JUTAL

巨濤海洋石油服務有限公司

Jutal Offshore Oil Services Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 03303

Annual Report 2016

CONTENTS

CORPORATE INFORMATION

SHARE INFORMATION

Listing place	:	Main Board of the Stock Exchange of Hong Kong Limited
Stock code	:	03303
Listing date	:	21 September 2006
Stock name	:	Jutal Oil Ser
Issued shares	:	800,354,278 ordinary shares
Website	:	http://www.jutal.com

BOARD OF DIRECTORS

Executive directors

Mr. Wang Lishan *(Chairman)*
Mr. Cao Yunsheng *(CEO)*
Mr. Tang Hui
Mr. Li Jing

Independent non-executive directors

Mr. Su Yang
Mr. Xiang Qiang
Mr. Qi Daqing

AUDIT COMMITTEE

Mr. Su Yang *(Chairman)*
Mr. Xiang Qiang
Mr. Qi Daqing

REMUNERATION COMMITTEE

Mr. Xiang Qiang *(Chairman)*
Mr. Su Yang
Mr. Qi Daqing

NOMINATION COMMITTEE

Mr. Qi Daqing *(Chairman)*
Mr. Su Yang
Mr. Xiang Qiang

COMPANY REPRESENTATIVE AND COMPANY SECRETARY

Ms. Leung Fung Yee Alice

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1102-1103, 11th Floor,
No. 9 Queen's Road,
Central, Hong Kong

HEADQUARTERS IN THE PRC

10th Floor, Chiwan Petroleum Building,
Shekou, Nanshan District,
Shenzhen, The PRC 518068
Tel: (86 755) 26694111
Fax: (86 755) 26694666

LEGAL ADVISORS

As to Hong Kong law:

Anthony Siu & Co., Solicitors & Notaries

1102-1103, 11th Floor,
No. 9 Queen's Road,
Central, Hong Kong

As to PRC law:

Deheng Law Offices (Shenzhen)

38F, Golden Business Centre,
2028 Shennan East Road, Luohu District,
Shenzhen, The PRC

As to Cayman Islands law:

Conyers Dill & Pearman

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

AUDITOR AND REPORTING ACCOUNTANT

RSM Hong Kong

Certified Public Accountants

29th Floor,
Lee Gardens Two,
28 Yun Ping Road, Causeway Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Royal Bank of Canada Trust Company (Cayman) Limited

4th Floor, Royal Bank House,
24 Shedden Road, George Town,
Grand Cayman, KY1-1110,
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited

Level 22, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong

INVESTOR ENQUIRY

Investor Relations

Jutal Offshore Oil Services Limited

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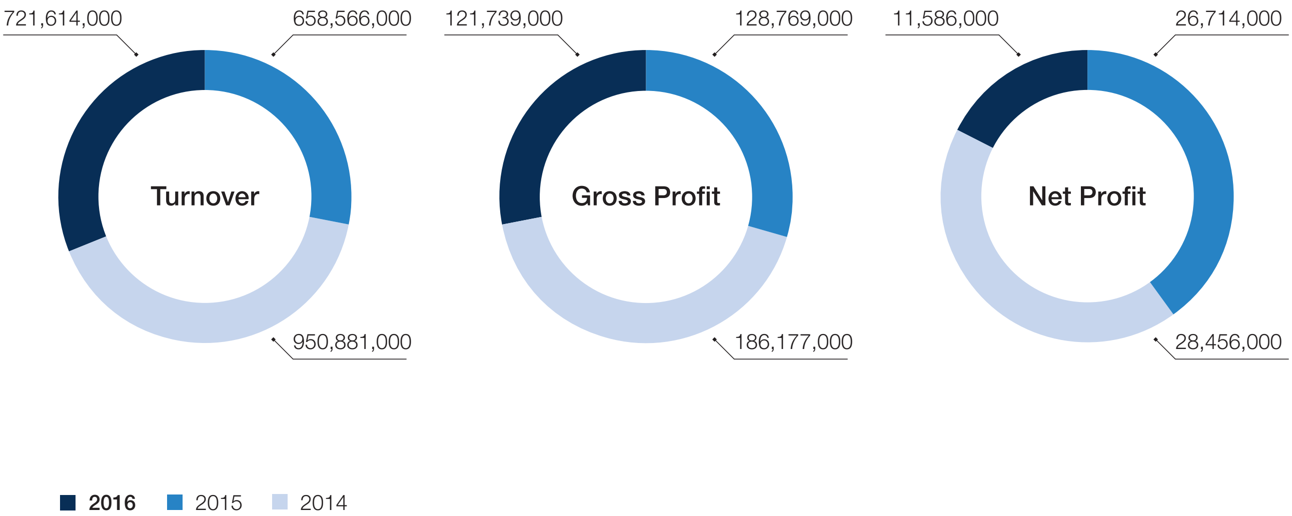
FINANCIAL HIGHLIGHTS

1. RESULTS (RMB)



2. BASIC AND DILUTED EARNINGS PER SHARE

Profit attributable to owners of the Company was RMB11,586,000 for the year and the basic and diluted earnings per ordinary share were RMB0.0145.

3. DIVIDEND

The directors do not recommend the payment of any final dividend for the year ended 31 December 2016.

CEO STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of Jutal Offshore Oil Services Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 to the shareholders.

CEO STATEMENT

BUSINESS REVIEW

During the past two years, the down cycle of oil prices has dealt a severe blow to companies within the oil and gas industry. During the last year, the business opportunities that we could seize were fewer than before. To cope with the sluggish trend within the industry, in addition to exploring new businesses, we also continued to reduce capital expenses through measures such as downscaled investment and stringent cost control with a series of reform.

Based on the existing facilities and technology capability, we established a department which is specifically responsible for business development in energy saving and environmental protection sectors. In view of the business requirements in oil and gas field in the East China Sea, we built a new Eastern China team to develop the service business focusing on the aforesaid area.

During the year, we have adjusted our management structure with a purpose to optimize the coordination in management, to increase efficiency as well as to reduce costs. We relocated different functional departments of the headquarters and the production workshop in Shenzhen to the Group's production base in Zhuhai.

Under the influence of the overall industry trend, our customers and end users in the industry have adopted strategies to reduce their capital expenditure, which led to a drop in business demand in the industry. This, coupled with the intensifying market competition, made us to lower our expectation on the gross profit margin of our projects.

During the year, the production base in Zhuhai has successfully completed and delivered several large-scale projects, including our maiden E-House project, massive jumper & spool project for deep-water gas field and another Floating Production Storage and Offloading ("FPSO") topside modules production project taken up in 2015. The successive completion of a series of key projects demonstrated that Jutal is becoming more mature in terms of safety, quality, design, construction and project management standard of high-end module production. Building on our well-established traditional onshore and offshore oil and gas equipment businesses, Jutal has again made further step in the business transformation towards FPSO topside module production, which laid a solid foundation for implementing the strategy of developing high-end offshore engineering equipment manufacturing business. In 2016, in view of the overall stagnant offshore engineering market, we also tried to set foot in the manufacturing and services businesses of various emerging industries and succeeded in exploring some new clients.

During the year, our associate, Penglai Jutal Offshore Engineering Heavy Industries Company Limited ("Penglai Jutal"), operated and completed several projects; the projects in progress operated stably, in line with schedule and achieved overall growth during the year. Besides striving to perform well in building projects, Penglai Jutal also adopted various measures to cut cost and increase efficiency as well as formulating corporate management improvement plans to lay a solid foundation for future business development which focuses on internationalised, large-scale and modular projects.

PROSPECTS

Looking into the year ahead, the industry will still face a difficult environment and the existing business operation of the Company will still encounter huge challenges. The industrial trend under the dynamic global environment and the shift in market opportunities under the cyclical fluctuation of the industry are the uncertainty risks and opportunities we will possibly face in the future.

There is still a necessity for us to take an active step in developing our business. We will impose stringent control on capital expenditure, adopt measures to reduce fees and costs and strengthen management. We will also allocate more resources to new business and new customers and strengthen our performance in commercial and marketing initiatives. We have been watching closely to the potential markets and opportunities for new projects around the world and dispatch dedicated staff to follow up. For existing clients, we will beef up our sales efforts and expand our services both in terms of product mix and geographical spread. At the same time, we will leverage our existing design and manufacturing qualification and capability to actively develop manufacturing businesses in various markets, including wind power market, environmental protection market and refinery market, to offset the drop in the existing business volume due to the anaemic offshore engineering market.

