased needs on civil engineering. The New Contract Price, Receivable Limit and the Extension were determined upon arm's length negotiation. For the year ended 31 December 2020, the relevant revenue recognized by the Group for this project during the year was RMB468,281,000.

Report of the Directors

The connected transaction contemplated under the Supplemental Agreement to the Wison Taizhou EPC Contract was announced on 30 October 2020 and was approved by independent Shareholders of the Company at the extraordinary general meeting held on 30 November 2020.

Continuing Connected Transactions

For the financial year ended 31 December 2020, all the continuing connected transactions (the "**Continuing Connected Transactions**") have not exceeded their respective annual caps:

1. **2020 Property Leasing Framework Agreement**

   Wison Engineering, an indirect wholly-owned subsidiary of the Company, leased to Wison (China) Investment and Wison Marine of certain premises located at No.699 Zhongke Road, Pudong New District, Shanghai, the PRC (the "**New Wison Complex**"). The Group also provided property management services to Wison (China) Investment and Wison Marine for the premises under the Leases for office use. In this connection, Wison Engineering has entered into a number of agreements with Wison (China) Investment and Wison Marine, including a property leasing agreement dated 14 December 2018, a property leasing agreement dated 28 February 2019, a property leasing agreement dated 21 June 2019, a property leasing agreement dated 16 December 2019 and related supplemental agreements (together, the "**Existing Agreements**"). On 30 June 2020, Wison Engineering entered into a property leasing framework agreement (the "**2020 Property Leasing Framework Agreement**") with Wison Holding, pursuant to which Wison Engineering may, following the principal terms of the 2020 Property Leasing Framework Agreement, from time to time let properties and provide property management services for premises located at the New Wison Complex to Wison Holding and its subsidiaries and any companies in which Wison Holding and/or its subsidiaries can control the exercise of 30% or more of the voting power at general meetings and/or control the composition of a majority of the board of directors (the "**Wison Holding Entities**"). The 2020 Property Leasing Framework Agreement covers and governs the leasehold relationship between the parties under all the Existing Agreements as well as any future lease arrangements entered into between Wison Engineering and the relevant Wison Holding Entities in relation to the leases of and the provision of property management services for premises located at the New Wison Complex during the term of the agreement. The rentals under the 2020 Property Leasing Framework Agreement shall be determined with reference to the prevailing market rates. Such rentals payable shall not be less than the rentals received by Wison Engineering from independent third party tenants for comparable properties at the time when the leasing arrangements and implementation agreements are entered into. The property management fees shall be determined with reference to the applicable laws and regulations of the PRC from time to time. Such property management fees shall not be less than the fees received by Wison Engineering from independent third parties for providing comparable property management services at the time when the leasing arrangements and implementation agreements are entered into. The utility charges arising from the actual usage of each of the leased premises shall be determined from time to time with reference to the prices prescribed by the relevant government

Report of the Directors

authorities, property management agreements and property management conventions. The charges for conference facilities shall be determined with reference to market rates and shall not be less than the amounts charged by Wison Engineering from independent third parties. The 2020 Property Leasing Framework Agreement will expire on 31 December 2022 and the transactions contemplated thereunder will be subject to the annual caps of RMB33,600,000, RMB38,400,000 and RMB44,400,000 in respect of the three years ended and ending 31 December 2020, 2021 and 2022, respectively.

The 2020 Property Leasing Framework Agreement was announced by the Company on 30 June 2020.

The aggregate rental, property management fees, utility charges and charges for conference facilities payable to Wison Engineering under the 2020 Property Leasing Framework Agreement for the year ended 31 December 2020 were RMB24,542,000.

2. **Service Agreement**

On 7 June 2018, Wison Investment (HK) entered into a service agreement (the "**Service Agreement**") with Wison USA, LLC pursuant to which Wison USA, LLC shall provide consulting, marketing and new business development services in oil and gas and petrochemical fields to Wison Investment (HK) in relation to its current and proposed operations. The Service Agreement has a term of one year from 7 June 2018 and shall automatically be renewed for one year unless the parties terminate the Service Agreement. The Service Agreement was renewed for a one year term commencing on 7 June 2020. The fee payable to Wison USA, LLC is determined based on the amount of time incurred in providing the services and is charged at an hourly rate of US$218.75, plus out-of-pocket expenses. The annual cap for the fees payable to Wison USA, LLC under the Service Agreement is US$617,000. For the year ended 31 December 2020, the relevant revenue recognised by the Group under the Service Agreement was RMB252,000.

3. **Technical Consulting Services Framework Agreement**

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

4. **Engineering Construction Services Framework Agreement and New Engineering Construction Services Framework Agreement**

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

As the Engineering Construction Services Framework Agreement expired on 31 December 2020, the Company and Wison Marine entered into an engineering construction services framework agreement on 30 October 2020 (the "**New Engineering Construction Services Framework Agreement**") to renew the Engineering Construction Services Framework Agreement. The subject matter and the pricing policy (i.e. pricing by way of tender) under the New Engineering Construction Services Framework Agreement are the same as that under the Engineering Construction Services Framework Agreement as described above. The New Engineering Construction Services Framework Agreement has a term of three years commencing from 1 January 2021 to 31 December 2023. The contract sums contemplated under the New Engineering Construction Services Framework Agreement will be subject to the annual cap of RMB1,750,000,000 for each of the three years ending 31 December 2021, 2022 and 2023. The pricing and terms of each particular project contemplated under the New Engineering Construction Services Framework Agreement shall be determined in the ordinary and usual course of business on normal commercial terms and on an arm's length basis.

The aggregate contract sums entered into by the Company during the year ended 31 December 2020 was nil and the aggregate amount payable to Wison Marine Group for the year ended 31 December 2020 was RMB24,361,000.

Report of the Directors

The New Engineering Construction Services Framework Agreement was announced by the Company on 30 October 2020 and was approved by independent Shareholders of the Company at the extraordinary general meeting held on 30 November 2020.

5. **Service Agreement with Wison Holding**

On 23 January 2020, the Company entered into a service agreement with Wison Holding ("**Service Agreement with Wison Holding**"), pursuant to which the Group shall provide to Wison Group consulting, marketing and new business development services in oil and gas and petrochemical areas in relation to the business operations of Wison Group, and Wison Group shall provide to the Group information technology services and legal and compliance services. The term of the Service Agreement commenced on 23 January 2020 and expires on 31 December 2022. The fees payable to the Group by Wison Group and the fees payable by the Group to Wison Group under the Service Agreement are determined based on the amount of time incurred by the qualified personnel assigned to provide the relevant services at hourly rates determined with reference to market rates for the remuneration of such qualified personnel, plus out-of-pocket expenses and general and administration expenses actually incurred. The fee shall be payable quarterly in cash. The annual cap for the fees receivable by the Group from Wison Group under the Service Agreement is RMB30,000,000 for each of the three years ended and ending 31 December 2020, 2021 and 2022 and the annual caps for the fees payable by the Group to Wison Group under the Service Agreement are RMB18,000,000. RMB19,800,000 and RMB21,780,000 for the years ended and ending 31 December 2020, 2021 and 2022, respectively. For the year ended 31 December 2020, the service fee revenue recognised by the Group from Wison Group and the cost of service fee incurred by the Group from Wison Group was RMB10,086,000 and RMB6,489,000, respectively.

The Service Agreement with Wison Holding was announced by the Company on 23 January 2020.

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 2020 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 2020 are set out in Note 33 to the financial statements. During the year ended 31 December 2020, the related party transactions set out in Notes 33(a)(i), 33(a)(ii), 33(a)(iii), 33(a)(iv), 33(a)(v), 33(a)(vi), 33(a)(xi), 33(a)(xii), 33(a)(xiii) and 33(a)(xxi) are regarded as continuing connected transactions of the Group, and the related party transactions set out in Notes 33(a)(vii), 33(a)(viii), 33(a)(ix), 33(a)(x), 33(a)(xiv), 33(a)(xv), 33(a)(xvi), 33(a)(xvii), 33(a)(xviii), 33(a)(xix), 33(a)(xxii) and 33(a)(xxiii) are regarded as connected transactions of the Group, under Chapter 14A of the Listing Rules.

In respect of the connected transactions and the continuing connected transactions, entered into during the year ended 31 December 2020, the Company has complied with the disclosure requirements under the Listing Rules.

EQUITY-LINKED AGREEMENTS

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2020.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 6 to 7 of this report.

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2020 are set out in Note 28 to the financial statements.

Report of the Directors

EMOLUMENT POLICY

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

EMPLOYEE RETIREMENT BENEFITS

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

PERMITTED INDEMNITY PROVISION

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

PUBLIC FLOAT

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

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

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's internal controls and financial reporting matters with the management. The Audit Committee has reviewed and discussed the annual results for the year ended 31 December 2020.

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
Yan Shaochun
Executive Director and Chief Executive Officer

Hong Kong, 26 March 2021

Corporate Governance Report

Corporate Governance Report

The Board is committed to upholding high standards of corporate governance practices and business ethics in the firm belief that they are crucial to improving the efficiency and performance of the Group and to safeguarding the interests of the shareholders. The Board reviews the Company's corporate governance practices from time to time in order to meet the expectations of stakeholders and comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance. Set out below are the principles of corporate governance as adopted by the Company during the year ended 31 December 2020.

During the year ended 31 December 2020, the Company has complied with the applicable code provisions of 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**").

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.

Executive Directors

Mr. Yan Shaochun *(Chief Executive Officer)*
Mr. Zhou Hongliang
Mr. Dong Hua
Mr. Zheng Shifeng

Non-executive Director

Mr. Liu Hongjun *(Chairman)*

Independent Non-executive Directors

Mr. Lawrence Lee
Mr. Tang Shisheng
Mr. Fung Guohua

The biographical information of the Directors is set out in the section headed "Directors and Senior Management" on pages 41 to 47 of this annual report.

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

Corporate Governance Report

The Directors do not have any financial, business, family or other material/relevant relationships with one another.

Mr. Yan Shaochun has entered into a service contract with us for a term of three years commencing from 5 February 2021 and shall continue thereafter unless terminated by not less than six months' written notice. Mr. Zhou Hongliang has entered into a service contract with us for a term of three years commencing from 10 September 2019 and shall continue thereafter unless terminated by not less than six months' written notice. Mr. Dong Hua has entered into a service contract with us for a term of three years commencing from 13 January 2020 and shall continue thereafter unless terminated by not less than six months' written notice. Mr. Zheng Shifeng has entered into a service contract with us for a term of three years commencing from 1 September 2020 and shall continue thereafter unless terminated by not less than six months' written notice. Mr. Liu Hongjun has entered into a letter of appointment with our Company for a term of three years commencing from 19 February 2020 unless terminated by three months' written notice or in certain circumstances in accordance with the terms of his letter of appointment. Each of Mr. Lawrence Lee, Mr. Tang Shisheng and Mr. Feng Guohua, has entered into a letter of appointment with our Company for a term of three years commencing from 30 March 2018, 7 December 2018 and 28 December 2018, respectively unless terminated by three months' written notice or in certain circumstances in accordance with the terms of the relevant letter of appointment. Notwithstanding the above, all Directors, including the independent non-executive Directors, are subject to retirement by rotation at least once every three years in accordance with the Listing Rules and the articles of association of the Company. A retiring director is eligible for re-election.

Under the service contracts, our executive Directors are entitled to aggregate annual salaries of approximately RMB7.17 million, plus a discretionary bonus as determined by the Board and our Remuneration Committee. Mr. Liu Hongjun is not entitled to any director's fee for his appointment as non-executive Director. The basic annual remuneration payable by our Company to our independent non-executive Directors according to their respective letter of appointment is HK$240,000. The remuneration of the Directors is determined with reference to their duties, responsibilities and experience, and to prevailing market conditions. Details of the remuneration of the Directors for 2020 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 until 31 January 2021. 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 2020. Ms. Tsang Chi Ka was appointed as the Company Secretary with effect from 18 February 2021.

Each of the Directors (other than Mr. Yan Shaochun whose appointment was effective from 5 February 2021) attended various trainings in 2020, including the training on regulatory updates for Main Board listed companies as well as ESG trend, as part of their professional development. The Company will arrange suitable training for all Directors in order to develop and refresh their knowledge and skills as part of their continuous professional development.

Corporate Governance Report

Code provision A.1.1 of the CG Code prescribes that at least four regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of directors, either in person or through electronic means of communication. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board and Board committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or Board committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. When Directors or Board committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings are kept by the company secretary with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board committee meetings are recorded in sufficient detail about the matters considered by the Board and the Board committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by Directors.

In 2020, the Board held 14 meetings. A total of 66 proposals were considered at these Board meetings, including proposals for the consideration of the Company's 2019 annual report, 2020 interim report, the change in accounting estimates relating to the useful lives of certain buildings of the Group and certain connected transactions and continuing connected transactions. The Board also considered the Company's compliance with the Code generally.

The table below sets out the details of Board meetings attendance of each Director during the year ended 31 December 2020.

Director	Number of meetings requiring attendance	Number of meetings attended in person
Rong Wei[(1)]	14	11
Zhou Hongliang	14	14
Li Zhiyong[(2)]	8	8
Dong Hua	14	14
Zheng Shifeng[(3)]	3	3
Liu Hongjun[(4)]	10	10
Lawrence Lee	14	13
Tang Shisheng	14	14
Feng Guohua	14	14

Corporate Governance Report

Note:

(1) Resigned with effect from 5 February 2021.

(2) Resigned with effect from 7 August 2020.

(3) Appointed with effect from 1 September 2020.

(4) Appointed with effect from 19 February 2020.

In 2020, the Company convened and held two shareholders' general meetings, being the 2019 annual general meeting held on 18 June 2020 and the extraordinary general meeting held on 30 November 2020 for the approval of a connected transaction. All the Directors attended the 2019 annual general meeting and Ms. Rong Wei, Mr. Zhou Hongliang, Mr. Dong Hua, Mr. Zheng Shifeng, Mr. Lawrence Lee and Mr. Tang Shisheng attended the extraordinary general meeting.

DELEGATION BY THE BOARD

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

CORPORATE GOVERNANCE FUNCTION

The Board recognizes that corporate governance should be the collective responsibility of the Directors which includes:

(a) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors;

(d) to develop and review the Company's policies and practices on corporate governance;

(e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report; and

(f) to review and monitor the Company's compliance with the Company's whistleblowing policy.

Corporate Governance Report

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.

The members of the Remuneration Committee, Audit Committee and Nomination Committee are independent non-executive Directors.

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

Audit Committee

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

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

In 2020, the Audit Committee held 6 meetings, at which a total of 14 proposals were considered, including proposals for the consideration of the Company's 2019 annual report, 2020 interim report and the appointment of auditors for 2020, as well as the change in accounting estimates relating to the useful lives of certain buildings of the Group. The Audit Committee also assessed the risk management and internal control measures and the internal audit function of the Company.

The table below sets out the details of meetings attendance of each member of the Audit Committee during the year ended 31 December 2020.

Director	Number of meetings requiring attendance	Number of meetings attended in person
Lawrence Lee	6	6
Tang Shisheng	6	6
Feng Guohua	6	6

Nomination Committee

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

The primary duty of the Nomination Committee is to make recommendations to our Board on the appointment of Directors and senior management. The Nomination Committee is also responsible for reviewing and assessing the composition of the Board and the independence of the independent non-executive Directors and making recommendations to the Board on appointment and removal of Directors.

Nomination Process

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

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

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

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

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

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

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

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

Board Diversity Policy

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

The Board continuously seeks to enhance its effectiveness and to maintain the highest standards of corporate governance and recognizes diversity at Board level as an essential element in maintaining competitive advantage and sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge, length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

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

Corporate Governance Report

Nomination Criteria

In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board.

For nomination and appointment of Mr. Zheng Shifeng as an executive Director of the Company, the criteria and procedures set out above have been applied.

In 2020, the Nomination Committee held 3 meetings at which a total of 7 proposals were considered, including proposals for re-election of directors.

The table below sets out the details of meeting attendance of each member of the Nomination Committee during the year ended 31 December 2020.

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

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 2020, the Remuneration Committee held 2 meetings, at which a total of 2 proposals were considered, including proposals for the remuneration of executive Directors of the Company.

Corporate Governance Report

The table below sets out the details of meetings attendance of each member of the Remuneration Committee during the year ended 31 December 2020.

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

For the year ended 31 December 2020, the number of senior management (excluding directors) whose remuneration fell within the following bands is as follows:

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

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

CORPORATE GOVERNANCE FUNCTIONS

Risk Management and Internal control

The Board is responsible for ensuring that the Company establishes good corporate governance practices and procedures. The Board also has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, maintaining sound and effective risk management and internal control systems and reviewing their effectiveness.

The Company has established and maintained the risk management system and internal control system according to the Corporate Risk Management Framework (企業風險管理框架) published by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In accordance with its general goals, the Company identified, organized and analysed the key business- related risks for the purposes of risk management and value creation. Regular and ad hoc risk assessments were conducted and internal control systems were reviewed annually and a refined risk management system was adopted to identify, assess and minimize risks. All these measures can provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives.

The Company has a clear organizational structure that, to the extent required, delegates the day-to-day responsibility for the formulation and implementation of procedures and monitoring of risk. Processes used to identify, evaluate and manage significant risks and processes used to review the effectiveness of the risk management and internal control systems and to resolve material internal control defects are mainly carried out in accordance with the Group's various manuals, regulations and procedures, namely the "Risk Management Manual", "Regulations of Initial Risk Management of Engineering Projects" and "Procedures for Implementation of Risk Management of Engineering Projects".

Corporate Governance Report

The main features of the risk management and internal control systems of the Company are comprehensive risk management which covers the entire business process of the Company and penetrates full-process control and monitoring. The effectiveness of the relevant systems is confirmed through regular and ad hoc risk identification, risk assessment and risk response and follow-up work conducted by the management and business departments and each engineering project on an annual basis. The Company has established its internal audit function to carry out examination and evaluation on the review process and results, and follow up on the progress of improvement after the examination. The examination and evaluation results, recommendation for improvement and the progress of improvement in terms of risk management are then reported to the Board and the Audit Committee.

Deficiencies and insufficiency of the internal control mechanism and its implementation were identified through self-evaluation of risk and inspection. These initiatives facilitated the enhancement of the risk management system and reasonably ensured the effective operation of the risk management and internal control systems in order to safeguard the legal interest of the investors and protect the Company's assets.

The Board evaluated the sufficiency and effectiveness of risk management and internal control systems and the internal audit function of the Company through the Audit Committee. The Board considered the existing systems to be effective and adequate.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code during the year ended 31 December 2020.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

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 84 to 85 of this report. In preparing the financial statements for the year ended 31 December 2020, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

The Board has further reviewed the effectiveness of the risk management and internal control systems of the Group to ensure that sound systems are maintained and operated by the management in compliance with the agreed procedures and standards. The review covered all material controls, including financial, operational and compliance controls and risk management functions. During the year ended 31 December 2020, 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.

COMPANY SECRETARY

Ms. Tsang Chi Ka has been appointed as the company secretary of the Company on 18 February 2021. She is a full time employee of the Company who has day-to-day knowledge of the Company and is responsible for advising the Board on corporate governance matters.

Ms. Tsang confirmed that she has attended sufficient professional training as required in accordance with Rule 3.29 of the Listing Rules during the Year.

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 2020.

For the year ended 31 December 2020, the external auditors received the following remuneration for audit and non-audit services provided to the Group in respect of the following:

	RMB
Audit services provided by Ernst & Young	5,180,000
Audit services provided by other local auditors	1,446,000
Non-audit service provided by Ernst & Young Advisory for environmental, social and governance service	290,000
	6,916,000

Corporate Governance Report

DIVIDEND POLICY

The Company has adopted a dividend policy which is in accordance with the relevant provisions of the Articles of Association. Pursuant to the dividend policy, the Company may from time to time in general meeting declare dividends in any currency to be paid to the members of the Company but no dividend shall be declared in excess of the amount recommended by the Board. No dividend shall be declared or payable except out of the profits and reserves of the Company lawfully available for distribution, including share premium. No dividend shall carry interest against the Company.

The Board may, before recommending any dividend, set aside out of the profits of the Company such sums as it thinks fit as a reserve or reserves which shall, at the discretion of the Board, be applicable for meeting claims on or liabilities of the Company or contingencies or for paying off any loan capital or for equalising dividends or for any other purpose to which the profits of the Company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments as the Board may from time to time think fit, and so that it shall not be necessary to keep any reserves separate or distinct from any other investments of the Company.

The Board may also without placing the same to reserve carry forward any profits which it may think prudent not to distribute by way of dividend.

The Board may also, without convening a general meeting, from time to time declare interim dividends as appear to the Board to be justified by the financial conditions and the profits of the Company. The Board may also pay half-yearly or at other suitable intervals to be selected by it any dividend which may be payable at a fixed rate if the Board is of the opinion that the financial conditions and the profits available for distribution justify the payment. The Board may in addition from time to time declare and pay special dividends of such amounts and on such dates and out of such distributable funds of the Company as it thinks fit. Any dividend unclaimed shall be forfeited and shall be returned to the Company in accordance with the Articles of Association and all applicable laws and regulations.

The Board will review the dividend policy from time to time and may adopt changes as appropriate at the relevant time.

SHAREHOLDERS

The Company is incorporated in the Cayman Islands. Pursuant to the articles of association of the Company, extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary and deposited at the Company's principal place of business in Hong Kong at Room 5408, 54th Floor, Central Plaza, 18

Corporate Governance Report

Harbour Road, Wan Chai, Hong Kong, for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

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

During the year ended 31 December 2020 and up to the date of this report, there has not been any change in the Company's memorandum and articles of association. The Company's memorandum and articles of association are available on the website of the Company and that of the Stock Exchange.

Independent Auditor's Report

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

OPINION

We have audited the consolidated financial statements of Wison Engineering Services Co. Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 86 to 214, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition and measurement The Group provides engineering, procurement and construction management services. Revenue from construction contracts was recognised using the input method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract, which requires significant management estimates. Relevant disclosures are included in notes 4 and 6 to the consolidated financial statements.	Our procedures in relation to the contract costs and contract revenues recorded under the percentage-of-completion method by the Group included: (i) discussing the status of significant projects in progress with management and assessing management's estimates of the total budget of contract costs and forecast costs to completion, taking into account the historical accuracy of such estimates; (ii) checking 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; (iii) testing on a sample basis the actual costs incurred on construction works during the reporting period and performing cut-off testing procedures to check that costs had been recognised in the appropriate period; (iv) reviewing all the construction contracts and variation orders to evaluate whether the Group had made appropriate judgement in identifying the contract and performance obligations, and determining the transaction price considering the variable consideration; and (v) recalculating the revenue recognised by the Group based on the estimated progress of the construction works.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables and contract assets As at 31 December 2020, trade receivables and contract assets of the Group amounted to RMB1,079,088,000 and RMB1,755,140,000, respectively. As at 31 December 2020, provisions for impairment of RMB239,799,000 and RMB137,362,000 were made for trade receivables and contract assets, respectively. The expected credit loss assessment of trade receivables and contract assets involves management's significant judgement and estimation, such as the existence of disputes, historical payment record, forward-looking factors and any other available information that may impact the estimated expected credit losses. Relevant disclosures are included in notes 4, 21 and 23 to the consolidated financial statements.	Our procedures included (i) assessing and testing the Group's processes and controls relating to the monitoring of trade receivables and contract assets, and the Group's granting of credit terms and contract terms relating to billing milestones; (ii) evaluating the Group's provisions for trade receivables and contract assets by assessing the cash settlements from customers subsequent to the year end, the existence of disputes, historical payment record, historical credit loss experience and forward-looking factors; (iii) testing on a sample basis the accuracy of aging categories of trade receivables based on relevant invoices and construction contracts; (iv) obtaining and testing the historical observed default rates prepared by the Group; and (v) checking the calculation of expected credit loss based on the methodology adopted by the Group and assessing the adequacy of the Group's disclosures in the financial statements.
Valuation of buildings and leasehold land The Group measures its buildings and related leasehold land situated in the People's Republic of China (the "PRC") under revaluation model. As at 31 December 2020, the fair value of buildings and leasehold land amounted to RMB1,339,350,000 and RMB2,291,741,000 respectively, which in aggregate represented 41% of the Group's total assets, combined with the judgements associated with determining their value values. Relevant disclosures are included in notes 13 and 15 to the consolidated financial statements.	Our procedures in relation to the valuation of buildings and leasehold land stated at fair value included: (i) evaluating the competence, capabilities and objectivity of the external valuers; (ii) obtaining an understanding of the valuation processes and significant assumptions from the management of the Group and the valuer; (iii) checking the accuracy of related inputs applied into the valuation and involving our valuation specialists to assist us in reviewing the work of the external valuers and challenging the underlying assumptions, such as comparing them to external market rents and yields if available; and (iv) evaluating the adequacy of the disclosures on the valuation of buildings and leasehold land.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the Business Overview and Management Discussion and Analysis on pages 8 to 39 , which we obtained prior to the date of this auditor's report, and the other sections of the Annual Report not including the consolidated financial statements and the auditor's report thereon ("the Other Sections"), which are expected to be made available after that date.

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

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

- 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- 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, actions taken to eliminate threats or safeguards applied.

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 Cheung Ng.

Ernst & Young
Certified Public Accountants
Hong Kong
26 March 2021

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	6	**5,296,064**	4,367,271
Cost of sales		**(4,994,862)**	(3,959,044)
Gross profit		**301,202**	408,227
Other income and gains	6	**182,141**	293,850
Selling and distribution expenses		**(104,552)**	(132,916)
Administrative expenses		**(245,777)**	(288,774)
(Provision)/reversal of impairment losses on financial and contract assets		**(178,920)**	8,312
Other expenses		**(172,484)**	(176,024)
Finance costs	7	**(65,439)**	(22,719)
Share of profit and loss of associates		**9**	(181)
(LOSS)/PROFIT BEFORE TAX	8	**(283,820)**	89,775
Income tax credit/(expense)	10	**12,309**	(39,217)
(LOSS)/PROFIT FOR THE YEAR		**(271,511)**	50,558
Attributable to:			
Owners of the parent		**(271,238)**	50,609
Non-controlling interests		**(273)**	(51)
		(271,511)	50,558
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
— Basic		**RMB(6.66) cents**	RMB1.24 cents
— Diluted		**RMB(6.66) cents**	RMB1.24 cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
(LOSS)/PROFIT FOR THE YEAR	**(271,511)**	50,558
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(13,196)**	(2,459)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**(13,196)**	(2,459)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**(45,643)**	(9,297)
Gains on properties and land revaluation	**2,729,393**	–
Income tax effect	**(409,409)**	–
	2,319,984	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**2,274,341**	(9,297)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**2,261,145**	(11,756)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,989,634**	38,802
Attributable to:		
Owners of the parent	**1,989,907**	38,853
Non-controlling interests	**(273)**	(51)
	1,989,634	38,802

Consolidated Statement of Financial Position

At 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,358,824**	851,409
Investment property	14	**10,449**	11,098
Right-of-use assets	15(a)	**2,326,338**	165,163
Goodwill	16	**15,752**	15,752
Intangible assets	17	**26,730**	31,515
Investments in associates	18	**192,796**	7,587
Equity investments designated at fair value through other comprehensive income	19	**205,748**	311,391
Long-term prepayments	22	**159**	2,202
Deferred tax assets	29	**55,792**	36,848
Total non-current assets		**4,192,588**	1,432,965
CURRENT ASSETS			
Inventories	20	**85,867**	126,859
Trade receivables	21	**839,289**	1,003,866
Bills receivable		**101,681**	214,352
Contract assets	23	**1,617,778**	690,354
Prepayments and other receivables	22	**709,885**	510,530
Financial asset at fair value through profit or loss	24	**500**	112,734
Due from fellow subsidiaries	33	**15,037**	14,665
Pledged bank balances and time deposits	25	**824,775**	800,388
Cash and bank balances	25	**470,966**	814,251
Total current assets		**4,665,778**	4,287,999
CURRENT LIABILITIES			
Trade and bills payables	26	**2,430,439**	2,051,091
Other payables and accruals	27	**1,058,431**	839,577
Interest-bearing bank and other borrowings	28	**939,327**	304,780
Lease liabilities	15(b)	**15,670**	4,686
Due to fellow subsidiaries	33	**5,914**	79,276
Due to an associate	33	**630**	630
Tax payable		**188,871**	176,446
Total current liabilities		**4,639,282**	3,456,486
NET CURRENT ASSETS		**26,496**	831,513
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,219,084**	2,264,478

Consolidated Statement of Financial Position

At 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	28	**–**	447,220
Lease liabilities	15(b)	**19,571**	8,534
Deferred tax liabilities	29	**403,522**	720
Government grants	30	**4,247**	4,377
Total non-current liabilities		**427,340**	460,851
NET ASSETS		**3,791,744**	1,803,627
EQUITY			
Equity attributable to owners of the parent			
Share capital	31	**330,578**	330,578
Share premium	31	**869,201**	869,201
Other reserves		**2,592,289**	603,899
		3,792,068	1,803,678
Non-controlling interests		**(324)**	(51)
Total equity		**3,791,744**	1,803,627

Yan Shaochun
Director

Zhou Hongliang
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2020

	Share Capital RMB'000 (note 31)	Share premium RMB'000 (note 31)	Share option reserve* RMB'000 (note 32)	Capital reserve* RMB'000 (note 31)	Statutory surplus reserves* RMB'000 (note 31)	Statutory expansion reserve* RMB'000 (note 31)	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	330,299	861,129	318,591	(101,206)	32,588	32,590	-	12,041	263,787	1,749,819	-	1,749,819
Profit for the year	-	-	-	-	-	-	-	-	50,609	50,609	(51)	50,558
Other comprehensive income for the year:												
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	(9,297)	-	-	(9,297)	-	(9,297)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(2,459)	-	(2,459)	-	(2,459)
Total comprehensive income for the year	-	-	-	-	-	-	(9,297)	(2,459)	50,609	38,853	(51)	38,802
Transfer to the statutory reserves	-	-	-	-	13,953	4,189	-	-	(18,142)	-	-	-
Exercise of share options	279	8,072	(6,017)	-	-	-	-	-	-	2,334	-	2,334
Equity-settled share option arrangements	-	-	30,038	-	-	-	-	-	-	30,038	-	30,038
Dividends declared	-	-	-	-	-	-	-	-	(17,366)	(17,366)	-	(17,366)
At 31 December 2019	330,578	869,201	342,612	(101,206)	46,541	36,779	(9,297)	9,582	278,888	1,803,678	(51)	1,803,627

	Share Capital RMB'000 (note 31)	Share premium RMB'000 (note 31)	Share option reserve* RMB'000 (note 32)	Capital reserve* RMB'000 (note 31)	Statutory surplus reserve* RMB'000 (note 31)	Statutory expansion reserves* RMB'000 (note 31)	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Asset revaluation reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits/ (accumulated loss)* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020	**330,578**	**869,201**	**342,612**	**(101,206)**	**46,541**	**36,779**	**(9,297)**	**-**	**9,582**	**278,888**	**1,803,678**	**(51)**	**1,803,627**
Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(271,238)**	**(271,238)**	**(273)**	**(271,511)**
Other comprehensive income for the year:													
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**-**	**-**	**(45,643)**	**-**	**-**	**-**	**(45,643)**	**-**	**(45,643)**
Gains on properties and land revaluation, net of tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,319,984**	**-**	**-**	**2,319,984**	**-**	**2,319,984**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(13,196)**	**-**	**(13,196)**	**-**	**(13,196)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(45,643)**	**2,319,984**	**(13,196)**	**(271,238)**	**1,989,907**	**(273)**	**1,989,634**
Transfer to the statutory reserves	**-**	**-**	**-**	**-**	**2,847**	**-**	**-**	**-**	**-**	**(2,847)**	**-**	**-**	**-**
Equity-settled share option arrangements	**-**	**-**	**13,165**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,165**	**-**	**13,165**
Dividends declared	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(14,682)**	**(14,682)**	**-**	**(14,682)**
At 31 December 2020	**330,578**	**869,201**	**355,777**	**(101,206)**	**49,388**	**36,779**	**(54,940)**	**2,319,984**	**(3,614)**	**(9,879)**	**3,792,068**	**(324)**	**3,791,744**