On 15 March 2017, we entered into a subscription agreement with two independent subscribers, Sanju Environmental Protection (Hong Kong) Limited (三聚環保(香港)有限公司) and Golden Talent (HK) Technology Co., Ltd.(金華信(香港)科技有限公司) (the "Subscribers"), pursuant to which the Subscribers will conditionally subscribe for an aggregate of 803,562,111 subscription shares of the Company at a subscription price of HK$1.2 per subscription share. Upon completion, Sanju Environmental Protection (Hong Kong) Limited will become the controlling shareholder of the Company.

We expect that after the completion of the transaction, the newly introduced strategic investors with solid backgrounds will not only improve the Group's financial position and liquidity by providing the capital for business development, but also enhance the Group's operation and financial performance through additional resources, technical and investment opportunities brought about by the new markets and customers acquired with the resulting synergistic effects and complementary strength.

By Order of the Board

CAO Yunsheng

CEO

Hong Kong, 31 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL AND BUSINESS REVIEW

Turnover

In year 2016, the Group recorded turnover of approximately RMB721,614,000, representing an increase of 9.57% or RMB63,048,000 as compared with year 2015. Turnover from the provision of technical support and related services for oil and gas industry and sales of related equipment and materials decreased by 20.51% or RMB23,207,000 as compared with year 2015. Turnover from the fabrication of oil and gas facilities and oil and gas processing skid equipment business increased by 17.98% or RMB90,120,000 as compared with year 2015. Turnover from the provision of technical support services for shipbuilding industry decreased by 27.81% or RMB12,309,000 as compared with year 2015. The fabrication business of oil and gas facilities and oil and gas processing skid equipment recorded growth in turnover, mainly due to the completion of major portions of several large-scale projects taken up in the second half of year 2015. On the other hand, turnover from the provision of technical support and related services for oil and gas industry and sales of related equipment and materials and the provision of technical supporting services for shipbuilding industry both showed a decrease as compared to last year mainly due to the substantial drop in investment activities within the industry as a result of the fall in investment in global oil and gas industry and the depressed shipbuilding market, which in turn led to the decrease in volume of work and service prices of the Group in these two businesses.

The table below sets out the analysis of turnover by business segments for the years 2016, 2015 and 2014:

	For the financial year ended 31 December					
	2016		2015		2014	
Business Segments	**RMB'000**	**Percentage to total turnover (%)**	RMB'000	Percentage to total turnover (%)	RMB'000	Percentage to total turnover (%)
1 Provision of technical support and related services for oil and gas industry and sales of related equipment and materials	**89,965**	**13**	113,172	17	122,742	13
2 Fabrication of oil and gas facilities and oil and gas processing skid equipment	**591,259**	**82**	501,139	76	769,340	81
3 Provision of technical support services for shipbuilding industry	**31,946**	**4**	44,255	7	58,799	6
4. Others	**8,444**	**1**	–	–	–	–
Total	**721,614**	**100**	658,566	100	950,881	100

Cost of sales and services

Cost of sales and services of the Group amounted to approximately RMB599,875,000 in year 2016, representing an increase of 13.23% or RMB70,078,000 as compared with year 2015. Cost of sales and service comprised direct costs and manufacturing overheads. Direct costs in the current period amounted to approximately RMB527,420,000, representing 87.92% of total cost of sales and service, and an increase of RMB64,547,000 or a rise of 13.94% from RMB462,873,000 in last year. The Group calculates the cost of sales and service of projects on an order-by-order basis. Since the composition of cost differs for each project, the composition of cost of sales and service varies from project to project. Manufacturing overheads has increased by RMB5,531,000 or a growth of 8.26% from RMB66,924,000 in last year to approximately RMB72,455,000 in current reporting period.

Gross profit

The total gross profit of the Group for the year 2016 amounted to approximately RMB121,739,000, representing a decrease of 5.46% or RMB7,030,000 as compared with RMB128,769,000 in year 2015. The overall gross profit margin decreased from 19.55% in year 2015 to 16.87%. The gross profit margin of the provision of technical support and related services for oil and gas industry and sales of related equipment and materials business decreased from 20.28% in year 2015 to 10.90%, and the gross profit margin of the fabrication of oil and gas facilities and oil and gas processing skid equipment business decreased from 20.28% in year 2015 to 16.85%, whereas the gross profit margin of the provision of technical support services for shipbuilding industry business recorded an increase from 9.40% in year 2015 to 25.93%. Changes in business structure resulted in various changes in the gross profit margin of our different business segments. With respect to the businesses of the provision of technical support and related services for oil and gas industry and sales of related equipment and materials and the fabrication of oil and gas facilities and oil and gas processing skid equipment, under the impact of the continuous lukewarm investment in the global oil and gas industry and in response to the fierce market competition, the Group has taken the proactive stance to adopt a bidding proposal with lower expected profit, which led to the overall drop in gross profit of these two businesses of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

The following shows the breakdown of gross profit by business segments for the years 2016, 2015 and 2014:

	For the financial year ended 31 December								
	2016			2015			2014		
Business Segments	RMB'000	Gross profit margin (%)	Percentage to total gross profit (%)	RMB'000	Gross profit margin (%)	Percentage to total gross profit (%)	RMB'000	Gross profit margin (%)	Percentage to total gross profit (%)
1 Provision of technical support and related services for oil and gas industry and sales of related equipment and materials	9,802	11	8	22,954	20	18	29,403	24	16
2 Fabrication of oil and gas facilities and oil and gas processing skid equipment	99,656	17	82	101,656	20	79	149,302	19	80
3 Provision of technical support services for shipbuilding industry	8,285	26	7	4,159	9	3	7,472	13	4
4 Others	3,996	47	3	–	–	–	–	–	–
Total	121,739		100	128,769		100	186,177		100

Other income

Other income of the Group was recognised mainly represents government grants recognised and net foreign exchange gains during the year. Other income has been decreased significantly by 54.61% or RMB16,175,000 as compared with year 2015, mainly due to the significantly decrease in the recognition of reversal of allowance for trade and other receivables. In addition, no reversal of impairment loss on gross amount due from customers for contract work and the reversal of allowance for inventories have been recognised in the year.

Administrative and other operating expenses

Administrative and other operating expenses in aggregate increased by 5.70% or RMB7,501,000 as compared with year 2015 to approximately RMB138,990,000, primarily due to the increase of the impairment loss on gross amount due from contract works and the allowance for inventories as compared to last year.

Finance costs

Finance costs reached approximately RMB8,547,000 in year 2016, which was mainly comprised of interests from bank borrowings of approximately RMB7,821,000 and bank charges and other finance costs of approximately RMB726,000.

Share of profit of an associate

The Group held 30% of equity interest in Penglai Jutal. In year 2016, Penglai Jutal recorded net profit of approximately RMB98,693,000. The Group's share of profit from Penglai Jutal amounted to approximately RMB29,608,000 under the equity method of accounting.

Profit attributable to owners of the Company and earnings per share

In year 2016, profit attributable to owners of the Company amounted to approximately RMB11,586,000, which represented a decrease of 56.63% or RMB15,128,000 as compared to that of RMB26,714,000 in year 2015. Basic and diluted earnings per share attributable to owners of the Company for year 2016 were RMB0.0145.

2. LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the working funds (cash on hand and bank deposits) of the Group amounted to approximately RMB122,280,000 (2015: RMB74,641,000). During the year, net cash inflow from operating activities amounted to approximately RMB2,195,000, net cash outflow from investing activities amounted to RMB34,452,000, and net cash inflow from financing activities amounted to approximately RMB75,349,000.

At 31 December 2016, the Group had approximately RMB217,459,000 (2015: RMB417,856,000) of available undrawn banking facilities. Available undrawn banking facilities include bank loans, letters of credit, bank guarantees, etc.

As at 31 December 2016, the Group had obtained bank guarantees under performance bonds for construction contracts of approximately RMB77,508,000 (2015: RMB44,118,000).

3. CAPITAL STRUCTURE

As at 31 December 2016, the share capital of the Company comprises 800,354,278 ordinary shares (2015: 800,354,278 ordinary shares). As at 31 December 2016, net assets of the Group amounted to approximately RMB1,180,542,000 (2015: RMB1,157,495,000), comprising non-current assets of approximately RMB1,072,764,000 (2015: RMB1,040,863,000), net current assets of approximately RMB167,829,000 (2015: RMB168,834,000) and non-current liabilities of approximately RMB60,051,000 (2015: RMB52,202,000).

4. SIGNIFICANT INVESTMENT

For the year ended 31 December 2016, the Group did not have any significant investment.

5. FOREIGN EXCHANGE RISK

Most of the Group's business transactions, assets and liabilities are principally denominated in RMB, Euro and United States dollars ("US$"). During the years ended 31 December 2016 and 2015, the Group has entered into foreign exchange forward contracts to hedge the foreign currency risk arising from certain of its contract revenue and trade receivables denominated in Euro and US$. The Group currently does not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities.