* These reserve accounts comprised the consolidated other reserves of RMB2,592,289,000 and RMB603,899,000 in the consolidated statements of financial position as at 31 December 2020 and 2019, respectively.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(283,820)**	89,775
Adjustments for:			
Depreciation of property, plant and equipment and investment properties	8,13,14	**50,169**	53,455
Depreciation of right-of-use assets	8,15	**59,525**	10,914
Amortisation of intangible assets	8,17	**5,826**	5,598
Recognition of government grants	6,8,30	**(10,587)**	(105,898)
Share of profit and loss of associates	18	**(9)**	181
Net foreign exchange losses		**27,004**	(4,384)
Dividend income from equity investments designated at fair value through other comprehensive income	6	**(12,689)**	(4,726)
Fair value gains of equity investment at fair value through profit or loss, net	6,8	**–**	(23,227)
Loss on derecognition of equity investment at fair value through profit or loss, net	6,8	**16,549**	–
Loss on disposal of items of property, plant and equipment	8	**568**	269
Impairment of trade receivables	21	**102,368**	34,042
Provision/(reversal) of impairment of contract assets	23	**76,046**	(42,648)
Impairment of other receivables	22	**506**	294
Equity-settled share option expenses	8	**13,165**	30,038
Finance costs	7	**65,439**	22,719
Interest income	6	**(16,302)**	(24,993)
Income relating to lease modification		**(84)**	–
		93,674	41,409
Decrease/(increase) in inventories		**40,992**	(80,055)
Decrease in trade and bills receivables		**174,880**	266,835
Increase in prepayments, deposits and other receivables		**(88,360)**	(121,809)
Decrease in long-term prepayments		**2,043**	3,465
Increase in contract assets		**(1,003,470)**	(34,917)
(Increase)/decrease in amounts due from fellow subsidiaries		**(372)**	154,253
(Decrease)/increase in amounts due to fellow subsidiaries		**(73,362)**	42,189
Increase/(decrease) in trade and bills payables		**379,348**	(499,334)
Increase/(decrease) in other payables and accruals		**213,893**	(171,620)
(Increase)/decrease in pledged bank balances and time deposits		**(24,387)**	142,640
Cash generated from operations		**(285,121)**	(256,944)
Interest received		**16,302**	24,993
Interest paid		**(65,439)**	(22,719)
Tax paid		**(817)**	(16,457)
Net cash flows used in operating activities		**(335,075)**	(271,127)

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend income from equity investments designated at fair value through other comprehensive income	6	**12,689**	4,726
Purchases of items of property, plant and equipment	13	**(10,645)**	(27,807)
Proceeds from disposal of items of property, plant and equipment		**–**	1,014
Purchase of intangible assets	17	**(1,041)**	(5,012)
Receipt of government grants	30	**10,457**	105,580
Proceeds from disposal of financial assets at fair value through profit and loss		**31,488**	–
Purchases of equity investments designated at fair value through other comprehensive income		**–**	(320,688)
Purchases of financial assets at fair value through profit and loss		**(500)**	(89,507)
Purchases of investments in associates		**(185,200)**	(6,300)
Net cash flows used in investing activities		**(142,752)**	(337,994)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of new shares		**–**	2,334
New bank loans		**704,327**	752,000
Repayment of bank loans		**(517,000)**	(245,934)
Principal portion of lease payments	38(b)	**(16,060)**	(7,507)
Dividend paid		**(14,682)**	(17,366)
Net cash flows from financing activities		**156,585**	483,527
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(321,242)**	(125,594)
Cash and cash equivalents at beginning of year		**814,251**	932,086
Effect of foreign exchange rate changes, net		**(22,043)**	7,759
CASH AND CASH EQUIVALENTS AT END OF YEAR		**470,966**	814,251
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**422,766**	814,251
Unpledged time deposits with original maturity of less than three months when acquired		**3,000**	–
Frozen and unpledged cash balances		**45,200**	–
CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF FINANCIAL POSITION	25	**470,966**	814,251
CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF CASH FLOWS		**470,966**	814,251

Notes to Financial Statements

Year ended 31 December 2020

1. CORPORATE INFORMATION

The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, 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, constructing and commissioning of their production facilities through technology consultancy, engineering, procurement and construction management services in the PRC and overseas.

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Wison Engineering Technology Limited ("Wison Technology")	British Virgin Islands ("BVI")	United States dollar ("US$")1	100	–	Investment holding
Wison Energy Engineering (Hong Kong) Limited ("Wison Energy (HK)")	Hong Kong	Hong Kong dollar ("HK$") 401,713,600	–	100	Investment holding/import and export sale of equipment and parts/provision of engineering, procurement and construction management services
惠生工程(中國)有限公司* (Wison Engineering Limited, "Wison Engineering")	PRC/Mainland China	Renminbi ("RMB") 510,000,000	–	100	Provision of engineering, procurement and construction management services
Wison USA, LLC (formerly known as Wison Petrochemicals (NA), LLC)	United States	Nil	–	100	Provision of engineering, procurement and construction management services
江蘇惠生建設科技有限公司** (Jiangsu Wison Construction Technology Company Limited, "Jiangsu Wison", formerly known as Jiangsu Zhonghe Yongtai Construction Engineering Company Limited, "Jiangsu Zhonghe Yongtai")	PRC/Mainland China	RMB120,800,000	–	100	Provision of procurement and construction management services

* Wison Engineering is registered as a Sino-foreign co-operative enterprise under PRC law.

** Jiangsu Wison is registered as a domestic enterprise under PRC law.

Notes to Financial Statements

Year ended 31 December 2020

1. CORPORATE INFORMATION *(continued)*

Information about subsidiaries *(continued)*

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

2.1 BASIS OF PRESENTATION

The Group incurred a net loss attributable to owner of the Company of RMB271,238,000 during the year ended 31 December 2020 and the Group had net current assets of RMB26,496,000 as at 31 December 2020. As a result of net loss recorded by the Group, the Group is in breach of financial covenant with certain bank (the "Bank") which is entitled to demand for immediate repayment of the principal amount of RMB805,000,000 and accrued interest as at 31 December 2020 as stipulated in the clauses of the loan agreement.

In order to improve the Group's operating and financial position, the directors of the Company have taken the following measures:

a) Subsequent to 31 December 2020, the Group has been granted a new bank loan of RMB192,000,000 and obtained credit facilities of performance bond and bills amounts of RMB40,482,000 from the Bank;

b) Subsequent to 31 December 2020, the Group has been granted extended credit terms by certain of the Group's subcontractors/suppliers for RMB484,914,000 for repayment of trade payables after 31 December 2021;

c) Subsequent to 31 December 2020, the Group has been granted credit facility of RMB200,000,000 from a fellow subsidiary of the Group, of which RMB81,700,000 was drawn down; and

d) The Group continues to take action to tighten cost controls over various operating expenses and is actively seeking new investment and business opportunities with an aim to attaining profitable and positive cash flow operations.

The Directors have reviewed the Group's cash flow forecast covering a period of twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future.

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments, buildings and leasehold land which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2020. 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.

2.2 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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

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

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

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs, and the voluntary changes in accounting policy and estimate for the measurement of the buildings and leasehold land for the first time for the current year's financial statements.

Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions (early adopted)*
Amendments to IAS 1 and IAS 8	*Definition of Material*

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

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

(c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

Notes to Financial Statements

Year ended 31 December 2020

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below: *(continued)*

(d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, no lease payments for the leases of the Group's assets have been reduced or waived by the lessors as a result of the pandemic.

(e) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

The nature and the impact of the voluntary changes in accounting policy and estimate for the measurement of the buildings and leasehold land are described below:

The Group accounted for buildings and leasehold land using the cost model in previous years. In order to more accurately reflect the value of buildings and leasehold land held by the Group and provide more relevant information to the users of the financial statements of the Group, the directors of the Company approved the change in the accounting policy of the Group for the buildings and leasehold land from cost model to revaluation model with effect from 17 May 2020.

In order to present a fairer and more appropriate view of the financial position and operating results of the Group where the depreciation period of each property, plant and equipment is aligned with its actual useful life, the Group has made changes to the estimated useful lives of buildings from 20 to 30 years to 30 to 50 years with effect from 1 July 2020.

The Group has adopted the changes in accounting policy and estimate prospectively.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

The effects of the changes in accounting policy and estimate as described above on the results for the year ended 31 December 2020 by line items presented in the consolidated statement of profit or loss, consolidated statement of comprehensive income, and consolidated statement of financial position as at 31 December 2020 are as follows:

	Amounts prepared under		
	Revaluation model RMB'000	Cost model RMB'000	Increase/ (decrease) RMB'000
Administrative expenses	(245,777)	(208,309)	37,468
Loss before tax	(283,820)	(246,352)	37,468
Income tax credit	12,309	5,702	6,607
Loss for the year	(271,511)	(240,650)	30,861
Loss for the year attributable to owners of the parent	(271,238)	(240,377)	30,861
Other comprehensive income for the year, net of tax	2,261,145	(58,839)	2,319,984
Total comprehensive income for the year	1,989,634	(299,489)	2,289,123
Total comprehensive income for the year attributable to owners of the parent	1,989,907	(299,216)	2,289,123

	RMB	RMB	RMB
(Loss) per share — Basic	(6.66) cents	(5.90) cents	(0.76) cents
(Loss) per share — Diluted	(6.66) cents	(5.90) cents	(0.76) cents

	Amounts prepared under		
	Revaluation model RMB'000	Cost model RMB'000	Increase/ (decrease) RMB'000
Property, plant and equipment	1,358,824	813,645	545,179
Right-of-use assets	2,326,338	179,592	2,146,746
Total non-current assets	4,192,588	1,500,663	2,691,925
Total assets less current liabilities	4,219,084	1,527,159	2,691,925
Deferred tax liabilities	403,522	720	402,802
Total non-current liabilities	427,340	24,538	402,802
Net assets	3,791,744	1,502,621	2,289,123
Other reserves	2,592,289	303,166	2,289,123
Total equity	3,791,744	1,502,621	2,289,123

Notes to Financial Statements

Year ended 31 December 2020

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform — Phase 2*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[3]
Amendments to IFRS 17	*Insurance Contracts*[3, 5]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3, 5]
Amendments to IAS 1	*Disclosure of Accounting Policies*[3]
Amendments to IAS 8	*Definition of Accounting Estimates*[3]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to IAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*[2]
Annual Improvements to IFRS Standards 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 No mandatory effective date yet determined but available for adoption
5 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

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

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank borrowings denominated in RMB and foreign currencies based on the Chinese Interbank Offered Rate as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

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

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Year ended 31 December 2020

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

Amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Annual Improvements to IFRS Standards 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- IFRS 16 Leases: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in associates

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

The Group's investments in associates is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

Notes to Financial Statements

Year ended 31 December 2020

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

Business combinations and goodwill

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

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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

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

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

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

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

Business combinations and goodwill *(continued)*

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

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

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

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

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Year ended 31 December 2020

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

Fair value measurement *(continued)*

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 inventories, contract assets, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

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

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.

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Year ended 31 December 2020

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

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation 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.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

Buildings	30 to 50 years
Plant and machinery	10%
Motor vehicles	10%
Office equipment	20%
Leasehold improvements	Over the shorter of the lease terms and 20%

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

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

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. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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.

During the year, the Group reviewed the estimated useful lives of property, plant and equipment and changed the depreciable lives of buildings from 20 to 30 years to 30 to 50 years. The effect of such changes in accounting estimates is set out in 2.2.

Investment properties

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

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

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

Intangible assets (other than goodwill)

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

Notes to Financial Statements

Year ended 31 December 2020

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

Intangible assets (other than goodwill) *(continued)*

Licences

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

Research and development costs

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

Leases

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

Group as a lessee

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

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at fair value or at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Properties	Over the lease terms
Leasehold land	45 years

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

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

Leases *(continued)*

Group as a lessee *(continued)*

(b) Lease liabilities

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

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

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

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

Notes to Financial Statements

Year ended 31 December 2020

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

Leases *(continued)*

Group as a lessor

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

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

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

Investments and other financial assets *(continued)*

Initial recognition and measurement *(continued)*

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

Notes to Financial Statements

Year ended 31 December 2020

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

Investments and other financial assets *(continued)*

Subsequent measurement *(continued)*

Financial asset at fair value through profit or loss

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

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

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

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

Derecognition of financial assets

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

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

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

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

Derecognition of financial assets *(continued)*

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

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

Impairment of financial assets

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

General approach

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

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

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

Impairment of financial assets *(continued)*

General approach *(continued)*

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

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

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

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

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

Simplified approach

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and bills payables, other payables, an amount due to an associate, amounts due to fellow subsidiaries, and interest-bearing bank and other borrowings.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Notes to Financial Statements

Year ended 31 December 2020

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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

Income tax

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

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

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

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

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

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

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

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

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

Notes to Financial Statements

Year ended 31 December 2020

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

Income tax *(continued)*

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

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

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

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, for 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.

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

Revenue recognition

Revenue from contracts with customers

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

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

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

(a) Construction services

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

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

Notes to Financial Statements

Year ended 31 December 2020

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

Revenue recognition *(continued)*

Revenue from contracts with customers *(continued)*

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

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

Revenue from other sources

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

Other income

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

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

Contract assets

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

Contract liabilities

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

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

Contract costs

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

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

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

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

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 2020

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.

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

Other employee benefits

Pension scheme

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

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

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

Notes to Financial Statements

Year ended 31 December 2020

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

Foreign currencies

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

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

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

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

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

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

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

Foreign currencies *(continued)*

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Revenue from contracts with customers

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

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

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

Notes to Financial Statements

Year ended 31 December 2020

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

Judgements *(continued)*

Revenue from contracts with customers *(continued)*

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

Classification between investment properties and owner-occupied properties

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

Estimation uncertainly

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

Variable considerations for claims to customers

The Group estimates variable considerations for claims to be included in the transaction price for the provision of construction services, given there is a wide range of possible outcomes which are subject to negotiations with third parties. Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, current negotiations with customers, profitability of the head contracts of the customers and the current economic conditions.

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

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

Estimation uncertainly *(continued)*

Impairment test of goodwill

The carrying amount of goodwill of the Group arose from the acquisition of 河南省化工設計院 ("Henan Chemical Industry Design Institute") in 2007. The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the asset and the cash-generating unit to which the asset is allocated. Management considers that the goodwill should be allocated to the Group's operating segment (cash-generating unit) as Henan Chemical Industry Design Institute provides design service (integral to these contracts). Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2020 was RMB15,752,000. Details are set out in note 16.

Provision for expected credit losses on trade receivables and contract assets

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

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

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

Notes to Financial Statements

Year ended 31 December 2020

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

Estimation uncertainly *(continued)*

Impairment of non-financial assets (other than goodwill)

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

Percentage of completion of construction works

The Group recognises revenue according to the input method, which requires estimation to be made by management. The stage of completion is estimated by reference to the actual costs incurred over the total budgeted costs, and the corresponding contract revenue is also estimated by management. Due to the nature of the activity undertaken in construction contracts, the date at which the activity is entered into and the date at which the activity is completed usually fall into different accounting periods. Hence, the Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses.

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

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

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

Estimation uncertainly *(continued)*

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 2020 was RMB527,627,000 (2019: RMB214,511,000). Further details are contained in note 29 to the financial statements.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 36 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2020 was RMB45,556,000 (2019: RMB106,878,000). Further details are included in note 19 to the financial statements.