6. ASSETS PLEDGED BY THE GROUP

As at 31 December 2016, approximately RMB43,527,000 of the bank deposits were pledged as security deposits for the issuance of performance bonds, letter of credits and bank acceptance. In addition, the Group has pledged bill receivables of RMB10,000,000 in favor of a commercial bank in China to obtain loans in more favorable terms.

At 31 December 2016, the carrying amount of property, plant and equipment pledged as security for the Group's bank borrowings amounted to approximately RMB11,596,000 (2015: Nil).

7. CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any significant contingent liabilities.

8. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group monitors capital using a gearing ratio, which is bank borrowings divided by total equity of the Group. The Group's policy is to keep the gearing ratio at a reasonable level.

The gearing ratios at 31 December 2016 and at 31 December 2015 were as follows:

	2016 **RMB'000**	2015 RMB'000
Bank borrowings	**213,628**	131,476
Total equity	**1,180,542**	1,157,495
Gearing ratio	**18.10%**	11.36%

The increase in gearing ratio during year 2016 resulted primarily from increase of bank borrowings. The group adjusts the amount of bank loans from time to time to meet the group's working capital needs.

9. EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group had total 2,174 employees (2015: 2,969), of which 474 (2015: 596) were management and technical staff, and 1,700 (2015: 2,373) were technicians.

The Group encourages staff to long-term service, and strives to create a fair and open competition environment, committed to develop talents with management experience, professional skills and dedication. The Group determines the remuneration and incentives of employees with reference to the prevailing industry practice, and based on their position, duties and performance. The Group contributes to social security funds including pension fund, medical, unemployment and industrial accident insurances for employees in the PRC, and contributes to mandatory provident fund for employees in Hong Kong according to corresponding laws and regulations.

The Group puts emphasis on staff development, encourages employees to pursue continuous education, and formulates training programs for employees.

In order to encourage employees, directors, substantial shareholders and any other persons involved or concerned in the business of the Group in specific classes to continue to contribute to the long-term success of the business of the Group, the Board proposed the adoption of a new share option scheme ("Share Option Scheme") by way of the Company's circular dated 29 April 2016. In the annual general meeting of the Company convened on 8 June 2016, resolution in relation to the adoption of the Share Option Scheme was passed and as a result the Share Option Scheme has been adopted.

On 14 October 2016, an aggregate of 13,000,000 options to subscribe for ordinary shares in the share capital of the Company were granted to directors of the Company. Each of such grants was approved by the independent non-executive Directors.

For details in relation to the Share Option Scheme and the grant of the options, please refer to the relevant announcements and circulars of the Company.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Wang Lishan (王立山), aged 58, is an executive director and the chairman of the Company, who is responsible for the overall development strategic planning. He was graduated from Dalian Polytechnic University (大連理工大學) in 1982 with a bachelor's degree in offshore oil construction engineering. Mr. Wang has rich experience of management and administration in the oil and gas industries. Prior to joining the Group, he worked in Bohai Petroleum Company Platform Manufacturing Factory (渤海石油公司平臺製造廠) from 1982 to 1988 and Offshore Oil Company of Bohai Oil Company (渤海石油公司) from 1988 to 1995. Mr. Wang joined the Group in 1995, and was appointed as an executive director in November 2005.

Mr. Cao Yunsheng (曹雲生), aged 54, is an executive director and CEO of the Company, who is responsible for the overall operations of the Group. He was graduated from Tianjin College of Finance and Economics (天津財經學院) in 1988, majoring in accounting, and was graduated with a master degree in business administration from Tianjin University (天津大學) in 2004. Mr. Cao joined the Group in 2001 as the deputy general manager and is in charge of the finance, administration and the capital operations of the Group and supervision of the Group's cash-flow management. Prior to joining the Group, he was the supervisor of the finance department and chief accountant of Bohai Petroleum Company Platform Manufacturing Factory (渤海石油公司平臺製造廠), the chief accountant of China Offshore Oil Platform Construction Company (中國海洋石油平臺製造公司) and a financial controller of CNOOC Engineering. Mr. Cao was appointed as an executive director in November 2005.

Mr. Tang Hui (唐暉), aged 45, is an executive director and president of the Company, who is responsible for the operations and management of the Group. He was graduated from Luoyang Institute of Technology (洛陽工學院) with a bachelor's degree in vehicle engineering. Mr. Tang joined the Group in 2000, and has served as engineer, project manager, general manager of the Group's offshore oil and gas services business sector and assistant president of the Company. Prior to joining the Group, Mr. Tang had worked in Hunan Energy Group Co., Ltd. (湖南動力集團有限責任公司) and Hong Kong Far East Steel Engineering Co., Ltd. (香港遠東鋼鐵工程有限公司). Mr. Tang was appointed as an executive director in March 2016.

Mr. Li Jing (李靖), aged 49, is an executive director and vice president of the Company, who is responsible for the management of production, procurement and safety etc. of the Group. He was graduated from Sun Yat-Sen University (中山大學) with a bachelor's degree in enterprise management. Mr. Li joined the Group in 1999, and had served as operation manager and the manager of New Star System Formwork Co., Limited (鑫星系統模版有限公司). Mr. Li also served as the deputy manager of Penglai Jutal Offshore Engineering Heavy Industry Co., Ltd. (蓬萊巨濤海洋工程重工有限公司) from the year 2004 to 2009. Prior to joining the Group, Mr. Li had worked in CNOOC platform Fabrication Co. (中海油平臺製造公司), Shenzhen Chiwan Offshore Engineering Co., Ltd. (深圳赤灣海洋工程有限公司) and Shenzhen Chiwan Sambawang Engineering Co. Ltd. (深圳赤灣勝寶旺工程有限公司). Mr. Li was appointed as an executive director in March 2016.

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Su Yang (蘇洋), aged 49, is an independent non-executive director of the Company. Mr. Su obtained a bachelor's degree in statistics from Hunan University (湖南大學) and the Certificate of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in 1992 and 1994 respectively. He has a wealth working experience in the field of accounting. Mr. Su had been project manager of Shenzhen Zhongcheng Certified Public Accountants (深圳中誠會計師事務所), department manager of Yuehua Certified Public Accountants Co., Ltd. Shenzhen (深圳岳華會計師事務所有限公司), a principal partner of Shenzhen TaiYang Certified Public Accountants (深圳泰洋會計師事務所) and a managing partner of Wuzhou Songde Certified Public Accountants (五洲松德聯合會計師事務所). He is currently a management partner of Grant Thornton Certified Public Accountants (致同會計師事務所). Mr. Su was appointed as an independent non-executive director in August 2006.

Mr. Xiang Qiang (項強), aged 53, is an independent non-executive director of the Company. Mr. Xiang graduated from Beijing Tsinghua University (清華大學) with a bachelor's degree in architectural structural engineering in 1986, and obtained his MBA degree from Xiamen University (廈門大學) in 2000, studied from 2005 to 2007 and obtained EMBA degree from Cheung Kong Graduate School of Business (長江商學院). Mr. Xiang has extensive senior managerial experience. He has been appointed as the general manager, chairman or president of various entities in China with focus on different areas such as hospitality, securities, real estate project management and development, etc.. Mr. Xiang was appointed as an independent non-executive director in May 2008.

Mr. Qi Daqing (齊大慶), aged 53, is an independent non-executive director of the Company. Mr. Qi graduated from Fudan University with a bachelor's degree of science in Biophysics and a bachelor's degree of arts in International Journalism. He obtained a master's degree in Management from the University of Hawaii and a doctoral degree in Accounting from the Eli Broad College of Business, Michigan State University in the United States. Mr. Qi is currently a professor of Cheung Kong Graduate School of Business (長江商學院) and a member of the American Accounting Association. He had worked for The Chinese University of Hong Kong, the Eli Broad Graduate School of Management at Michigan State University in the United States, the East-West Center in the United States and the China Features in Xinhua News Agency in the PRC. Mr. Qi is also an independent non-executive director of Sohu.com Inc., Ikang Healthcare Group Inc., Momo Inc., SinoMedia Holding Ltd. (中視金橋國際傳媒控股有限公司) (Hong Kong Stock Code 623), Honghua Group Limited (宏華集團有限公司) (Hong Kong Stock Code 196), and Yunfeng Financial Group Limited (雲鋒金融集團有限公司) (Hong Kong Stock Code 376). Mr. Qi was appointed as an independent non-executive director in July 2015.