Fair value of buildings and leasehold land

As described in notes 13 and 15 to the financial statements, the buildings and leasehold land located in Mainland China were revalued at the end of the reporting period by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period. The carrying amounts of buildings and leasehold land in Mainland China at 31 December 2020 were RMB1,339,350,000 (2019 under cost model: RMB830,709,000) and RMB2,291,741,000 (2019 under cost model: RMB149,032,000), respectively. Further details, including the valuation technique and key assumptions used for fair value measurement, are set out in note 13 to the financial statements.

PRC corporate income tax

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

Notes to Financial Statements

Year ended 31 December 2020

5. OPERATING SEGMENT INFORMATION

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

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

— Engineering, consulting and technical services.

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

Segment assets exclude property, plant and equipment, investment property, prepaid land lease payments, right-of-use assets, goodwill, intangible assets, investments in associates, deferred tax assets, long-term prepayments, amounts due from fellow subsidiaries, prepayments and other receivables, equity investments designated at fair value through other comprehensive income, financial asset at fair value through profit or loss, pledged bank balances and time deposits and cash and bank balances as these assets are managed on a group basis.

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

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

5. OPERATING SEGMENT INFORMATION *(continued)*

Operating segments

Year ended 31 December 2020	EPC RMB'000	Engineering, consulting and technical services RMB'000	Total RMB'000
Segment revenue (note 6)			
Sales to external customers	5,115,965	180,099	5,296,064
Intersegment sales	183,531	14,947	198,478
Total revenue	5,299,496	195,046	5,494,542
Reconciliation:			
Elimination of intersegment sales			(198,478)
Revenue			5,296,064
Segment results	245,260	55,942	301,202
Reconciliation:			
Unallocated income			182,141
Unallocated expenses			(704,368)
Unallocated finance costs (other than interest on lease liabilities)			(62,804)
Share of profit and loss of associates			9
Loss before tax			(283,820)
Segment assets	3,132,852	72,975	3,205,827
Reconciliation:			
Elimination of intersegment receivables			(71,029)
Corporate and other unallocated assets			5,723,568
Total assets			8,858,366
Segment liabilities	3,253,268	57,833	3,311,101
Reconciliation:			
Elimination of intersegment payables			(72,317)
Corporate and other unallocated liabilities			1,827,838
Total liabilities			5,066,622
Other segment information			
Share of profit and loss of associates — Unallocated			9
Impairment losses provided in the statement of profit or loss			178,920
Depreciation and amortisation — Unallocated			115,520
Investments in associates — Unallocated			192,796
Capital expenditure — Unallocated*			11,686

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

Notes to Financial Statements

Year ended 31 December 2020

5. OPERATING SEGMENT INFORMATION *(continued)*

Operating segments *(continued)*

Year ended 31 December 2019	EPC RMB'000	Engineering, consulting and technical services RMB'000	Total RMB'000
Segment revenue (note 6)			
Sales to external customers	4,201,633	165,638	4,367,271
Intersegment sales	55,852	22,209	78,061
Total revenue	4,257,485	187,847	4,445,332
Reconciliation:			
Elimination of intersegment sales			(78,061)
Revenue			4,367,271
Segment results	373,799	34,428	408,227
Reconciliation:			
Unallocated income			293,850
Unallocated expenses			(590,038)
Unallocated finance costs (other than interest on lease liabilities)			(22,083)
Share of profit and loss of associates			(181)
Profit before tax			89,775
Segment assets	2,418,476	94,858	2,513,334
Reconciliation:			
Elimination of intersegment receivables			(80,109)
Corporate and other unallocated assets			3,287,739
Total assets			5,720,964
Segment liabilities	2,613,081	55,882	2,668,963
Reconciliation:			
Elimination of intersegment payables			(81,348)
Corporate and other unallocated liabilities			1,329,722
Total liabilities			3,917,337
Other segment information			
Share of profit and loss of associates — Unallocated			(181)
Impairment losses reversed in the statement of profit or loss			8,312
Depreciation and amortisation — Unallocated			69,967
Investment in an associate — Unallocated			7,587
Capital expenditure — Unallocated*			32,819

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

5. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

Revenue from external customers

	2020 RMB'000	2019 RMB'000
Mainland China	**3,797,539**	1,937,970
America	**661,001**	1,929,009
Middle East	**824,027**	482,832
Other	**13,497**	17,460
	5,296,064	4,367,271

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:

	2020	2019
Customer A (EPC segment)	**31.6%**	21.4%
Customer B (EPC segment)	**11.7%**	40.0%

Notes to Financial Statements

Year ended 31 December 2020

6. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers	**5,296,064**	4,367,271

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended 31 December 2020

Segments	EPC RMB'000	Engineering, consulting and technical services RMB'000	Total RMB'000
Types of services			
Construction services	**5,115,965**	**–**	**5,115,965**
Design, feasibility research, consulting and technical services	**–**	**180,099**	**180,099**
Total revenue from contracts with customers	**5,115,965**	**180,099**	**5,296,064**
Geographical markets			
Mainland China	**3,650,807**	**146,732**	**3,797,539**
America	**644,069**	**16,932**	**661,001**
Middle East	**821,089**	**2,938**	**824,027**
Others	**–**	**13,497**	**13,497**
Total revenue from contracts with customers	**5,115,965**	**180,099**	**5,296,064**
Timing of revenue recognition			
Services transferred over time	**5,115,965**	**180,099**	**5,296,064**

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Year ended 31 December 2020

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

Revenue from contracts with customers *(continued)*

(a) Disaggregated revenue information *(continued)*

For the year ended 31 December 2019

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

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Year ended 31 December 2020

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

Revenue from contracts with customers *(continued)*

(a) Disaggregated revenue information *(continued)*

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

For the year ended 31 December 2020

Segments	EPC RMB'000	Engineering, consulting and technical services RMB'000	Total RMB'000
Revenue from contracts with customers			
External customers	**5,115,965**	**180,099**	**5,296,064**
Intersegment sales	**183,531**	**14,947**	**198,478**
	5,299,496	**195,046**	**5,494,542**
Intersegment adjustments and eliminations	**(183,531)**	**(14,947)**	**(198,478)**
Total revenue from contracts with customers	**5,115,965**	**180,099**	**5,296,064**

For the year ended 31 December 2019

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

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

Revenue from contracts with customers *(continued)*

(a) Disaggregated revenue information *(continued)*

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

	2020 RMB'000	2019 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Construction services	**154,358**	444,644
Design, feasibility research, consulting and technical services	**12,837**	11,004
	167,195	455,648

(b) Performance obligations

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

Construction services

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

Provision of design, feasibility research, consulting and technical services

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

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Year ended 31 December 2020

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

Revenue from contracts with customers *(continued)*

(b) Performance obligations *(continued)*

	2020 RMB'000	2019 RMB'000
Other income		
Government grants*	**10,587**	105,898
Bank interest income	**16,167**	24,993
Dividend income from a equity investment at fair value through other comprehensive income	**12,689**	4,726
Other interest income from financial assets at fair value through profit or loss	**135**	69
Rental income:		
Other lease payments, including fixed payments	**99,145**	97,068
Insurance indemnities	**40,832**	37,546
Others	**2,586**	323
	182,141	270,623
Gains		
Fair value gains, net:		
Financial asset at fair value through profit or loss — mandatorily classified as such, including that held for trading	**–**	23,227
	182,141	293,850

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 RMB'000	2019 RMB'000
Interest on bank loans and other loans	**62,209**	22,083
Interest on lease liabilities	**2,635**	636
Interest on discounted bills and letters of credit	**595**	–
	65,439	22,719

8. (LOSS)/PROFIT BEFORE TAX

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

	Notes	2020 RMB'000	2019 RMB'000
Cost of services provided*		**4,994,862**	3,959,044
Depreciation of property, plant and equipment and investment properties	*13,14*	**50,169**	53,455
Depreciation of right-of-use assets	*15(a)*	**59,525**	10,914
Research and development costs		**144,954**	131,682
Amortisation of intangible assets	*17*	**5,826**	5,598
Government grants	*30*	**(10,587)**	(105,898)
Provision/(reversal) of impairment of financial and contract assets, net			
Impairment of trade receivables, net	*21*	**102,368**	34,042
Provision/(reversal) of impairment of contract assets, net	*23*	**76,046**	(42,648)
Impairment of other receivables, net	*22*	**506**	294
Loss on disposal of items of property, plant and equipment		**568**	269
Lease payments not included in the measurement of lease liabilities	*15(c)*	**12,813**	19,869
Fair value gains, net:			
Financial asset at fair value through profit or loss			
— mandatorily classified as such, including that held for trading		**–**	(23,227)
Loss on derecognition of financial asset at fair value through profit or loss			
— mandatorily classified as such, including those held for trading		**16,549**	–
Auditor's remuneration		**6,626**	5,474
Employee benefit expense (including directors' and chief executive's remuneration) (note 9):			
Wages and salaries		**605,250**	522,600
Retirement benefit scheme contributions		**47,049**	66,679
Equity-settled share option expenses	*32*	**13,165**	30,038
		665,464	619,317
Foreign exchange differences, net		**4,921**	3,375

* Amounts of RMB382,529,000 and RMB307,894,000 of employee benefit expenses were included in cost of services provided during the years ended 31 December 2020 and 2019.

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Year ended 31 December 2020

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

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

	2020 RMB'000	2019 RMB'000
Fees	**1,755**	960
Other emoluments:		
Salaries and allowances	**6,037**	6,039
Discretionary bonuses	**1,583**	868
Equity-settled share option expenses and equity-settled share-based payment expenses	**–**	821
Retirement benefit scheme contributions	**182**	196
Total	**9,557**	8,884

Certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company. Further details of which are set out in note 32 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors and chief executive's remuneration disclosures.

During the year ended 31 December 2017, three directors were granted share awards of the Company by the controlling shareholder of the Company for their services rendered to the Group. The share awards have been vested immediately upon the acceptance of the share awards and the relevant number of shares have been transferred to the grantees of the share awards at a consideration of HK$1.00 each. The fair value of share awards, which has been recognised in the statement of profit or loss immediately upon the vesting, was determined as at the date of grant and the amount included in the financial statements for the year ended 31 December 2017 was included in the above directors' and chief executive's remuneration disclosures.

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Year ended 31 December 2020

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

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

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Equity-settled share based payment expenses RMB'000	Retirement benefit scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2020						
Executive directors						
Ms. Rong Wei (i)	313	1,537	283	–	41	2,174
Mr. Zhou Hongliang	313	1,185	516	–	41	2,055
Mr. Li Zhiyong (ii)	189	714	–	–	18	921
Mr. Dong Hua	313	1,185	257	–	41	1,796
Mr. Zheng Shifeng	–	1,416	527	–	41	1,984
	1,128	6,037	1,583	–	182	8,930
Independent non-executive directors						
Mr. Lawrence Lee	209	–	–	–	–	209
Mr. Tang Shisheng	209	–	–	–	–	209
Mr. Feng Guohua	209	–	–	–	–	209
	627	–	–	–	–	627
	1,755	6,037	1,583	–	182	9,557

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

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

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Equity-settled share based payment expenses RMB'000	Retirement benefit scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2019						
Executive directors						
Ms. Rong Wei	81	1,773	186	–	49	2,089
Mr. Zhou Hongliang	81	1,422	239	112	49	1,903
Mr. Li Zhiyong	81	1,422	299	–	49	1,851
Mr. Dong Hua	81	1,422	144	112	49	1,808
	324	6,039	868	224	196	7,651
Independent non-executive directors						
Mr. Lawrence Lee	212	–	–	199	–	411
Mr. Tang Shisheng	212	–	–	199	–	411
Mr. Feng Guohua	212	–	–	199	–	411
	636	–	–	597	–	1,233
	960	6,039	868	821	196	8,884

(i) Ms. Rong Wei resigned from the position of executive director of the Company and the Chief executive officer of the Group, with effect from 5 February 2021.

(ii) Mr. Li Zhiyong resigned from the position of executive director of the Company and the Chief financial officer of the Group, with effect from 7 August 2020.

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

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

(b) Five highest paid employees

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

	2020	2019
Directors	**4**	3
Non-director and non-chief executive employees	**1**	2
	5	5

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

Details of the remuneration of the non-director and non-chief executive highest paid employees for the year ended 31 December 2020 are as follows:

	2020 RMB'000	2019 RMB'000
Fees	**498**	–
Salaries and allowances	**1,662**	3,387
Discretionary bonuses	**684**	644
Equity-settled share option expenses and equity-settled share-based payment expenses	**–**	348
Retirement benefit scheme contributions	**–**	49
	2,844	4,428

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

	2020	2019
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**1**	–
	1	2

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

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

In December 2012, share options were granted to two non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 32 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

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

	2020 RMB'000	2019 RMB'000
Current		
— Mainland China	**12,024**	–
— Elsewhere	**1,218**	46,414
Deferred (note 29)	**(25,551)**	(7,197)
Total tax (credit)/charge for the year	**(12,309)**	39,217

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group was not subject to any income tax in the Cayman Islands and British Virgin Islands. The Group was not liable for income tax in Hong Kong, Indonesia, Russia, South Africa, Japan, Mexico, Thailand, United Arab Emirates and Singapore as the Group did not have any assessable income arising in Hong Kong, Indonesia, Russia, South Africa, Japan, Mexico, Thailand, United Arab Emirates and Singapore during the year ended 31 December 2020 (2019: Nil).

Wison Engineering was qualified as a "High and New Technology Enterprise" and was entitled to a preferential corporate income tax ("CIT") rate of 15% from 2014 to 2016. In accordance with the requirements of the tax regulations in the PRC, Wison Engineering reapplied for the "High and New Technology Enterprise" qualification and obtained the certificates on 23 October 2017 and 12 November 2020, respectively. The certificate obtained on 12 November 2020 is effective for another three years from 1 January 2020. Accordingly, Wison Engineering was subject to CIT at a rate of 15% for the years ended 31 December 2020 and 2019.

10. INCOME TAX *(continued)*

Jiangsu Wison is subject to CIT at a rate of 25%.

Wison USA, LLC is subject to federal income tax at a rate of 21% and state income tax at a rate of 0.75%.

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

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

	2020 RMB'000	2019 RMB'000
(Loss)/profit before tax	**(283,820)**	89,775
Tax at the statutory tax rates	**(65,131)**	27,301
Lower tax rate enacted by local authority	**21,346**	(1,202)
Tax losses not recognised	**50,515**	14,722
Tax losses utilised from previous periods	**–**	(1,271)
Effect of withholding taxes on distributable profits of the subsidiaries in Mainland China	**–**	12,750
Adjustments in respect of current tax of previous periods	**(3,783)**	–
Additional tax deduction	**(17,263)**	(14,814)
Income not subject to tax	**–**	(790)
Expenses not deductible for tax	**2,007**	2,521
Tax (credit)/charge at the Group's effective rate	**(12,309)**	39,217

The share of tax attributable to associates amounting to RMB10,000 (2019: RMB10,000) is included in "Share of profit and loss of an associate" in the consolidated statement of profit or loss.

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11. DIVIDENDS

	2020 RMB'000	2019 RMB'000
Final — HK$0.004 (2019: HK$0.005) per ordinary share	**14,682**	17,366

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

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,073,767,800 (2019: 4,072,111,174) in issue during the year.

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

The calculations of basic and diluted (loss)/earnings per share are based on:

	2020 RMB'000	2019 RMB'000
(Loss)/earnings		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic and diluted (loss)/earnings per share calculations	**(271,238)**	50,609
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	**4,073,767,800**	4,072,111,174
Effect of dilution — weighted average number of ordinary shares	**–**	19,776,648
	4,073,767,800	4,091,887,822

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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 2020						
Cost or valuation:						
At 31 December 2019 and 1 January 2020	1,066,001	4,563	15,102	32,797	74,297	1,192,760
Additions	379	2,830	1,875	3,580	1,981	10,645
Surplus on revaluation	272,970	–	–	–	–	272,970
Disposals	–	–	(108)	(4,427)	(1,922)	(6,457)
At 31 December 2020	1,339,350	7,393	16,869	31,950	74,356	1,469,918
Accumulated depreciation:						
At 31 December 2019 and 1 January 2020	(235,292)	(3,849)	(10,721)	(26,431)	(65,058)	(341,351)
Provided for the year	(38,596)	(847)	(1,629)	(3,269)	(5,179)	(49,520)
Disposals	–	–	30	4,047	1,812	5,889
Reversal upon revaluation	273,888	–	–	–	–	273,888
At 31 December 2020	–	(4,696)	(12,320)	(25,653)	(68,425)	(111,094)
Net book value:						
At 31 December 2020	1,339,350	2,697	4,549	6,297	5,931	1,358,824

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Year ended 31 December 2020

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 2019						
Cost:						
At 31 December 2018 and 1 January 2019	1,062,852	3,932	8,842	27,738	75,031	1,178,395
Additions	3,149	631	6,792	9,228	8,007	27,807
Disposals	–	–	(532)	(4,169)	(8,741)	(13,442)
At 31 December 2019	1,066,001	4,563	15,102	32,797	74,297	1,192,760
Accumulated depreciation:						
At 31 December 2018 and 1 January 2019	(192,083)	(3,573)	(7,529)	(26,380)	(71,139)	(300,704)
Provided for the year	(43,209)	(276)	(3,724)	(2,956)	(2,641)	(52,806)
Disposals	–	–	532	2,905	8,722	12,159
At 31 December 2019	(235,292)	(3,849)	(10,721)	(26,431)	(65,058)	(341,351)
Net book value:						
At 31 December 2019	830,709	714	4,381	6,366	9,239	851,409

At 31 December 2020, the Group's buildings are situated in Mainland China and are held under medium-term leases with a book value of RMB1,339,350,000 (31 December 2019 under cost model: RMB830,709,000).

Except for the buildings situated in Mainland China which are stated at valuation, all other property, plant and equipment are stated at cost less accumulated depreciation.

As at 31 December 2020, the Group's buildings and leasehold land situated in Mainland China were revalued individually by Shanghai Orient Appraisal Co., Ltd., an independent professionally qualified valuers, at an aggregate open market value of RMB3,631,091,000, based on their existing use. The land portion of RMB2,291,741,000 was measured as right-of-use assets (note 15).

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

A revaluation surplus of RMB2,319,984,000, net of tax, resulting from the above valuations has been credited to other comprehensive income.

Had the Group's buildings and leasehold land situated in Mainland China been carried at cost less accumulated depreciation, the carrying amounts would have been approximately RMB800,748,000 and RMB144,995,000, respectively (31 December 2019: RMB830,709,000 and RMB149,032,000, respectively).

At 31 December 2020, certain of the Group's building and leasehold land with fair value of approximately RMB3,603,519,000 (31 December 2019 under cost model: RMB967,795,000) were pledged to secure general banking facilities granted to the Group (Note 28).

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's buildings and leasehold land situated in Mainland China:

	Fair value measurement as at 31 December 2020 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Buildings	–	–	**1,339,350**	**1,339,350**
Leasehold land	–	–	**2,291,741**	**2,291,741**
	–	–	**3,631,091**	**3,631,091**

The Group did not measure buildings and leasehold land at fair value as at 31 December 2019.

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Year ended 31 December 2020

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Fair value hierarchy *(continued)*

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

	Buildings RMB'000	Leasehold land RMB'000
At 1 January*	830,709	149,032
Purchases	379	–
Depreciation charge	(38,596)	(39,826)
Gain from a fair value adjustment recognised in other comprehensive income	546,858	2,182,535
At 31 December	1,339,350	2,291,741

* The Group changed the accounting policy with respect to the measurement of buildings and leasehold land in PRC as at 17 May 2020 on a prospective basis. Therefore, the fair value of the buildings and leasehold land in PRC was not measured at 1 January 2020 and 1 January 2019.

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Below is a summary of the valuation techniques used and the key inputs to the valuation of buildings and leasehold land:

	Valuation technique	Significant unobservable inputs	Weighted average 2020
Building and leasehold land (note a)	Income method	Market daily rental (RMB) (per square metre)	**12.45**
		Long term vacancy rate	**4%**
		Yield rate	**4%**
Building (note b)	Direct comparison method	Market transaction price (RMB) (per square metre)	**11,500**
		Adjustment on quality of the building	**1%**

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Fair value hierarchy *(continued)*

Notes:

(a) The valuation of the building and the leasehold land was determined using the income method. The most significant inputs to this valuation approach are the market daily rental of comparable properties nearby, long term vacancy rate of the building and yield rate of the rentals.

The fair value measurement is positively correlated to the market daily rental and yield rate, and negatively correlated to the long term vacancy rate.

(b) The valuation of the building was determined using the direct comparison approach. The most significant inputs to this valuation approach are the market transaction prices of comparable properties nearby and the adjustment on quality of the building.

The fair value measurement is positively correlated to the market transaction price and negatively correlated to the adjustment on quality of the building.

14. INVESTMENT PROPERTY

	2020 **RMB'000**	2019 RMB'000
Carrying amount at 1 January	**11,098**	11,747
Depreciation	**(649)**	(649)
Carrying amount at 31 December	**10,449**	11,098

The fair value of the Group's investment property was RMB36,500,000 as at 31 December 2020 (2019: RMB38,940,000), based on valuations performed by Jiangsu Suxin Real Estate Evaluation Consulting Co., Ltd. (2019: Jones Lang LaSalle Corporate Appraisal and Advisory Limited), an independent firm of professionally qualified valuer, 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 property. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The Group's investment property is situated in Mainland China under a medium-term lease and are leased to a third party under operating leases (note 15).

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15. LEASES

The Group as a lessee

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

(a) Right-of-use assets

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

	Properties RMB'000	Leasehold land RMB'000	Total RMB'000
As at 1 January 2019	9,288	153,069	162,357
Additions	13,720	–	13,720
Depreciation charge	(6,877)	(4,037)	(10,914)
As at 31 December 2019 and 1 January 2020	**16,131**	**149,032**	**165,163**
Additions	**39,035**	**–**	**39,035**
Surplus on revaluation	**–**	**2,142,709**	**2,142,709**
Depreciation charge	**(19,699)**	**(39,826)**	**(59,525)**
Reversal upon revaluation	**–**	**39,826**	**39,826**
Revision of a lease term arising from a change in the non-cancellable period of a lease	**(870)**	**–**	**(870)**
As at 31 December 2020	**34,597**	**2,291,741**	**2,326,338**

15. LEASES *(continued)*

The Group as a lessee *(continued)*

(b) Lease liabilities

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

	2020 RMB'000	2019 RMB'000
Carrying amount at 1 January	**13,220**	7,007
New leases	**39,035**	13,720
Accretion of interest recognised during the year	**2,635**	636
Payments	**(18,695)**	(8,143)
Revision of a lease term arising from a change in the non-cancellable period of a lease	**(954)**	–
Carrying amount at 31 December	**35,241**	13,220
Analysed into:		
Current portion	**15,670**	4,686
Non-current portion	**19,571**	8,534

The maturity analysis of lease liabilities is disclosed in note 37 to the financial statements.

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

	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	**2,635**	636
Depreciation charge of right-of-use assets	**59,525**	10,914
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2021 (included in cost of sales)	**14,712**	19,314
Expense relating to leases of low-value assets (included in administrative expenses)	**361**	555
Total amount recognised in profit or loss	**77,233**	31,419

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15. LEASES *(continued)*

The Group as a lessee *(continued)*

(d) Extension and termination options

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

(e) The total cash outflow for leases is disclosed in note 38(c) to the financial statements.

The Group as a lessor

The Group leases its office properties in China under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB99,145,000 (2019: RMB97,068,000), details of which are included in note 6 to the financial statements.

At 31 December 2020, the undiscounted lease payments receivable by the Group in the future periods under non-cancellable operating lease with its tenants are as follow:

	2020	2019
	RMB'000	RMB'000
Within one year	**28,264**	52,908
In the second to fifth years, inclusive	**22,739**	12,748
After five years	**51,003**	66,101
	102,006	131,757

16. GOODWILL

	2020 RMB'000	2019 RMB'000
Carrying amount at the beginning of the year and at the end of the year	**15,752**	15,752

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

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

The recoverable amount of the goodwill is determined from a value-in-use calculation using a cash flow forecast based on financial budgets. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates, budgeted gross margin and expected changes to revenue and direct costs during the year. The directors have estimated the discount rate of 15% (2019:15%) using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Group. The growth rate of 7% (2019: 7%) is based on industry growth forecasts. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market. Management determine the budgeted gross margin based on the gross margin achieved previously and management's expectation on the future trend of the market development. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for 2020 and extrapolates cash flows for the following five years based on an estimated average industry growth rate.

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17. INTANGIBLE ASSETS

	Software RMB'000	Licences RMB'000	Total RMB'000
31 December 2020			
Cost at 1 January 2020, net of accumulated amortisation	**10,798**	**20,717**	**31,515**
Additions	**1,041**	**–**	**1,041**
Amortisation provided during the year	**(3,340)**	**(2,486)**	**(5,826)**
At 31 December 2020	**8,499**	**18,231**	**26,730**
At 31 December 2020:			
Cost	**64,111**	**24,860**	**88,971**
Accumulated amortisation	**(55,612)**	**(6,629)**	**(62,241)**
Net carrying amount	**8,499**	**18,231**	**26,730**
31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	8,898	23,203	32,101
Additions	5,012	–	5,012
Amortisation provided during the year	(3,112)	(2,486)	(5,598)
At 31 December 2019	10,798	20,717	31,515
At 31 December 2019:			
Cost	63,070	24,860	87,930
Accumulated amortisation	(52,272)	(4,143)	(56,415)
Net carrying amount	10,798	20,717	31,515

18. INVESTMENTS IN ASSOCIATES

	2020 RMB'000	2019 RMB'000
Share of net assets	**192,796**	7,587

Particulars of the associate are as follows:

Name	Registered capital	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
河南創思特工程監理諮詢有限公司 (Henan Chuangsite Supervisory Consulting Co., Ltd. ("Henan Chuangsite"))	RMB3,000,000	Mainland China	30	Supervisory services for construction projects
泰興博惠環保科技發展有限公司 (Taixing Bohui Environmental Technology Development Co., Ltd. ("Taixing Bohui"))	RMB252,143,200	Mainland China	25	Research and development service for environmental technology
南京銀鞍嶺秀新材料產業基金合夥企業 (有限合夥) (Nanjing Yinan Lingxiu New Material Industry Fund (Limited Partnership) ("Yin'an Lingxiu"))	RMB758,000,000	Mainland China	21.11*	Investment in new material Industry

* As at 31 December 2020, registered capital amounting to RMB758,000,000 was paid up by the equity holders of Yin'an Lingxiu.

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18. INVESTMENTS IN ASSOCIATES *(continued)*

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

Henan Chuangsite, Taixing Bohui and Yin'an Lingxiu are 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 the Group's associates that are not individually material:

	2020 **RMB'000**	2019 RMB'000
Share of the associates' profit/(loss) for the year	**9**	(181)
Share of the associates' total comprehensive income	**9**	(181)
Aggregate carrying amount of the Group's investments in the associates	**192,796**	7,587

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

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

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

	2020 **RMB'000**	2019 RMB'000
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value		
CSSC (Hong Kong) Shipping Company Limited	**160,192**	204,513
Unlisted equity investments, at fair value		
上海亞商財富投資管理有限公司 (Shanghai Asia Business Wealth Investment Management Co., Ltd.)	**–**	60,000
山西潞安化工有限公司 (Shanxi Lu'an Chemical Co., Ltd.)	**23,000**	23,930
興化粵海水務有限公司 (Xinghua Yuehai Water Affairs Co., Ltd.)	**20,698**	20,698
上海銀鞍股權投資管理有限公司 (Shanghai Yin'an Equity Investment Management Co., Ltd.)	**1,858**	2,250
	45,556	106,878
	205,748	311,391

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

In December 2020, the Group reached an agreement with the buyer to dispose of its equity interest in Shanghai Asia Business Wealth Investment Management Co., Ltd. for an amount of RMB60,000,000 as this investment no longer coincided with the Group's investment strategy. The fair value at the trade date of this equity investment was RMB60,000,000 and the Group derecognised this equity investment and recognised a receivable measured under prepayments and other receivables from the buyer for the payment on the trade date. During the year ended 31 December 2020, the Group received dividend in the amount of RMB12,689,000 (2019: RMB4,726,000) from CSSC (Hong Kong) Shipping Company Limited.

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20. INVENTORIES

	2020 RMB'000	2019 RMB'000
Construction materials, net	**85,867**	126,859

21. TRADE RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	**1,079,088**	1,153,971
Impairment	**(239,799)**	(150,105)
	839,289	1,003,866

The Group's trading terms with its customers are mainly on credit. Trade receivables are non-interest-bearing and on credit terms of a period of 30 days or the respective retention periods in the contracts. The Group seeks to maintain strict control over its outstanding receivables and minimise credit risk. Overdue balances are reviewed regularly by management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2020 RMB'000	2019 RMB'000
Within 1 month	**133,512**	199,283
2 to 12 months	**260,871**	217,769
Over 1 year	**444,906**	586,814
	839,289	1,003,866

21. TRADE RECEIVABLES *(continued)*

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

	2020 **RMB'000**	2019 RMB'000
At beginning of year	**150,105**	116,063
Impairment losses, net (note 8)	**102,368**	34,042
Amount written off as uncollectible	**(12,674)**	–
At end of year	**239,799**	150,105

The increase (2019: increase) in the loss allowance was due to the following significant changes in the gross carrying amount:

(a) Decrease in the loss allowance of RMB7,432,000 (2019: RMB16,828,000) as a result of a net decrease (2019: decrease) in the gross carrying amount after the settlement of trade receivables and origination of new trade receivables;

(b) Increase in the loss allowance of RMB109,800,000 (2019: RMB50,870,000) as a result of an increase in trade receivables which were over credit term; and

(c) Decrease in the loss allowance of RMB12,674,000 (2019: Nil) as a result of the write-off of certain trade receivables.

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

Notes to Financial Statements

Year ended 31 December 2020

21. TRADE RECEIVABLES *(continued)*

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

As at 31 December 2020

	Ageing				
	Less than 1 year	1 to 2 year	2 to 3 years	Over 3 years	Total
Expected credit loss rate	**5.13%**	**10.90%**	**37.65%**	**94.70%**	**22.22%**
Gross carrying amount (RMB'000)	**415,698**	**190,094**	**438,975**	**34,321**	**1,079,088**
Expected credit losses (RMB'000)	**21,315**	**20,725**	**165,256**	**32,503**	**239,799**

As at 31 December 2019

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

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

	2020 RMB'000	2019 RMB'000
Related companies		
Wison (Taizhou) New Material Technology Co., Ltd. (as defined in note 33)	**123,239**	–
Taixing Bohui (as defined in note 18)	**83,021**	61,420
Taixing Tianma Chemical Engineering Co., Ltd. (as defined in note 33)	**76,697**	72,516
	282,957	133,936

22. PREPAYMENTS AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Prepayments	**490,183**	397,794
Deposits and other receivables	**220,826**	115,397
Less: Non-current portion of prepayments	**(159)**	(2,202)
	710,850	510,989
Impairment allowance	**(965)**	(459)
	709,885	510,530

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied for deposits and other receivables where there were no comparable companies as at 31 December 2020 was 0.4% (2019: 0.4%).