AUTHORISED REPRESENTATIVE AND COMPANY SECRETARY

Ms. Leung Fung Yee Alice (梁鳳儀) is a practicing solicitor in Hong Kong, holds a Bachelor of Laws and has been a Member of The Hong Kong Institute of Chartered Secretaries before taking up her career in law as a solicitor. She is an associate member of The Institute of the Chartered Secretaries and Administrators in the United Kingdom, and an associate member of The Hong Kong Institute of Chartered Secretaries. Ms. Leung has rich experience in commercial and corporate matters of all levels. Ms. Leung was appointed as the company secretary in June 2014.

SENIOR MANAGEMENT

Mr. Zhao Wuhui (趙武會), aged 43, is the vice president of the Company, responsible for management of finance and accounting, administration and human resource. Mr. Zhao graduated from Northeast Forestry University (東北林業大學) with a bachelor's degree in accounting in 1998, and obtained a MBA degree from the University of Wales in 2009. He joined the Group in March 2002, had served as finance manager of the Group and deputy general manager of Penglai Jutal Offshore Engineering Heavy Industries Co., Ltd. (蓬萊巨濤海洋工程重工有限公司). Prior to joining the Group, he had worked with Kerry Oils & Grains (China) Co., Ltd. (嘉裡糧油(中國)有限公司) and Everbright Timber Industry (Shenzhen) Co., Ltd. (光大木材工業(深圳)有限公司) as accountant and auditor.

Mr. Shi Fei (石飛), aged 48, is the vice president of the Company, in charge of the Group's engineering centre. He was graduated from Gansu University of Technology (甘肅工業大學) with a bachelor's degree in Engineering in 1992. Mr. Shi joined the Group in 2000 as a design manager and had worked in Propak Systems as engineer and manager from year 2003 to year 2014. Prior to joining to the Group, Mr. Shi had worked in Lanzhou Petroleum Machinery Research Institute (蘭州石油機械研究所).

Mr. Jin Yan (金焱), aged 51, is the assistant president of the Company, who is responsible for the assist management of safety and equipment. He was graduated from the Mechanic Engineering Faculty of Nautical College (上海海運學院) (now the Engineering Mechanic Faculty of the Logistics Engineering College of Shanghai Maritime University (上海海事大學) in 1988. Mr. Jin joined the Group in March 2000. Prior to joining the Group, Mr. Jin was the manager and deputy general manager of the property department of Shenzhen Gold Industries Co., Ltd. (深圳黃金實業有限公司) and the technical supervisor and deputy manager of the technical department of Shekou China Merchants Port Service (招商港蛇口港務有限公司).

Mr. Li Jianping (李建平), aged 47, is the assistant president of the Company, who is in charge of the operation of the oil and gas services business and the Research and development department of the Group. Mr. Li joined the Group in 1999 and has served as production manager, marketing manager, deputy manager and general manager of the Group's oil and gas services business sector. Prior to joining the Group, Mr Li had worked in CNOOC platform Fabrication Co. (中海油平臺製造公司), Shenzhen Chiwan Offshore Engineering Co., Ltd. (深圳赤灣海洋工程有限公司) and CNOOC Engineering Shenzhen Reparation Company (海油工程深圳維修公司).

Mr. Guo Daobin (郭道斌), aged 51, is the assistant president of the Company, who is in charge of the shipbuilding and offshore engineering services business of the Group. Mr. Guo joined the Group in 2000 and has served as the Manager of Structural Engineering Department, the assistant of general Manager, Deputy general Manager, and general Manager of the Group's Dalian Company. Prior to joining the Group, Mr. Guo had worked in Huaneng & Huating Coal Group (華能華亭煤業集團).

Mr. Xin Xiaolei (信曉雷), aged 36, is the assistant president of the Company, who is in charge of the project operation of the oil and gas fabrication business of the Group. Mr. Xin joined the Group in 2005 and has served as production engineer, production manager, project manager and assistant general manager of Zhuhai Jutal.

Ms. Wei Xiaoli (魏曉麗), aged 40, is deputy chief accountant of the Company, who is responsible for the financial management of the Group. She graduated from Liaoning Shihua University(遼寧石油化工大學), with a bachelor degree of accounting in 2000. Ms. Wei joined the Group in 2001 and had served as finance manager of the Group.

Mr. Lin Feng (林峰), aged 49, is the deputy chief engineer of the Company, who is responsible for the engineering division. He was graduated from Tianjin University (天津大學) in 1991 with a bachelor's degree in offshore and ship engineering. Mr. Lin joined the Group in 1999 and had served as project manager and manager of the design department. Prior to joining the Group, he had worked as an engineer in Bohai Petroleum Platform Manufacturing Factory (渤海石油公司平台製造廠) and assistant manager in Chiwan Sembawang.

Mr. Xu Zhe (徐喆), aged 41, is the assistant president of the Company, who is responsible for the Group's investment activities. He was graduated from Wuhan University of Water Resources and Hydroelectric Engineering (武漢水利水電大學) with a bachelor's degree in electro technology in 1996 and obtained a degree of executive master of business administration from the University of Texas at Arlington in 2011. Mr. Xu joined the Group in April 1998 and had served a number of positions in the Group including the project manager, procurement manager and commercial manager of the Group.

Mr. Tan Boon Seng (陳文成), aged 44, is the assistant president of the Company, who is responsible for the overseas marketing and business development of the Group. He was graduated in mechanical engineering of Ngee Ann Polytechnic. Mr. Tan joined the Group in 2015, and had served as Regional Marketing Manager. Prior to joining the Group, Mr. Tan had worked in Profab Engineering Pte Ltd, Worfin Heat Exchanger Co., Pfannenberg Asia Pacific Pte. Ltd. and ITT Industries.

DIRECTORS' REPORT

The directors of the Company (the "Directors") present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPLE ACTIVITIES AND BUSINESS REVIEW

The principle activity of the Company is investment holding.

The Group is mainly engaged in providing integrated services, including fabrication and technical support services in oil and gas industry and shipbuilding industry.

Further discussion and analysis of these activities, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the "CEO Report" and the "Management Discussion and Analysis" and the "Notes to the Consolidated Financial Statements" in this annual report. Details of major financial key performance indicators can be found in the "Management Discussion and Analysis" and "Financial Summary" in this annual report. These discussions form part of this directors' report.

The principal activities of the subsidiaries are set out in note 21 to the consolidated financial statements.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group encourages the staff to build long-term service, puts emphasis on staff development, formulates on-job training programs, and encourages the employees to pursue continuous education. The Group strives to create a fair and open competition environment, committed to nurturing dedicated talents who excel in management and have professional skills. The Group determines the remuneration and incentives of employees with reference to the prevailing industry practice, and based on their position, duties and performance.

The Group's customers include oil and gas enterprises, main oil and gas construction contractors and professional equipment manufacturing contractors. We also provide our customers with customised facilities and solutions. The projects obtained by the Group are generally through tendering. We also enter into service agreements with certain customers on a continuous basis in order to provide daily technical support to them. While we emphasize on maintaining the relationships with our customers, we also dedicate to explore new customers.

The Group's suppliers include raw materials suppliers, equipment suppliers as well as labour and other services suppliers. Through comparing quality of materials and services, prices, track records and other aspects, the Group ascertains suppliers through a tendering system according to specific requirements of productions and various projects with reference to customer's feedback.

POLICIES ON HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION AND THE PERFORMANCE

Health, safety and environmental protection represent the core corporate culture of the Group. Based on OHSAS18001, the internationally recognised standard for management system of occupational safety and hygiene, and ISO14001, the standard of management system for environment, the Group has established a set of management system regarding health, safety and environmental protection, so that we can be in line with the principle of green development. Guided by the objective of "safety-foremost, prevention-oriented, environmental conservation, continuous improvement", we endeavor to eliminate and minimise the impact of our products on the ecosystem and regard resource conservation, environmental protection and sustainable development as the core of the growth of the Group's business.

Adopting the quantitative indicators of energy conservation required by the country, the Group lowers the consumption of energy and water resource, promotes campaigns regarding energy conservation and consumption reduction and records the production volume and energy consumption of our products. Indicators for energy consumption have also been set up to decrease the energy consumption per unit of our products. We try to reuse reusable materials whenever possible so as to minimise the consumption of resources, striving to realise clean production.

The Group separately collects and disposes of various types of industrial solid waste and household waste generated during the production process according to the principle of waste separation and collection. Recyclable resources are collected by qualified third parties for reuse. Hazardous wastes generated are collected and stored separately and are all handed to qualified environmental conservation corporations for handling according to the legally approved procedure for the transfer of hazardous waste.