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

	2020 RMB'000	2019 RMB'000
At beginning of year	**459**	165
Impairment loss, net (note 8)	**506**	294
At end of year	**965**	459

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23. CONTRACT ASSETS

	31 December 2020 RMB'000	31 December 2019 RMB'000	1 January 2019 RMB'000
Contract assets arising from:			
Construction services	**1,754,068**	744,319	710,149
Design, feasibility research, consulting and technical services	**1,072**	7,351	6,604
	1,755,140	751,670	716,753
Impairment	**(137,362)**	(61,316)	(103,964)
	1,617,778	690,354	612,789

Contract assets are initially recognised for revenue earned from construction services and design, feasibility research, consulting and technical services as the receipt of consideration is conditional on successful completion of construction. Included in contract assets for construction services are retention receivables. Upon completion of construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2020 and 2019 was the result of the increase in the ongoing sale of construction services and the provision of design, feasibility research, consulting and technical services at the end of each of the years.

During the year ended 31 December 2020, RMB76,046,000 (2019: RMB42,648,000) was recognised (2019: reversal) of an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 21 to the financial statements.

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

	2020 RMB'000	2019 RMB'000
Within one year	**1,135,241**	583,380
After one year	**482,537**	106,974
Total contract assets	**1,617,778**	690,354

23. CONTRACT ASSETS *(continued)*

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

	2020 **RMB'000**	2019 RMB'000
At beginning of year	**61,316**	103,964
Impairment loss/(reversal of impairment), net* (note 8)	**76,046**	(42,648)
At end of year	**137,362**	61,316

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

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

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

	2020	2019
Expected credit loss rate	**7.83%**	8.16%
Gross carrying amount (RMB'000)	**1,755,140**	751,670
Expected credit losses (RMB'000)	**137,362**	61,316

23. CONTRACT ASSETS *(continued)*

The amounts due from related companies included in the contract assets are as follows:

	2020	2019
	RMB'000	RMB'000
Related companies		
Wison (Taizhou) New Material Technology Co., Ltd. (as defined in note 33)	**254,525**	–
Taixing Bohui (as defined in note 18)	**1,507**	2,638
	256,032	2,638

24. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	2019
	RMB'000	RMB'000
Listed equity investment, at fair value	**–**	112,734
Other unlisted investment, at fair value	**500**	–
	500	112,734

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

The above unlisted investment was a wealth management product issued by a bank in Mainland China. It was mandatorily classified as a financial asset at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2020 RMB'000	2019 RMB'000
Cash and bank balances	**789,410**	1,192,508
Time deposits with original maturity of less than three months	**256,944**	14,380
Time deposits with original maturity of more than three months	**249,387**	407,751
	1,295,741	1,614,639
Less: Pledged bank balances and time deposits	**824,775**	800,388
Unpledged cash and cash equivalents	**470,966**	814,251
Less: Frozen and unpledged bank balances	**45,200**	–
Unpledged and unfrozen cash and cash equivalents	**425,766**	814,251

At 31 December 2020, bank balances and time deposits of RMB466,905,000 (2019: RMB561,310,000) were placed as guarantee deposits for performance of certain construction contracts and for the tendering process.

At 31 December 2020, bank balances and time deposits of RMB18,692,000 (2019: RMB32,208,000) were pledged to a bank as security to obtain a letter of credit facility for the purchase of imported equipment.

At 31 December 2020, bank balances and time deposits of RMB291,909,000 (2019: RMB147,381,000) were pledged as security for bill facilities granted by the banks.

At 31 December 2020, bank balances and time deposits of RMB19,169,000 (2019: RMB2,605,000) were pledged to a bank as security for forward foreign exchange contracts.

At 31 December 2020, bank balances of RMB28,100,000 (2019: RMB56,884,000) were pledged to a bank as security to obtain a bank facility.

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Year ended 31 December 2020

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

At 31 December 2020, certain bank accounts of Jiangsu Wison of RMB40,200,000 (2019: Nil) (note 34) and Wison Engineering of RMB5,000,000 (2019: Nil) were frozen by related courts for preservation.

At 31 December 2020, the cash and bank balances of the Group denominated in RMB amounted to RMB926,281,000 (2019: RMB786,429,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

26. TRADE AND BILLS PAYABLES

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

	2020 **RMB'000**	2019 RMB'000
Less than 1 year	**1,760,149**	783,735
1 to 2 years	**144,679**	138,217
2 to 3 years	**115,348**	917,125
Over 3 years	**410,263**	212,014
	2,430,439	2,051,091

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

27. OTHER PAYABLES AND ACCRUALS

	Notes	2020 RMB'000	2019 RMB'000
Contract liabilities	(a)	**808,345**	536,524
Accruals		**41,203**	107,989
Advances from customers		**6,182**	14,443
Other payables	(b)	**202,701**	180,621
		1,058,431	839,577

(a) Details of contract liabilities are as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000	1 January 2019 RMB'000
Short-term advances received from customers			
Construction services	**759,244**	488,808	715,694
Design, feasibility research, consulting and technical services	**49,101**	47,716	23,440
Total contract liabilities	**808,345**	536,524	739,134

Contract liabilities include short-term advances received to render construction services and design, feasibility research, consulting and technical services. The increase in contract liabilities in 2020 was mainly due to the increase in short-term advances received from customers in relation to the provision of construction services at the end of the year.

The amount advance from a related company included in the contract liabilities is as follows:

	2020 RMB'000	2019 RMB'000
Related company		
Wison (Taizhou) New Material Technology Co., Ltd. (as defined in note 33)	**166**	–

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

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28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2020 RMB'000	2019 RMB'000
Current		
Bank loans repayable within one year — secured	**134,327**	252,000
Current portion of long-term bank loans — secured	**805,000**	52,780
	939,327	304,780
Non-Current		
Bank loans repayable over one year — secured	**–**	447,220

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

	2020 US$'000	2019 US$'000
US$ denominated	**3,728**	–

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

Year ended 31 December 2019	4.79% to 5.88%
Year ended 31 December 2020	2.60% to 5.88%

	2020 RMB'000	2019 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**939,327**	304,780
In the second year	**–**	38,050
In the third to fifth years, inclusive	**–**	97,500
Beyond five years	**–**	311,670
	939,327	752,000

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

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

	Note	**2020 RMB'000**	2019 RMB'000
Building and leasehold land	13	**3,603,519**	967,795

During the year ended 31 December 2020, 惠生（中國）投資有限公司 ("Wison (China) Investment"), a fellow subsidiary of the Company, executed guarantees to certain banks for bank facilities granted to the Group of RMB612,000,000 which expired on 12 November 2020 (2019: RMB612,000,000). As at 31 December 2020, the loans were drawn down to the extent of nil (2019: RMB252,000,000) (note 33).

In addition, certain bank has granted credit facilities to the Group for which the right of receiving rental income from certain property of the Group for the future years and the related bank account with bank balances of RMB28,100,000 as at 31 December 2020 (note 25) have been pledged as security.

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

As at 31 December 2020, Wison Engineering had borrowings with the Bank of RMB805,000,000 with an original maturity date on 20 August 2034, which requires the Company to maintain profitable financial performance during a financial year. The Company was in breach of the financial covenants under the loan agreement due to the net loss recorded by the Company for the year. The Bank is entitled to demand and accelerated repayment of the principal amount of RMB805,000,000 and accrued interest as at 31 December 2020 as stipulated in the clauses of the loan agreement. As at 31 December 2020, the non-current bank loan amounted to RMB736,500,000 was reclassified as current portion of interest-bearing bank and other borrowings.

Up to the date of the report, Wison Engineering has yet to receive any waiver nor any demand for the immediate repayment from the Bank in respect of the breach of covenants.

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29. DEFERRED TAX

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

Deferred tax liabilities

	2020		
	Revaluation of buildings and land/related depreciation in excess of depreciation allowance	Withholding taxes arising from distributable profits the PRC subsidiaries	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2020	–	720	720
Deferred tax credited to the statement of profit or loss during the year (note 10)	(6,607)	–	(6,607)
Deferred tax charged to the other comprehensive income during the year	409,409	–	409,409
At 31 December 2020	402,802	720	403,522

Deferred tax assets

	2020		
	Impairment of financial and contract assets	Accruals	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2020	28,368	8,480	36,848
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	25,689	(6,745)	18,944
At 31 December 2020	54,057	1,735	55,792

29. DEFERRED TAX *(continued)*

Deferred tax liabilities

	2019 Withholding taxes arising from distributable profits of the PRC subsidiaries RMB'000
At 1 January 2019	6,444
Deferred tax charged to the statement of profit or loss during the year (note 10)	720
Deferred tax realised during the year (note 10)	(6,444)
At 31 December 2019	720

Deferred tax assets

	2019		
	Impairment of financial and contract assets RMB'000	Accruals RMB'000	Total RMB'000
At 1 January 2019	28,094	7,281	35,375
Deferred tax credited to the statement of profit or loss during the year (note 10)	274	1,199	1,473
At 31 December 2019	28,368	8,480	36,848

The Group has accumulated tax losses arising in Hong Kong of approximately RMB86,125,000 (2019: RMB33,180,000) 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 RMB410,653,000 (2019: RMB177,466,000) which are available for offsetting against future taxable profits in one to five years. The Group also has accumulated tax losses arising in the United States, Japan, Mexico, Singapore, Thailand, Russia and Saudi Arabia of approximately RMB30,848,000 which are available for offsetting against future taxable profits in one year to an infinite period.

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Year ended 31 December 2020

29. DEFERRED TAX *(continued)*

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:

	2020 **US$'000**	2019 US$'000
Tax losses	**527,627**	214,511

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. At 31 December 2020, there was no significant unrecognised deferred tax liability (2019: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted due to the availability of double taxation relief.

30. GOVERNMENT GRANTS

	2020 **RMB'000**	2019 RMB'000
Carrying amount at beginning of the year	**4,377**	4,695
Received during the year	**10,457**	105,580
Released to profit or loss (note 6)	**(10,587)**	(105,898)
Carrying amount at end of the year	**4,247**	4,377

31. SHARE CAPITAL AND RESERVES

(a) Shares

	2020	2019
Number of ordinary shares		
Authorised:		
Ordinary shares of HK$0.1 each	**20,000,000,000**	20,000,000,000
Issued and fully paid:		
Ordinary shares of HK$0.1 each	**4,073,767,800**	4,073,767,800

	2020 RMB'000	2019 RMB'000
Authorised:		
Ordinary shares of HK$0.1 each	**1,622,757**	1,622,757
Issued and fully paid:		
Ordinary shares of HK$0.1 each	**330,578**	330,578

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 2019	4,070,608,200	330,299	861,129	1,191,428
Share options exercised	3,159,600	279	8,072	8,351
At 31 December 2019, 1 January 2020 and 31 December 2020	**4,073,767,800**	**330,578**	**869,201**	**1,199,779**

(b) Share premium account

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

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Year ended 31 December 2020

31. SHARE CAPITAL AND RESERVES *(continued)*

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

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

In accordance with the Company Law of the PRC, Jiangsu Wison 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 Jiangsu Wison, 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.

32. SHARE OPTION SCHEMES

1) Pre-IPO Share Option Scheme

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

As at 31 December 2020, the number of shares could be issued in respect of the pre-IPO options granted under the Pre-IPO Share Option Scheme was nil. No further options can be granted under the Pre-IPO Share Option Scheme after the listing date of the Company (the "Listing Date").

32. SHARE OPTION SCHEMES *(continued)*

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

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

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

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

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

	2020 Weighted average exercise price HK$ per share	**2020** Number of options '000	2019 Weighted average exercise price HK$ per share	2019 Number of options '000
At 1 January	**0.837**	**130,527**	0.837	137,198
Forfeited during the year	**0.837**	**–**	0.837	(3,511)
Expired during the year	**0.837**	**(130,527)**	0.837	–
Exercised during the year	**0.837**	**–**	0.837	(3,160)
At 31 December	**0.837**	**–**	0.837	130,527

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.837 per share (2019: HK$0.837).

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Year ended 31 December 2020

32. SHARE OPTION SCHEMES *(continued)*

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

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

2020

Number of options	**Exercise price* HK$ per share**	**Exercise period**
–	**0.837**	**29/12/2015 – 28/12/2020**
–	**0.837**	**29/12/2016 – 28/12/2020**
–	**0.837**	**29/12/2017 – 28/12/2020**
–	**0.837**	**29/12/2018 – 28/12/2020**
–	**0.837**	**29/12/2019 – 28/12/2020**
–		

2019

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

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

The fair value of the share options granted during the year ended 31 December 2012 was RMB376,885,000 (RMB1.904 each), of which the Group recognised a share option expense of nil (2019: RMB4,798,000) during the year ended 31 December 2020.

32. SHARE OPTION SCHEMES *(continued)*

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

During the year ended 31 December 2020, 130,527,000 (2019: 3,511,200) options were expired due to the expiration of the vesting period;

No share options were exercised during the year.

At the end of the reporting period, there were no outstanding share options under the Pre-IPO Share Option Scheme.

2) Share Option Scheme

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

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

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Year ended 31 December 2020

32. SHARE OPTION SCHEMES *(continued)*

2) Share Option Scheme *(continued)*

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

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

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

	2020		2019	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**1.744**	**126,800**	1.744	131,700
Forfeited during the year	**1.744**	**(4,050)**	1.744	(4,900)
Exercised during the year	**1.744**	**–**	1.744	–
At 31 December	**1.744**	**122,750**	1.744	126,800

No shares were exercised during the years ended 31 December 2020 and 2019.

32. SHARE OPTION SCHEMES *(continued)*

2) Share Option Scheme *(continued)*

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

2020

Number of options	Exercise price* HK$ per share	Exercise period
30,687,500	**1.744**	**14/11/2018 – 13/11/2022**
30,687,500	**1.744**	**14/11/2019 – 13/11/2022**
30,687,500	**1.744**	**14/11/2020 – 13/11/2022**
30,687,500	**1.744**	**14/11/2021 – 13/11/2022**
122,750,000		

2019

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

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

The fair value of the share options granted during the year ended 31 December 2017 was approximately RMB48,637,000 of which the Group recognised a share option expense of RMB13,165,000 (2019: RMB25,240,000) during the year ended 31 December 2020.

Notes to Financial Statements

Year ended 31 December 2020

32. SHARE OPTION SCHEMES *(continued)*

2) Share Option Scheme *(continued)*

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

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

At the end of the reporting period, the Company had 122,750,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 122,750,000 additional ordinary shares of HK$0.1 each of the Company and additional share capital of HK$12,275,000 (equivalent to RMB10,331,000) and share premium of HK$201,801,000 (equivalent to RMB169,836,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 122,750,000 share options outstanding under the Share Option Scheme, which represented approximately 3.01% of the Company's shares in issue as at that date.

33. RELATED PARTY TRANSACTIONS

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

	Notes	**2020** **RMB'000**	2019 RMB'000
Fellow subsidiaries:			
Rental income	(a)(i),(a)(ii)	**20,890**	23,916
Rendering of services	(a)(i),(a)(ii),(a)(xi),(a)(xii),(a)(xiii),(a)(xvii),(a)(xxi),(a)(xxii)	**482,350**	36,063
Services received	(a)(vii),(a)(viii),(a)(ix),(a)(x),(a)(xiv),(a)(xv),(a)(xvi),(a)(xix)(a)(xxi)	**30,850**	563,473
Associate:			
Rendering of services	(a)(xviii),(a)(xx)	**43,673**	63,371

33. RELATED PARTY TRANSACTIONS *(continued)*

Name of related parties	Relationship
Wison Holding	Wholly owned by Mr. Hua Bangsong (the beneficial controlling shareholder of the Company) and is the ultimate holding company of the Company
惠生（南通）重工有限公司 (Wison (Nantong) Heavy Industry Co., Ltd., "Wison Nantong")	Indirectly owned by Wison Holding (indirectly wholly owned by Wison Holding before 27 August 2020) and is a fellow subsidiary of the Company
Wison (China) Investment	Indirectly wholly owned by Wison Holding and is a fellow subsidiary of the Company
Wison Investment (Hong Kong) Limited ("Wison Investment (HK)")	Indirectly wholly owned by Wison Holding and is a fellow subsidiary of the Company
舟山惠生海洋工程有限公司 (Zhoushan Wison offshore & Marine Co., Ltd., "Zhoushan Wison")	Indirectly owned by Wison Holding and is a fellow subsidiary of the Company
Wison Offshore & Marine (Hong Kong) Limited ("Wison Offshore Marine")	Indirectly owned by Wison Holding (indirectly wholly owned by Wison Holdings before 27 August 2020) and is a fellow subsidiary of the Company
泰興天馬化工有限公司 (Taixing Tianma Chemical Engineering Co., Ltd., "Taixing Tianma")	Indirectly owned as to 15% by Wison Holding and was a related company of the Company
上海惠生海洋工程有限公司 (Shanghai Wison Offshore & Marine Co., Ltd., "Wison Offshore Marine Shanghai")	Indirectly owned by Wison Holding and is a fellow subsidiary of the Company
惠生（泰州）新材料科技有限公司 (Wison (Taizhou) New Material Technology, Co., Ltd., "Wison Taizhou")	Indirectly wholly owned by Wison Holding and is a fellow subsidiary of the Company
Taixing Bohui	An associate held through a wholly-owned subsidiary of the Company

Notes to Financial Statements

Year ended 31 December 2020

33. RELATED PARTY TRANSACTIONS *(continued)*

Notes:

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

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

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

On 10 January 2020, the Group entered into further supplemental agreements with Wison (China) Investment to amend certain terms of the previous lease agreement and comprehensive management service agreement both dated 14 December 2018, effective from 1 February 2020. The rental had been adjusted proportionally from RMB15,225,000 per annum to RMB11,479,000 per annum, and the comprehensive management fee had been adjusted proportionally from RMB2,275,000 per annum to RMB1,715,000 per annum with reference to the size of the decreased gross floor area of the subject premises.

On 30 June 2020, the Group entered into further supplemental agreements with Wison (China) Investment to amend certain terms of the previous lease agreement and comprehensive management service agreement both dated 10 January 2020, effective from 1 July 2020. The rental has been adjusted proportionally from RMB11,479,000 per annum to RMB9,580,000 per annum, and the comprehensive management fee has been adjusted proportionally from RMB1,715,000 per annum to RMB1,431,000 per annum with reference to the size of the decreased gross floor area of the subject premises.

The rental income, comprehensive management service income, electricity fees and charges for conference facilities inclusive of value-added tax for the year ended 31 December 2020 from Wison (China) Investment amounted to RMB15,984,000 (2019:RMB19,818,000), RMB2,124,000 (2019:RMB2,772,000), RMB289,000 (2019:RMB139,000) and RMB96,000 (2019: RMB54,000), respectively.

33. RELATED PARTY TRANSACTIONS *(continued)*

Notes: *(continued)*

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

On 14 December 2018, the Group and Wison Offshore Marine Shanghai entered into a property management service agreement, pursuant to which the Group provided property management services in relation to the premises leased to Wison Offshore Marine Shanghai for RMB750,000 per annum for a one-year period commencing from 1 January 2019.

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

On 16 December 2019, the Group entered into a property lease agreement with Wison Offshore Marine Shanghai to renew the afore-mentioned lease agreement dated 25 January 2019 for a one-year period commencing from 1 January 2020 for RMB4,015,000. On the same date, the Group entered into a supplemental agreement with Wison Offshore Marine Shanghai in relation to the provision of property management service by Wison Engineering for an annual comprehensive park management fee of RMB600,000 for a one-year period commencing 1 January 2020. Pursuant to the supplemental agreement, Wison Offshore Marine Shanghai rented the conference facilities at a fee of RMB1,500 to RMB5,000 per day depending on the size of the conference rooms and an electricity fee of RMB1.20 per unit of consumption was payable by Wison Offshore Marine Shanghai to Wison Engineering.

On 1 July 2020, the Group entered into a further supplemental agreement with Wison Offshore Marine Shanghai to renew the afore-mentioned lease agreement and property management agreement dated 16 December 2019, effective from 1 July 2020. The rental has been adjusted proportionally from RMB4,015,000 per annum to RMB4,567,000 per annum, and the comprehensive park management fee has been adjusted proportionally from RMB600,000 per annum to RMB683,000 per annum with reference to the size of the increased gross floor area of the subject premises.

On 1 September 2020, the Group entered into a further supplemental agreement with Wison Offshore Marine Shanghai to renew the aforementioned lease agreement and property management agreement both dated 16 December 2019 and 1 July 2020, effective from 1 September 2020. The rental has been adjusted proportionally from RMB4,567,000 per annum to RMB4,906,000 per annum, and the comprehensive park management fee has been adjusted proportionally from RMB683,000 per annum to RMB733,000 per annum with reference to the size of the increased gross floor area of the subject premises.

The rental income, comprehensive park management service income, electricity fees and charges for conference facilities inclusive of value-added tax for the year ended 31 December 2020 from Wison Offshore Marine Shanghai amounted to RMB4,906,000 (2019: RMB4,098,000), RMB733,000 (2019: RMB613,000), RMB31,000 (2019: Nil) and RMB379,000 (2019: Nil), respectively.

Notes to Financial Statements

Year ended 31 December 2020

33. RELATED PARTY TRANSACTIONS *(continued)*

Notes: *(continued)*

(a)(iii) On 30 June 2020, Wison Engineering entered into the property leasing framework agreement with Wison Holding (for itself and on behalf of Wison Holding Entities (defined as collectively, Wison Holding, its subsidiaries and any companies in which Wison Holding or its subsidiaries can exercise or control the exercise of 30% or more of the voting power at general meetings and/or control the composition of a majority of the board of directors (in each case excluding the subsidiaries of Wison Holding), and "Wison Holding Entity" means any one of them)), pursuant to which Wison Engineering may, following the principal terms of the property leasing framework agreement, from time to time let properties and provide property management services for the premises of the Group to the Wison Holding Entities. The property leasing framework agreement covers and governs the leasehold relationship between the parties under all the existing agreements as well as any future lease arrangements entered into between Wison Engineering and the relevant Wison Holding Entities in relation to the leases of and the provision of property management services for premises located at the New Wison Complex during the term of the agreement. The property leasing framework agreement will expire on 31 December 2022.

During the year ended 31 December 2020, the aggregate amount of income of the rentals, property management fees, utility charges and charges for conference facilities inclusive of value added tax for the year ended 31 December 2020 from Wison Holding Entities under the property leasing framework agreement was RMB24,542,000 (the total amount of (a)(i) and (a)(ii)) as aforementioned.

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

(a)(v) During the year ended 31 December 2020, Wison (China) Investment executed guarantees to certain banks for bank facilities to the Group of RMB612,000,000 (2019: RMB612,000,000) which expired on 12 November 2020. As at 31 December 2020, the loans were drawn down to the extent of nil (31 December 2019: RMB252,000,000) (note 28).

(a)(vi) 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 Wison Holding ceasing to be a shareholder of the Company.

(a)(vii) On 13 June 2017, Wison Engineering and Wison Nantong entered into the modules prefabrication and supply contract, pursuant to which the Group engaged Wison Nantong to design the structure, procure paint materials, prefabricate and assemble certain chemical equipment modules for a third-party project in the PRC at a total contract price of RMB102,860,000, which was later increased to RMB138,000,000. The relevant cost of services incurred by the Group during the year ended 31 December 2020 was nil (2019: RMB205,000).

(a)(viii) On 22 August 2017, Wison USA, LLC, an indirectly wholly-owned subsidiary of the Company, and Wison Nantong entered into the pipe rack module fabrication contract, pursuant to which Wison USA, LLC engaged Wison Nantong to supply pipe rack modules and spare parts for its construction project in the United States of America at a total contract price of US$7,376,000, which was later increased to US$9,078,000.The relevant cost of services incurred by the Group during the year ended 31 December 2020 was nil (2019: RMB12,013,000).

(a)(ix) On 11 May 2018, Wison USA, LLC, Wison Offshore Marine and Wison Nantong entered into the pipe and structural steel fabrication work contract, pursuant to which Wison USA, LLC engaged Wison Offshore Marine and Wison Nantong to perform the pipe and structural steel fabrication work for a field erection of low density polyethylene outside battery limits equipment and piping installation project in the United States of America, at a total contract price of US$1,850,000. The relevant cost of services incurred by the Group during the year ended 31 December 2020 was nil (2019: RMB3,081,000).

33. RELATED PARTY TRANSACTIONS *(continued)*

Notes: *(continued)*

(a)(x) On 11 May 2018, Wison USA, LLC and Wison Offshore Marine entered into a contract for the fabrication contract of module, stick-built steel structure and piping spool, pursuant to which Wison USA, LLC engaged Wison Offshore Marine to perform the fabrication work of module, stick-built steel structure and piping spool fabrication work for an ethylene glycol plant in Texas, the United States of America, at a total contract price of US$26,000,000, which was subsequently increased to US$30,237,000 with additional variation orders. The relevant cost of services incurred by the Group during the year ended 31 December 2020 was nil (2019: RMB210,936,000).

(a)(xi) On 7 June 2018, Wison Investment (HK) entered into the service agreement with Wison USA, LLC, pursuant to which Wison USA, LLC should provide consulting, marketing and new business development services in oil and gas and petrochemical fields to Wison Investment (HK) in relation to its current and proposed operations which had a term of one year from 7 June 2018 and should automatically be renewed for one year unless the parties terminate the agreement. The fees payable to Wison USA, LLC was determined based on the amount of time incurred in providing the services and was charged at an hourly rate of US$218.75, plus out-of-pocket expenses. The annual cap for fees payable to Wison USA, LLC under the service agreement was US$617,000. The relevant revenue recognised by the Group during the year ended 31 December 2020 was US$36,000 (equivalent to RMB252,000) (2019: RMB3,836,000).

(a)(xii) On 26 June 2018, Wison (China) Investment entered into a technical consulting service framework agreement with Wison Engineering, pursuant to which Wison Engineering should provide technical consulting services to Wison (China) Investment for its projects which is effective from 1 January 2018 and has a term of three years. The annual cap for consulting fees payable to Wison Engineering under the technical consulting service framework agreement is RMB30,000,000. The relevant revenue recognised by the Group during the year ended 31 December 2020 was nil (2019: RMB472,000).

(a)(xiii) On 28 May 2019, Wison Offshore Marine Shanghai entered into the technical services framework agreement with Wison Engineering, pursuant to which Wison Engineering should provide miscellaneous engineering design and technical services to Wison Offshore Marine Shanghai in relation to production equipment, utility system and ancillary production system for a term of three years from 28 May 2019. The relevant revenue recognised by the Group during the year ended 31 December 2020 was RMB79,000 (2019: Nil).

(a)(xiv) On 25 December 2018, Wison USA, LLC, Wison Offshore Marine and Wison Nantong entered into the module, stick-built steel structure and piping spool fabrication contract, pursuant to which Wison USA, LLC engaged Wison Offshore Marine and Wison Nantong to perform the module, stick-built steel structure and piping spool fabrication work at a provisional lump sum price of US$5,550,000, where US$1,000,000 was reimbursable according to actual material price and US$4,500,000 was based on unit rate. The relevant cost of services incurred by the Group during the year ended 31 December 2020 was nil (2019: RMB30,884,000).

(a)(xv) On 25 December 2019, Wison USA, LLC and Wison Offshore Marine entered into the module, stick-built steel structure and piping spool fabrication contract, pursuant to which Wison USA, LLC engaged Wison Offshore Marine to perform the module, stick-built steel structure and piping spool fabrication work at a provisional lump sum price of US$15,905,000. On 4 April 2020, Wison USA, LLC sent a notice to Wison Offshore Marine for the termination of the contract and the relevant cost of services incurred by the Group during the year ended 31 December 2020 was approximately US$51,000 (equivalent to RMB361,000) (2019: Nil).

(a)(xvi) On 24 January 2019, Wison Engineering and Zhoushan Wison entered into the modules prefabrication and supply contract, pursuant to which the Group engaged Zhoushan Wison to design the structure, procure materials, assemble certain equipment modules for a third-party project in the PRC at a total contract price of RMB340,000,000, which was later increased to RMB376,004,000. The relevant cost of services incurred by the Group during the year ended 31 December 2020 was RMB23,143,000 (2019: RMB306,354,000).

Notes to Financial Statements

Year ended 31 December 2020

33. RELATED PARTY TRANSACTIONS *(continued)*

Notes: *(continued)*

(a)(xvii) On 12 March 2019, Wison Engineering entered into a general engineering procurement construction contract with Wison Taizhou, pursuant to which Wison Taizhou engaged Wison Engineering to provide engineering design, equipment and material procurement and construction services for the project at a total contract price of RMB440,250,000, which was later increased to RMB714,302,000. The relevant revenue recognised by the Group during the year ended 31 December 2020 was RMB468,281,000 (2019: RMB28,177,000). The trade receivable relating to Wison Taizhou and contract assets with Wison Taizhou are set out in note 21 and note 23, respectively.

(a)(xviii) In August 2019, Jiangsu Wison entered into a general construction contract with Taixing Bohui, pursuant to which Taixing Bohui engaged Jiangsu Wison to provide construction services for the project at a total contract price of RMB264,795,000. The relevant revenue recognised by the Group during the year ended 31 December 2020 was RMB43,249,000 (2019: RMB63,371,000). The trade receivable relating to Taixing Bohui and the contract assets with Taixing Bohui are set out in note 21 and note 23, respectively.

(a)(xix) In August 2019, Wison Engineering entered into a general engineering design contract with Wison Nantong , pursuant to which Wison Engineering engaged Wison Nantong to provide engineering design services for the project at a total price of RMB220,000, which was later increased to RMB1,048,000. The relevant cost recognised by the Group during the year ended 31 December 2020 was RMB857,000 (2019: Nil).

(a)(xx) In December 2019, Jiangsu Wison entered into the technical consulting service agreement with Taixing Bohui, pursuant to which Taixing Bohui engaged Jiangsu Wison to provide technical consulting services for the project at a total contract price of RMB276,000, which was later increased to RMB449,000. The relevant revenue recognised by the Group during the year ended 31 December 2020 was RMB424,000 (2019: Nil).

(a)(xxi) On 23 January 2020, the Company entered into the service agreement with Wison Holding. Pursuant to the agreement, the Group shall provide to Wison Holding and its subsidiaries ("Wison Group") consulting, marketing and new business development services in oil and gas and petrochemical areas in relation to the current and proposed business operations of Wison Group, and Wison Group should provide to the Group information technology services and legal and compliance services. The term of the service agreement commences on 23 January 2020 and expires on 31 December 2022. The fees payable to the Group by Wison Group and the fees payable by the Group to Wison Group under the service agreement were determined based on the amount of time incurred by the qualified personnel assigned to provide the relevant services at hourly rates determined with reference to market rates for the remuneration of such qualified personnel, plus out-of-pocket expenses and general and administrative expenses actually incurred.

The service fee revenue recognised by the Group during the year ended 31 December 2020 from Wison Group was RMB10,086,000 (2019: Nil). The cost of service fee incurred by the Group from Wison Group during the year ended 31 December 2020 was RMB6,489,000 (2019: Nil).

(a)(xxii) On 30 June 2020, Wison Engineering and Wison Taizhou entered into the technical collaboration agreement, pursuant to which the parties agreed to jointly develop certain technologies and scale up engineering in relation to efficient synthesis of carbon dioxide to chemicals. The total amount payable by Wison Engineering to Wison Taizhou for the collaboration under the technical collaboration agreement depends on the actual costs to be incurred in the project and is expected to be no more than RMB12,000,000, which covers the costs of manpower and resources and the amount of capital to be incurred in the project. The project under the technical collaboration agreement became effective from 30 June 2020 and is expected to finish no later than 29 June 2023. Wison Engineering paid RMB2,000,000 to Wison Taizhou within five business days upon the technical collaboration agreement becoming effective. The cost of service fee incurred by the Group from Wison Taizhou during the year ended 31 December 2020 was nil (2019: Nil).