The Group has established a clear manual and guidelines on occupational safety, health and environmental protection, with a professional department responsible for safety. Employees, contractors, suppliers, clients and visitors are provided with necessary safety and health education and managed separately in a specific manner. Clear and definite operation guidelines and safety signs have been set up at the site. Stringent operation approvals are adopted throughout the production process. Award and penalty system regarding safety is implemented and occupational safety is regularly analysed.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's business is mainly conducted by the subsidiaries in mainland China as well as subsidiaries in Hong Kong and Singapore. During the reporting year, the Group has complied with the relevant laws and regulations of each business location.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's share premium reserve was approximately RMB851,263,000 (subject to section 34 of the Cayman Companies Law and the Article of Association of the Company), and the retained earnings approximately RMB82,807,000 were available for distribution to the shareholders of the Company (the "Shareholders").

Under the Companies Law of the Cayman Islands, the funds in the share premium account and the special reserve account of the Company are distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

RESULTS AND DIVIDENDS

Details of the Group's result for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss on page 42.

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2016.

SHARE CAPITAL AND TRANSACTIONS INVOLVING SHARES OF THE COMPANY

In 2016, the authorised share capital of the Company is HK$15,000,000 (comprising 1,500,000,000 ordinary shares).

As at 31 December 2016, the share capital of the Company comprised of 800,354,278 ordinary shares (2015: 800,354,278 ordinary shares).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2016 neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' REPORT

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 page 100 of the annual report.

SHARE OPTION

The Company's share option schemes ("Share Option Schemes") enables the Company to grant options to eligible participants as incentives and rewards for their contribution to the Group. Eligible participants include all full time employee, Directors (including independent non-executive Directors) and part-time employees with weekly working hours of 10 hours and above of the Group, substantial Shareholders of each member of the Group, associates of the Directors and substantial Shareholders of any member of the Group, trustee of any trust pre-approved by the board of Directors (the "Board"); and any advisor (professional or otherwise),consultant, distributor, supplier, agent, customer, joint venture partner, service provider to the Group whom the Board considers, in its sole discretion, has contributed or contributes to the Group.

The Company's 2006 share option scheme ("2006 Share Option Scheme") was adopted on 28 August 2006 by way of passing resolutions by all of the then Shareholders of the Company with a valid period of 10 years commencing on the date on which the shares of the Company commenced trading on the main board of the Stock Exchange.

The General Scheme Limit of the 2006 Share Option Scheme has been refreshed and approved by Shareholder's resolution at the Company's Annual General Meeting held on 27 May 2009. The total number of Shares which may be issued upon exercise of all options to be granted under the 2006 Share Option Scheme must not, in aggregate, exceed 49,800,000 Shares, representing 10% of the shares in issue on the date of the said Annual General Meeting (498,000,000 Shares).

The General Scheme Limit of the 2006 Share Option Scheme has been further refreshed and approved by Shareholder's resolution at the Company's Annual General Meeting held on 25 May 2012. The total number of Shares which may be issued upon exercise of all options to be granted under the 2006 Share Option Scheme must not, in aggregate, exceed 62,279,927 shares, representing 10% of the shares in issue on the date of the said Annual General Meeting (622,799,278 Shares).

The 2006 Share Option Scheme was expired on 20 September 2016, and a new share option scheme of the Company ("New Share Option Scheme") has been adopted conditionally by Shareholder's resolution at the Company's Annual General Meeting held on 8 June 2016 with a valid period of 10 years commencing on the date of adoption. Unless approval of the shareholders has been obtained, the total number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme must not, in aggregate, exceed 80,035,427 shares, representing 10% of the shares in issue on the date of the said Annual General Meeting and on the date of this annual report (800,354,278 shares).

Unless approval of the shareholders has been obtained, the total number of Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the relevant class of the shares in issue from time to time.

According to the terms of the Share Option Schemes, the consideration for the grant of the options should be HK$1.00. The options may be exercised in accordance with the terms of the Share Option Scheme at any time during the exercise period as determined by the Board which shall in any event not be more than ten years from the date of grant.

From 1 January 2007 to 31 December 2016, the Board approved to grant and the Company has granted options to Directors and other eligible participants. Details of the options granted are as follows:

(i) Options granted in 2007

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of the Shares immediately before the date of granting the options (HK$)	Number of options as at 1 January 2016	Number of options exercised during the year	Weighted average closing price of the Shares immediately before the dates of exercise (HK$)	Number of options cancelled during the year	Number of options lapsed in accordance with the terms of the options or the share option scheme during the year	Number of options outstanding as at 31 December 2016	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Wang Lishan	16/03/2007	16/03/2008 to 15/03/2017	1.68	1.63	2,000,000	–	–	–	–	2,000,000	0.25%
Cao Yunsheng	16/03/2007	16/03/2008 to 15/03/2017	1.68	1.63	1,000,000	–	–	–	–	1,000,000	0.12%
Other eligible participants	16/03/2007	16/03/2008 to 15/03/2017	1.68	1.63	650,000	–	–	–	–	650,000	0.08%
Total					3,650,000	–		–	–	3,650,000	0.46%

(ii) Options granted in 2008

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of the Shares immediately before the date of granting the options (HK$)	Number of options as at 1 January 2016	Number of options exercised during the year	Weighted average closing price of the Shares immediately before the dates of exercise (HK$)	Number of options cancelled during the year	Number of options lapsed in accordance with the terms of the options or the share option scheme during the year	Number of options outstanding as at 31 December 2016	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Wang Lishan	12/03/2008	12/03/2009 to 11/03/2018	1.62	1.55	2,000,000	–	–	–	–	2,000,000	0.25%
Cao Yunsheng	12/03/2008	12/03/2009 to 11/03/2018	1.62	1.55	1,200,000	–	–	–	–	1,200,000	0.15%
Other eligible participants	12/03/2008	12/03/2009 to 11/03/2018	1.62	1.55	1,900,000	–	–	–	–	1,900,000	0.24%
Total					5,100,000	–		–	–	5,100,000	0.64%

DIRECTORS' REPORT

(iii) Options granted in 2009

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of the Shares immediately before the date of granting the options (HK$)	Number of options as at 1 January 2016	Number of options exercised during the year	Weighted average closing price of the Shares immediately before the dates of exercise (HK$)	Number of options cancelled during the year	Number of options lapsed in accordance with the terms of the options or the share option scheme during the year	Number of options outstanding as at 31 December 2016	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Cao Yunsheng	14/08/2009	14/08/2010 to 13/08/2019	0.92	0.92	800,000	–	–	–	–	800,000	0.10%
Other eligible participants	14/08/2009	14/08/2010 to 13/08/2019	0.92	0.92	200,000	–	–	–	–	200,000	0.02%
Total					1,000,000	–		–	–	1,000,000	0.12%

(iv) Options granted in 2010

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of the Shares immediately before the date of granting the options (HK$)	Number of options as at 1 January 2016	Number of options exercised during the year	Weighted average closing price of the Shares immediately before the dates of exercise (HK$)	Number of options cancelled during the year	Number of options lapsed in accordance with the terms of the options or the share option scheme during the year	Number of options outstanding as at 31 December 2016	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Eligible participants	27/05/2010	27/05/2013 to 26/05/2020	0.93	0.88	2,400,000	–	–	–	–	2,400,000	0.30%
Total					2,400,000	–		–	–	2,400,000	0.30%

(v) Options granted in 2011

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of the Shares immediately before the date of granting the options (HK$)	Number of options as at 1 January 2016	Number of options exercised during the year	Weighted average closing price of the Shares immediately before the dates of exercise (HK$)	Number of options cancelled during the year	Number of options lapsed in accordance with the terms of the options or the share option scheme during the year	Number of options outstanding as at 31 December 2016	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Cao Yunsheng	23/05/2011	23/05/2013 to 22/05/2021	1.06	1.04	1,000,000	–	–	–	–	1,000,000	0.12%
Other eligible participants	23/05/2011	23/05/2013 to 22/05/2021	1.06	1.04	1,700,000	–	–	–	400,000	1,300,000	0.16%
Total					2,700,000	–		–	400,000	2,300,000	0.29%

(vi) Options granted in 2015

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of the Shares immediately before the date of granting the options (HK$)	Number of options as at 1 January 2016	Number of options exercised during the year	Weighted average closing price of the Shares immediately before the dates of exercise (HK$)	Number of options cancelled during the year	Number of options lapsed in accordance with the terms of the options or the share option scheme during the year	Number of options outstanding as at 31 December 2016	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Wang Lishan	29/07/2015	29/07/2017 to 28/07/2025	0.86	0.83	5,000,000	–	–	–	–	5,000,000	0.62%
Cao Yunsheng	29/07/2015	29/07/2017 to 28/07/2025	0.86	0.83	8,000,000	–	–	–	–	8,000,000	1.00%
Total					13,000,000	–		–	–	13,000,000	1.62%

DIRECTORS' REPORT

(vii) Options granted in 2016

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of the Shares immediately before the date of granting the options (HK$)	Number of options granted during year	Number of options exercised during the year	Weighted average closing price of the Shares immediately before the dates of exercise (HK$)	Number of options cancelled during the year	Number of options lapsed in accordance with the terms of the options or the share option scheme during the year	Number of options outstanding as at 31 December 2016	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Wang Lishan	14/10/2016	14/10/2018 to 13/10/2026	0.68	0.63	5,000,000	–	–	–	–	5,000,000	0.62%
Cao Yunsheng	14/10/2016	14/10/2018 to 13/10/2026	0.68	0.63	8,000,000	–	–	–	–	8,000,000	1.00%
Total					13,000,000	–		–	–	13,000,000	1.62%

Each option granted under the Share Option Scheme during the period gives the holder the right to subscribe for one Share. The price for granting the options is HK$1. The exercise price determined by the Board is not less than the highest of:

(i) the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant;

(ii) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the date of grant; and

(iii) the nominal value of the share of the Company at the time of exercise of an option.

DIRECTORS AND DIRECTORS' SERVICE CONTRACT

The Directors during the year and to the date of this report were as follows:

Executive Directors	Date of appointment	Date of resignation	Reason of resignation
Mr. Wang Lishan	24 November 2005	–	–
Mr. Cao Yunsheng	24 November 2005	–	–
Mr. Tang Hui	1 March 2016	–	–
Mr. Li Jing	1 March 2016	–	–
Mr. Zhao Wuhui	25 May 2012	1 March 2016	other work arrangement
Mr. Li Chunyi	20 March 2015	1 March 2016	retirement

Independent Non-executive Directors	Date of appointment	Date of resignation	Reason of resignation
Mr. Su Yang	26 August 2006	–	–
Mr. Xiang Qiang	30 May 2008	–	–
Mr. Qi Daqing	31 July 2015	–	–

Pursuant to the articles of association of the Company, at each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. A retiring Director shall be eligible for re-election and shall continue as a Director throughout the meeting at which he retires.

Each of the executive Directors has entered into a service contract with the Company for an initial term of 3 years, unless terminated by not less than 3 months' notice in writing served by either the Director or the Company. In other circumstances, each agreement can also be terminated by the Company, including but not limited to serious breaches of the Directors' obligations under the agreement or serious misconduct.

Each of the independent non-executive Directors has signed an appointment letter with the Company for a term of 3 years. Save for the Directors' fees of RMB10,000 per month for each independent non-executive Director, none of the independent non-executive Director is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Apart from the foregoing, none of the Directors of the Company has entered into any service agreements with any member of the Group which is not determinable by the employer within one year without payment of compensation other than statutory compensation.

The Group's emolument policies are as follows:

(i) the amount of remuneration is determined on a case by case basis depending on the Directors or employees' relevant experience, responsibility, workload and the time devoted to the Group;

(ii) non-cash benefits may be provided at the discretion of the Board to the relevant Directors or employees under their remuneration package; and

(iii) the Directors or employees who are eligible participants under the Share Option Scheme may be granted, at the discretion of the Board, the Share Option Scheme adopted by the Company, as part of their remuneration package.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANCE IN RELATION TO THE GROUP'S BUSINESS

Other than as disclosed in note 14 and note 45 to the consolidated financial statements, no transaction, arrangements and contract of significance in relation to the Group's business to which the Company, its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REMUNERATION OF THE FIVE HIGHEST PAID DIRECTORS/EMPLOYEES

Details of Directors' remuneration and those of the five highest paid individuals in the Group are set out in note 14 to the consolidated financial statements, respectively.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION

At 31 December 2016, the interests and short positions of each Directors and chief executive in the shares, underlying shares and debentures of the company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" in the Listing Rules, were as follows:

Name of Directors	Capacity	Number of Shares *(Note 1)*	Approximate percentage of shareholding
Wang Lishan	Interest of a controlled corporation *(Note 2)*	396,911,278 (L)	49.59%
	Share options	14,000,000 (L)	1.75%
Cao Yunsheng	Interest of a controlled corporation *(Note 3)*	12,000,000 (L)	1.50%
	Share options	20,000,000 (L)	2.50%
Tang Hui	Beneficial Owner	366,000 (L)	0.05%
Qi Daqing	Beneficial Owner	1,550,000 (L)	0.19%

Notes:

1. *The letter "L" denotes a long position in the Shares.*

2. *The 396,911,278 Shares are held by Cheung Hing Investments Limited, which is wholly-owned by Wang Lishan.*

3. *The 12,000,000 shares are held by Sino Joint International Limited, which is wholly-owned by Cao Yunsheng.*

Save as disclosed above, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries, its parent company or its other associated corporations a party to any arrangement to enable the directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its specified undertakings or other associated corporation.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

At 31 December 2016, in addition to those of the Directors and chief executives already disclosed above, the register of substantial shareholders maintained by the Company pursuant to section 336 of Part XV of the SFO shows that the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name of Shareholder	Capacity	Number of shares	Percentage of shareholding
Cheung Hing Investments Limited	Beneficial Owner *(Note 2)*	396,911,278 (L) *(Note 1)*	49.59%

Notes:

1. *The letter "L" denotes a long position in the Shares respectively.*

2. *The 396,911,278 Shares are held by Cheung Hing Investments Limited, which is wholly-owned by Mr. Wang Lishan, the chairman, director and substantial shareholder of the Company.*

MANAGEMENT CONTRACTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Save as the options granted to the Directors under the Share Option Scheme, at no time during the year, the Directors and chief executive (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company, its specified undertakings and its other associated corporations required to be disclosed pursuant to the SFO and the Hong Kong Companies Ordinance (Cap.622).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for 65.84% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 23.69% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 12.31% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 4.49% of the Group's total purchases.

Except Dalian Shipbuilding Industry Offshore Company Limited ("Dalian Shipbuilding Offshore"), which is an associate (as defined under the Listing Rules) of Prospering Investments Limited, a company beneficially wholly-owned by Mr. Wang Lishan, who is the chairman, an executive Director and a controlling shareholder of the Company (as defined under the Listing Rules), none of the Directors, their associates or any Shareholders of the Company which, to the knowledge of the Directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS

The Group's related parties or related party transactions for the year ended 31 December 2016 set out in note 45 to the consolidated financial statements constitute connected transactions as defined in chapter 14A of the Listing Rules and the Company has complied with the disclosure requirements in Chapter 14A of the Listing Rules.

On 2 December 2014, the Company entered into a master service agreement ("Master Service Agreement") with Dalian Shipbuilding Offshore (a connected person of the Company by virtue of its being an associate (as defined under the Listing Rules) of Prospering Investments Limited, a Company beneficially wholly-owned by Mr. Wang Lishan, who is the Chairman of the Company, an executive Director and a controlling shareholder (as defined under the Listing Rules)), pursuant to which Dalian Shipbuilding Offshore agrees to engage the Group to provide construction support services including constructions and other agreed services for a term of 36 months commencing from 1 January 2015 to 31 December 2017.

As the relevant percentage ratios on an annual basis exceeds 5% and the transactions amount under the Master Service Agreement exceeds HK$10,000,000, the transactions under the Master Service Agreement constitute a non-exempt continuing connected transactions ("CCT") for the Company and are subject to the reporting and announcement requirements and requires the approval of the Independent Shareholders.

The annual caps, being the maximum aggregate value for the CCT for the periods concerned under the Master Service Agreement are subject to annual caps and shall not exceed the amounts set out below:

	Financial year ended/ending 31 December (RMB million)		
	2015	2016	2017
Annual caps	120	138	152

The Independent Shareholders approved the CCT and the respective annual caps for the three financial years ending 31 December 2015, 2016 and 2017 at the extraordinary general meeting held on 14 January 2015.

According to the Rule 14A.55 of the Listing Rules, the independent non-executive Directors had reviewed annually the CCT mentioned in the Master Service Agreement and confirmed that the transactions contemplated thereunder have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

Further, in accordance with Rule 14A.56 of the Listing Rules, the Company's external auditor was requested and engaged to report on the Group's CCT in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "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 external auditor has confirmed in writing to the Board that nothing has come to its attention that causes it to believe that the CCT:

(1) have not been approved by the Board;

(2) were not, in all material respects, in accordance with the pricing policies of the Group;

(3) were not, in all material respects, entered into in accordance with the relevant agreement governing the transactions; and

(4) have exceeded the maximum aggregate annual value disclosed in relevant announcements.