(a)(xxiii) On 18 September 2020, Wison Engineering and Wison Taizhou entered into an EPC contract, pursuant to which Wison Engineering was engaged by Wison Taizhou as the EPC general contractor for its project in relation to efficient synthesis of Carbon dioxide to chemicals in Taixing Economic Development Zone, Jiangsu Province, the PRC. The total contract price payable by Wison Taizhou to Wison Engineering under the EPC contract is currently expected to be RMB8,300,000, which comprise payment for the design fees, the equipment and material procurement fees, the construction fees and the project management and other fees. The advance from Wison Taizhou included in the contract liabilities is set out in note 27.

33. RELATED PARTY TRANSACTIONS *(continued)*

Notes: *(continued)*

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

(b) Balances with related parties:

	2020 RMB'000	2019 RMB'000
Due from fellow subsidiaries:		
Wison Taizhou	**8,577**	–
Wison Offshore Marine	**5,798**	–
Wison Offshore Marine Shanghai	**619**	6,088
Wison Nantong	**43**	–
Wison (China) Investment	**–**	8,577
	15,037	14,665
Due to fellow subsidiaries:		
Zhoushan Wison	**5,394**	15,110
Wison (China) Investment	**520**	–
Wison Nantong	**–**	49,275
Wison Taizhou	**–**	14,891
	5,914	79,276
Due to an associate:		
Henan Chuangsite	**630**	630

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

33. RELATED PARTY TRANSACTIONS *(continued)*

Notes: *(continued)*

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

	2020 RMB'000	2019 RMB'000
Short term employee benefits	**7,767**	9,009
Equity-settled share option expenses and equity-settled share-based payment expenses	**–**	558
Total compensation paid to key management personnel	**7,767**	9,567

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

34. CONTINGENT LIABILITIES

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

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

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

(4) During 2020, a sub-contractor of Wison Engineering applied for arbitration in Shanghai arbitration Committee for additional payment of construction costs, guarantee deposits, loss expenses and the interest arising from the overdue payment of above mentioned expenses of approximately RMB48,966,000.

34. CONTINGENT LIABILITIES *(continued)*

(5) During 2020, a sub-contractor of Jiangsu Wison filed a claim to the People's Court Jintan District in Mainland China against Jiangsu Wison for an overdue payment of construction cost of approximately RMB9,668,000. As at 31 December 2020, certain bank account of Jiangsu Wison of RMB9,700,000 were frozen by Jintan District People's Court for property preservation.

(6) During 2020, a sub-contractor of Jiangsu Wison filed a claim to the People's Court of Jiangsu Province in Mainland China against Jiangsu Wison for additional payment of construction costs and the interest arising from the overdue payment of construction costs of approximately RMB17,655,000. As at 31 December 2020, certain bank account of Jiangsu Wison of RMB20,000,000 were frozen by People's Court of Jiangsu Province for property preservation.

(7) During 2020, a sub-contractor of Jiangsu Wison filed a claim to the People's Court of Taixing in Mainland China against Jiangsu Wison and Wison Engineering as a defendant to undertake the joint liability for an additional payment of construction costs and the interest arising from the overdue payment of construction costs of approximately RMB11,657,000. As at 31 December 2020, certain bank account of Jiangsu Wison of RMB10,500,000 were frozen by Taixing People's Court for property preservation.

As of the date of approval of the financial statements, for case (1) and case (2) Wison Engineering and the subcontractors have completed the judicial cost audit by an independent third party arranged by the court and trials are yet to be schedule; for case (3), Wison Engineering and the subcontractor have completed the first pre-trial evidence exchange in court and cross-examination, and trial is yet to be scheduled; and the trials of case (4), case (5), case (6) and case (7) are yet to be scheduled.

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

The directors of the Company have made adequate provision for case (1) and case (2) due to the possibility of the Group taking settlement responsibility on the basis of the available evidence and legal advice taken.

Notes to Financial Statements

Year ended 31 December 2020

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

2020

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		
	Mandatorily designated as such RMB'000	Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments at fair value through other comprehensive income	–	205,748	–	205,748
Trade receivables	–	–	839,289	839,289
Bills receivable	–	–	101,681	101,681
Financial assets included in prepayments and other receivables (note 22)	–	–	219,861	219,861
Financial assets at fair value through profit or loss	500	–	–	500
Due from fellow subsidiaries	–	–	15,037	15,037
Pledged bank balances and time deposits	–	–	824,775	824,775
Cash and cash equivalents	–	–	470,966	470,966
	500	205,748	2,471,609	2,677,857

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	2,430,439
Financial liabilities included in other payables and accruals (note 27)	125,580
Due to fellow subsidiaries	5,914
Due to an associate	630
Lease liabilities	35,241
Interest-bearing bank and other borrowings	939,327
	3,537,131

35. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

2019

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		
	Mandatorily designated as such RMB'000	Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments at fair value through other comprehensive income	–	311,391	–	311,391
Trade receivables	–	–	1,003,866	1,003,866
Bills receivable	–	–	214,352	214,352
Financial assets included in prepayments and other receivables (note 22)	–	–	114,938	114,938
Financial assets at fair value through profit or loss	112,734	–	–	112,734
Due from fellow subsidiaries	–	–	14,665	14,665
Pledged bank balances and time deposits	–	–	800,388	800,388
Cash and cash equivalents	–	–	814,251	814,251
	112,734	311,391	2,962,460	3,386,585

Financial liabilities

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

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Year ended 31 December 2020

35. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

At 31 December 2020, Wison Engineering endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB20,289,000 (2019: RMB34,625,000) 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 2020 to which the suppliers had recourse was RMB20,289,000 (2019: RMB34,625,000) as at 31 December 2020.

Transferred financial assets that are derecognised in their entirety

At 31 December 2020, 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 RMB72,563,000 (2019: RMB74,344,000). The Derecognised Bills had a maturity of six to twelve months at 31 December 2020. 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 2020, 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.

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	**205,748**	311,391	**205,748**	311,391
Financial asset at fair value through profit or loss	**500**	112,734	**500**	112,734
	206,248	424,125	**206,248**	424,125
Financial liabilities				
Interest-bearing bank and other borrowings	**939,327**	500,000	**939,327**	505,000

Management has assessed that the fair values of cash and cash balances, pledged bank balances and time deposits, amounts due from fellow subsidiaries, trade and bills receivables, financial assets included in prepayments and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, lease liabilities, amounts due to fellow subsidiaries and an amount due to an associate approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

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

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

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

The Group invests in an unlisted investment, which represent wealth management products issued by a bank in Mainland China. The Group has estimated the fair value of this unlisted investment by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

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

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

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2020 and 2019:

	Valuation technique	Significant unobservable input	Range/ratio	Sensitivity of fair value to the input
Unlisted equity investments	Valuation multiples	Average P/B multiple of peers	0.3435 to 1.8706 (2019: 0.5323 to 3.6688)	10% (2019: 10%) increase/ decrease in multiple would result in increase/decrease in fair value by RMB2,300,000 (2019: RMB2,393,000)
		Discount for lack of marketability	20% to 25% (2019: 25%)	10% (2019: 10%) increase/ decrease in discount would result in decrease/increase in fair value by RMB771,000 (2019: RMB798,000)

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

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

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	**160,192**	**–**	**45,556**	**205,748**
Financial asset at fair value through profit or loss	**–**	**500**	**–**	**500**
	160,192	**500**	**45,556**	**206,248**

As at 31 December 2019

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

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

Fair value hierarchy *(continued)*

Assets measured at fair value: *(continued)*

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

	2020 RMB'000	2019 RMB'000
Equity investments at fair value through other comprehensive income		
At 1 January	**106,878**	–
Total losses recognised in other comprehensive income	**(1,322)**	(6,070)
Purchase	**–**	112,948
Disposal	**(60,000)**	–
At 31 December	**45,556**	106,878

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2019: Nil).

Liabilities for which fair values are disclosed:

As at 31 December 2019

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

The Group did not have any financial liabilities for which fair values are disclosed as at 31 December 2020.

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on its risk management. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

Interest rate risk

The Group's exposure to risk for changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings set out in note 28. The Group does not use derivative financial instruments to hedge interest rate risk. The Group manages its interest cost using a mix of variable rate bank and other borrowings.

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

	Increase/ (decrease) in basis points	**Increase/ (decrease) in loss before tax RMB'000**
Year ended 31 December 2020		
— US$ denominated loans	**20**	**49**
— US$ denominated loans	**(20)**	**(49)**

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
Year ended 31 December 2019		
— US$ denominated loans	20	(368)
— US$ denominated loans	(20)	368

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

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

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

	Increase/ (decrease) in rate %	Increase/ (decrease) in loss before tax RMB'000
Year ended 31 December 2020		
If the RMB weakens against the US$	**5**	**(15,097)**
If the RMB strengthens against the US$	**5**	**15,097**
If the RMB weakens against the HK$	**5**	**(474)**
If the RMB strengthens against the HK$	**5**	**474**
If the RMB weakens against the EUR	**5**	**(52)**
If the RMB strengthens against the EUR	**5**	**52**
If the RMB weakens against the SAR	**5**	**(2,928)**
If the RMB strengthens against the SAR	**5**	**2,928**
If the RMB weakens against the ZAR	**5**	**(136)**
If the RMB strengthens against the ZAR	**5**	**136**

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk *(continued)*

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

Credit risk

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

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Maximum exposure and year-end staging

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

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Contract assets*	–	–	–	1,755,140	1,755,140
Trade receivables*	–	–	–	1,079,088	1,079,088
Bills receivable	101,681	–	–	–	101,681
Financial assets included in prepayments and other receivables					
— Normal**	220,826	–	–	–	220,826
— Doubtful**	–	–	–	–	–
Due from fellow subsidiaries	15,037	–	–	–	15,037
Pledged bank balances and time deposits	824,775	–	–	–	824,775
Cash and bank balances	470,966	–	–	–	470,966
	1,633,285	–	–	2,834,228	4,467,513

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Maximum exposure and year-end staging *(continued)*

As at 31 December 2019

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

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

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

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Maximum exposure and year-end staging *(continued)*

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

Since the Group trades only with recognised and creditworthy customers, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. At the end of the reporting period, the Group had certain concentrations of credit risk as 27% (2019: 25%) and 66% (2019: 74%) of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively, within the EPC segment.

Liquidity risk

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

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

Group

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	Over 1 year RMB'000	Total RMB'000
31 December 2020					
Lease liabilities	–	4,462	14,170	21,153	39,785
Interest-bearing bank and other borrowings	–	927,934	59,492	287,330	1,274,756
Trade and bills payables	–	2,430,439	–	–	2,430,439
Other payables	–	125,580	–	–	125,580
Due to fellow subsidiaries	–	5,914	–	–	5,914
Due to an associate	630	–	–	–	630
	630	3,494,329	73,662	308,483	3,877,104

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

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

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investment included in equity investments designated at fair value through other comprehensive income (note 19) as at 31 December 2020. The Group's listed investments are listed on the Hong Kong stock exchanges and are valued at quoted market prices at the end of the reporting period.

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

	31 December 2020	**High/low 2020**	31 December 2019	High/low 2019
Hong Kong — Hang Seng Index	**27,231**	**29,175/21,139**	28,190	30,280/24,900

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Equity price risk *(continued)*

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

	Carrying amount of equity investments RMB'000	**Increase/ (decrease) in loss before tax RMB'000**	**Increase/ (decrease) in equity* RMB'000**
2020			
Investments listed in:			
Hong Kong — Equity investments at fair value through other comprehensive income	**160,192**	**–**	**8,010**
Unlisted investments at fair value:			
— Equity investments designated at fair value through other comprehensive income	**47,163**	**–**	**2,358**

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

* Excluding retained profits

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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 2020 and 2019.

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

	2020 **RMB'000**	2019 RMB'000
Interest-bearing bank and other borrowings	**939,327**	752,000
Total debt	**939,327**	752,000
Total equity	**3,791,744**	1,803,627
Gearing ratio	**25%**	42%

38. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB39,035,000 (2019: RMB13,720,000) and RMB39,035,000 (2019: RMB13,720,000), respectively, in respect of lease arrangements for properties which did not result in cashflow.

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

(b) Changes in liabilities arising from financing activities

2020

	Lease liabilities RMB'000	Interests-bearing bank and other borrowings RMB'000	Dividends payable RMB'000
At 1 January 2020	**13,220**	**752,000**	**–**
Changes from financing cash flows	**(16,060)**	**187,327**	**(14,682)**
New leases (note 15)	**39,035**	**–**	**–**
Interest expense (note 7)	**2,635**	**–**	**–**
Interest paid classified as operating cash flows	**(2,635)**	**–**	**–**
Reassessment and revision of lease terms	**(954)**	**–**	**–**
Dividends declared	**–**	**–**	**14,682**
At 31 December 2020	**35,241**	**939,327**	**–**

2019

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

(c) Total cash outflow for leases

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

	2020 RMB'000	2019 RMB'000
Within operating activities	**17,708**	20,505
Within financing activities	**16,060**	7,507
	33,768	28,012

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39. 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:

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**1**	1
Equity investment designated at fair value through other comprehensive income	**160,192**	204,513
Total non-current assets	**160,193**	204,514
CURRENT ASSETS		
Due from subsidiaries	**702,048**	706,377
Prepayments and other receivables	**589**	402
Dividends receivables	**744,276**	714,914
Cash and cash equivalents	**3,241**	5,892
Total current assets	**1,450,154**	1,427,585
CURRENT LIABILITIES		
Other payables and accruals	**2,999**	2,937
Due to subsidiaries	**11,089**	11,138
Total current liabilities	**14,088**	14,075
NET CURRENT ASSETS	**1,436,066**	1,413,510
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,596,259**	1,618,024
NET ASSETS	**1,596,259**	1,618,024
EQUITY		
Share capital	**330,578**	330,578
Reserves (Note)	**1,265,681**	1,287,446
TOTAL EQUITY	**1,596,259**	1,618,024

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39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

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

	Share option reserve RMB'000	Share premium RMB'000	Capital reserve RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Retained Profits RMB'000	Total RMB'000
At 31 December 2018 and 1 January 2019	318,591	861,129	84,936	–	3,748	1,268,404
Net profit and total comprehensive income for the year	–	–	–	–	7,512	7,512
Other comprehensive income for the year:						
Changes in fair value of equity investments at fair value through other comprehensive income	–	–	–	(3,197)	–	(3,197)
Exercise of share options	(6,017)	8,072	–	–	–	2,055
Equity-settled share option arrangements	30,038	–	–	–	–	30,038
Final dividend	–	–	–	–	(17,366)	(17,366)
At 31 December 2019 and 1 January 2020	**342,612**	**869,201**	**84,936**	**(3,197)**	**(6,106)**	**1,287,446**
Net profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**24,073**	**24,073**
Other comprehensive income for the year:						
Changes in fair value of equity investments at fair value through other comprehensive income	**–**	**–**	**–**	**(44,321)**	**–**	**(44,321)**
Exercise of share options	**–**	**–**	**–**	**–**	**–**	**–**
Equity-settled share option arrangements	**13,165**	**–**	**–**	**–**	**–**	**13,165**
Final dividend	**–**	**–**	**–**	**–**	**(14,682)**	**(14,682)**
At 31 December 2020	**355,777**	**869,201**	**84,936**	**(47,518)**	**3,285**	**1,265,681**

The share option reserve represents the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 3 to the financial statements. The amount will either be transferred to the share premium amount when related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

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Year ended 31 December 2020

40. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 31 December 2020, the Group has been granted a new bank loan of RMB192,000,000 and obtained credit facilities of performance bond and bills amounts of RMB40,482,000 from the Bank.

Subsequent to 31 December 2020, the Group has been granted extended credit terms by certain of the Group's subcontractors/suppliers for RMB484,914,000 for repayment of trade payables after 31 December 2021.

Subsequent to 31 December 2020, the Group has been granted credit facility of RMB200,000,000 from a fellow subsidiary of the Group, of which RMB81,700,000 was drawn down.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2021.