A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that the Company has maintained a sufficient public float of at least 25% throughout the year ended 31 December 2016.

PERMITTED INDEMNITY PROVISIONS

A permitted indemnity provision for the benefit of the Directors is currently in force throughout the year ended 31 December 2016. The Company has maintained liability insurance to provide appropriate cover for the Directors.

AUDITOR

At the Company's last Annual General Meeting, RSM Hong Kong was re-appointed as auditor of the Company.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint RSM Hong Kong as external auditor of the Company. The Board confirms that there has been no change in auditors of the Company since 24 November 2005, the date of incorporation of the Company.

EVENTS AFTER THE REPORTING PERIOD

On 15 March 2017, the Company and two independent subscribers (the "Subscribers") entered into a subscription agreement pursuant to which the Company has conditionally agreed to allot and issue and the Subscribers have conditionally agreed to subscribe for an aggregate of 803,562,111 subscription shares of the Company at subscription price of HK$1.2 per subscription share (the "Subscription").

As at the date of this report, the Subscription has not yet been completed. The completion of the Subscription is subjected to certain conditions and subjected to the approval from the independent shareholders of the Company at the extraordinary general meeting. Details of the Subscription are set out in the Company's announcement of 21 March 2017.

On behalf of the Board

Wang Lishan
CHAIRMAN

Hong Kong

31 March 2017

CORPORATE GOVERNANCE REPORT

The Company has adopted the Corporate Governance Code (the "Code Provisions") introduced in Appendix 14 of the Listing Rules to maintain a high standards of corporate governance so as to improve the corporate transparency and protect the interests of the Shareholders.

In the opinion of the directors, the Company has complied with the Code Provisions for the year ended 31 December 2016, save and except the Company provides the three board members, namely Mr. Cao Yunsheng, Mr. Tang Hui and Mr. Li Jing, with monthly internal financial statements, instead of all board members, because they are responsible for overseeing the financial affairs of the Company. The remaining Directors have accessed to the monthly internal financial statements as well. The reason for such deviation from the Code Provisions is to enhance the Company's cost-efficiency.

There are three independent non-executive Directors in the Board, all of them possess adequate independence and therefore the Board considers the Company has achieved balance of and provided sufficient protection to its interests.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions.

Having made specific enquiry of all Directors, the Directors of the Company have complied with the required standard set out in the Model Code regarding Directors' securities transactions.

BOARD

The Board currently comprises four executive Directors and three independent non-executive Directors.

Executive Directors

Mr. Wang Lishan (Chairman), Mr. Cao Yunsheng (CEO), Mr. Tang Hui, Mr. Li Jing

Independent Non-executive Directors

Mr. Su Yang, Mr. Xiang Qiang, Mr. Qi Daqing

Mr. Wang Lishan and Mr. Cao Yunsheng are the chairman and the CEO of the Company respectively and the roles of chairman and the CEO are segregated and not exercised by the same individual. The biographical details of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

To the best acknowledgment of the Company, among the members of the Board, none of them has any financial, business and relative relationship with the other members in the Board, including the chairman and the CEO. All of them are free to make independent judgments.

By the terms of the service contracts, for the executive Directors, and the appointment letters, for the independent non-executive Directors, the term for each Director is three years.

The responsibility of the Board is to lead and supervise the development direction and operation strategy of the Group, and to decide on material affairs of the Company such as the resolution of budget, resolution of profits allocation, significant investments and acquisitions, issue of new shares, amendments to the articles of association and appointments to senior management of the Company. While the management of the Company was given sufficiently autonomy by the Board to handle the daily ordinary course of administration and management, when the Board delegates aspects of its management and administration functions to management, it has given clear directions as to the powers of management, in particular, with respect to the circumstances where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Board confirmed that the Company has received, from each of the independent non-executive Directors, an annual confirmation of this independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that they are independent under Rule 3.13 of the Listing Rules.

In respect of the corporate governance functions, during the year 2016, the Board performed following corporate governance duties in accordance with the terms of reference on the corporate governance duties:

- To review the Company's policies and practices on corporate governance;
- To review and monitor the training and continuous professional development of directors and senior management;
- To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- To review and monitor the code of conduct applicable to directors and employees;
- To review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance report.

INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

The Directors participated in continuous professional development to develop and refresh their knowledge to ensure their contribution to the board remains informed and relevant. In the year, the Directors participated in the reading and learning the materials related to finance, corporate management and other professional knowledge etc. respectively.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for prepare the consolidated financial statements of the Company in accordance with Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance.

The statement of the external auditor of the company on their reporting responsibilities on the consolidated financial statements of the Company is set out in the independent auditor's report on page 38.

RSM Hong Kong has been re-appointed as the Company's external auditor at the annual general meeting of 2016 until the conclusion of the next annual general meeting. Their remuneration for providing auditing services and other services for the Group during the year ended 31 December 2016 are as below:

	Fee paid/payable HK$
Audit services	1,080,000
Review of the interim report	210,000

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the risk management and internal control systems and is also in charge of reviewing their effectiveness. These systems are designed to manage rather than eliminate the risk of failing to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group has in place a relatively comprehensive internal control system and clearly defines the responsibility and authority of each business unit, department and management member. It implements the reporting and approval procedures and accountability system of each business segment to realise compliance operation and monitor and control each segment effectively. Each business unit shall identify risks that may hinder the realisation of business objectives and coordinate with the management members to analyse and evaluate the importance of such risks. The finance department is responsible for monitoring and controlling financial risks and making recommendation on potential risks identified during the approval procedures. Other management departments have to identify and make judgement on various circumstances as well as monitoring and assessing potential risk factors within the scope of their responsibility and authority. If necessary, they can consult professionals at any time and report according to the management procedure.

The relevant departments of the Group have certain functions for the Company's internal audit, internal control and risk management. They are mainly responsible for auditing and reviewing the financial management condition, production and services procedures, documents management system, etc., of the Company on a regular basis and reporting the results. The executive directors and senior management of the Group receive financial reports and management reports on a monthly basis to monitor the operational progress of each business unit and make reasonable planning. Before making any material decisions, they have to make proper assessment on the possible risks involved and the level of risks. The Board and its audit committee obtain comments from the management with regard to risk management and internal control on a yearly basis; they also work together to review the effectiveness of the relevant systems and identify monitoring and control errors and material procedural defects. If any material defects in internal control are found, the management and the Board have to make active response and resolve the existing problems in the most appropriate way and, at the same time, review the prevailing systems and procedures to seek improvement and take remedial measures.

The Company understands its responsibilities under Part XIVA of the Securities and Futures Ordinance and the Listing Rules. It shall make public disclosure on inside information as far as reasonably practicable and strictly comply with the Guidelines on Disclosure of Inside Information when handling matters involving inside information.

The Directors of the Company shall understand and continue to pay attention to the production and operation conditions and financial position of the Company as well as existing and potential material issues and their impacts; they shall also actively investigate and obtain information required for decision making. After finding out and learning about matters required to be disclosed, the relevant personnel shall make timely report to the management and the responsible Directors, judge and verify the relevant information and materials, make internal assessment on the matters involved and preliminary remedial measures and seek professional advises if necessary. After carrying out the relevant internal procedures of the Company, the Directors shall confirm the information disclosure arrangement and ensure the truthfulness, accuracy, completeness, timeliness and fairness of the disclosed information and ensure that such information is free of false records, material misstatement or omission.

During the year, the Board has reviewed the effectiveness of the risk management and internal control systems of the Group and completed the annual review of the Group's risk management and internal control systems. The Board confirms that the measures taken during the year to strengthen risk monitoring and control have been effective in terms of financial control, operational control and compliance control and that no material defects have been observed.

In addition, in accordance with the Code Provisions, the Board also considers the resources and manpower, in terms of qualification and experience, for handling the account, internal audit and financial reporting functions of the Company. Upon review, the Board considers that the Company has sufficient account and financial reporting resources and that the relevant staff members have received adequate training and budgets.

AUDIT COMMITTEE

The Company has established an audit committee with specific written terms of reference which deal clearly with its duties. The audit committee of the Company has three members, including the three independent non-executive Directors of the Company, which are Mr. Su Yang, Mr. Qi Daqing and Mr. Xiang Qiang. Mr. Su Yang is the chairman of the audit committee. The primary duties of the audit committee (inter alia) are to review the financial reporting process, risk management and internal control systems of the Group, and to make proposals to the Board as to appointment, renewal and resignation of the Company's external auditor and the related remuneration and appointment terms.

During the year, two audit committee meetings were held in the year to discuss and approve the Company's consolidated financial statements and the dividend payment, renew the external auditor and the audit committee had meetings with the external auditor and adopted the auditor's suggestion and comments that need to improve and made the management to implement. The audit committee also discussed the risk management and internal control systems with the management of the Company, reviewed the effectiveness of these systems.

The audit committee oversees the financial reporting process. In this process, the management of the Company is responsible for the preparation of Group's consolidated financial statements including the selection of suitable accounting policies. Independent external auditors are responsible for auditing the Group's consolidated financial statements. The audit committee oversees the respective works of the management and the external auditors to monitor the processes and safeguards employed by them. The audit committee reports to the Board on its findings after each of its meeting.

The audit committee reviewed and discussed with management and external independent auditors on the Company's consolidated financial statements for the year ended 31 December 2016. The audit committee also received reports and met with the independent auditors to discuss their audit work.

Based on these reviews and discussions and the report of the independent auditors, the audit committee recommended for the Board's approval of the Company's consolidated financial statements for the year ended 31 December 2016. The audit committee also reviewed and recommended to the Board approval of the unaudited financial statements for the first six months of 2016, prior to public announcement and filing.

The audit committee recommended to the Board that the Shareholders be asked to re-appoint RSM Hong Kong as the Group's external independent auditor for year 2017.

REMUNERATION COMMITTEE

The Company has established a remuneration committee with specific written terms of reference which deal clearly with its duties. The remuneration committee comprises of three independent non-executive Directors, which are Mr. Xiang Qiang, Mr. Su Yang, and Mr. Qi Daqing. Mr. Xiang Qiang is the chairman of the remuneration committee. The primary duties of the remuneration committee (inter alia) are to review and determine the remuneration package, bonus and other allowance terms payable to Directors and senior management, and to make proposals to the Board in respect of the remuneration policy and structure of all the Directors and senior management of the Group.

During the year, one remuneration committee meeting was held in the year to discuss and suggest:

(1) annual salary review for 2016 for the Directors and the senior management; and

(2) the remuneration policy.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Company has established a nomination committee with specific written terms of reference which deal clearly with its duties. The nomination committee comprises of three independent non-executive directors, namely, Mr. Qi Daqing, Mr. Su Yang and Mr. Xiang Qiang. Mr. Qi Daqing is the chairman of the nomination committee. The nomination committee is responsible to make proposals to the Board in respect of the appointment of Directors and the renewal plans of Directors. Basically the nomination procedure follows the articles of association of the Company. In considering the candidates, the nomination committee will take into account his past performance and experience, academic and working qualifications, general market conditions in accordance with the requirements set out in the Listing Rules and the articles of association of the Company so as to make the composition of the board of directors filled with a variety and a balance of skills and experience.

During the year, one nomination committee meeting were held in the year to:

(1) decide the list of the directors who should retired and be elected or re-elected at the annual general meeting;

(2) nominate Mr. Tang Hui and Mr. Li Jing as the executive director to substitute Mr. Zhao Wuhui and Mr. Li Chunyi; and

(3) review the roles of directors regularly by considering the issues of conflict of interest, their performance and conduct. All members attended the meeting.

SUMMARY OF BOARD DIVERSITY POLICY

With a view to achieving a sustainable and balanced development, the Board approved to adopt the board diversity policy in August 2013. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

The Company commits to select the best person for the role. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The nomination committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, to ensure the effectiveness of the policy.

The nomination committee has reviewed the board diversity policy and considered that in order to achieve the objectives of the board diversity policy; the nomination committee should focus more on the professional experience and technical knowledge of the directors in their process of recommendation and recruitment.

THE DIRECTORS' ATTENDANCE AT THE MEETINGS

During the year 2016, the Board held nine board meetings. The attendance record of each director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2016 is set out in the table below:

	Attendance/Number of meetings				
Name of Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Mr. Wang Lishan	8/9	–	–	–	1/1
Mr. Cao Yunsheng	9/9	–	–	–	1/1
Mr. Tang Hui	7/9	–	–	–	0/1
Mr. Li Jing	7/9	–	–	–	0/1
Mr. Zhao Wuhui	2/9	–	–	–	0/1
Mr. Li Chunyi	1/9	–	–	–	0/1
Mr. Su Yang	5/9	2/2	1/1	1/1	0/1
Mr. Xiang Qiang	5/9	2/2	1/1	1/1	0/1
Mr. Qi Daqing	5/9	2/2	1/1	1/1	0/1

Under provision A.6.7 of the Code Provisions, independent non-executive directors and other non-executive directors should also attend general meetings. Due to other business engagements, Mr. Tang Hui, Mr. Li Jing, Mr. Su Yang, Mr. Xiang Qiang, and Mr. Qi Daqing could not attend the annual general meeting of the Company held on 8 June 2016. However, there were other Directors present at the general meetings to enable the Board to develop a balanced understanding of the views of Shareholders of the Company and to answer questions raised at the general meetings.

COMPANY SECRETARY

Ms. Leung Fung Yee Alice was appointed as the Company Secretary in 2014. Her biographical details are set out in the section headed "Directors' and Senior Management". For the financial year ended 31 December 2016, Ms. Leung attended relevant professional training for not less than 15 hours pursuant to Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

Each general meeting other than an annual general meeting shall be called an extraordinary general meeting. General meetings maybe held in any part of the world as may be determined by the Board.

According to Article No.58 of the Company's articles of association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board of the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition.

If within twenty-one (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.

An annual general meeting and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by not less than twenty-one (21) clear days' notice. All other extraordinary general meetings may be called by not less than fourteen (14) clear days' notice.

Shareholders and investors are welcome to visit the Company's website and raise enquiries to our Board through our Investor Relations Department whose contact details are available on the website.

SIGNIFICANT CHANGES ON THE ARTICLES OF ASSOCIATION

During the year 2016, there is no significant change to the articles of association of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Jutal adheres to the green development concept, in its daily operation, the Company strives to eliminate and reduce the impact of its products on the ecological environment and endeavours to save resources, protect the environment and pursue sustainable corporate development.

Based on OHSAS18001, the internationally recognised standard for management system of occupational safety and hygiene, and ISO14001, the standard of management system for environment, the Group has established a set of management system regarding health, safety and environmental protection. In line with the principle of green development, we adopt "Safety Comes First, Prevention-Oriented, Environmental Protection, Continuous Improvement" as our guiding occupational health, safety and environmental protection principle; we comply with the relevant national laws, regulations and standards on safe production and environmental protection; we prioritise health, safety and environmental protection in all our work. We advocate the effective use and conservation of resources, root out wastes and reduce wastes as much as possible; we make all-out efforts to prevent pollution, improve our working environment and labour condition continuously, and make continuous improvement.

ENVIRONMENT AND NATURAL RESOURCES

Emissions

It is our principle to avoid and reduce wastes to the fullest extent possible. Through best-laid working plans and reuse and recycling of resources, the amount of wastes could be reduced. Wastes shall be classified and handled properly to minimise their harm to the mankind and the environment.

In order to meet emission standard, we strictly comply with the national laws and regulations when handling sewage, waste gas and solid wastes.

We strictly observe the national and local requirements on integrated sewage discharge standards for the discharge of production and domestic sewage. We require that the use of chemicals shall be strictly in compliance with the operational rules and that non-toxic and harmless disinfectants and phosphate-free cleaning products shall be used as much as possible; we encourage effective usage to minimise the emission of sewage; recycle bins (cans) for oily sewage are installed in major operation venues or sites to recycle and store oily sewage and waste engine oil from production activities in a timely and centralised way; it is also prohibited to pour and discharge oily sewage, waste oil and other waste chemicals to sewers and sewage wells.

Production waste gases from paint spraying and sand blasting are discharged at high attitudes after being processed by the environmental protection treatment system and meeting emission standard. The Company's environmental friendly dust removal and ventilation facilities installed in the phase III painting and sand blasting factories can vent 70% of the clean air processed by the dust removers back to the factories through recycle gas pipes for reuse to reduce energy consumption; the processing efficiency of organic waste gases and waste sand surpasses 99%.

Industrial solid wastes from production activities and domestic wastes are being classified, collected and treated in accordance with the principle of classified collection of wastes; reusable resources are transferred to qualified third parties for reuse; dangerous production wastes are collected and stored separately and are all transferred to qualified environmental protection enterprises for treatment in line with legal approval for the transfer of dangerous wastes.

We impose reasonable management on noise level in the factory areas; with careful consideration and planning at the planning stage of factory areas, noise cancellation design is adopted for parts which generate noise and noise is led away to the surrounding areas to minimise its impact.

Use of Resources

We implement national requirements regarding quantitative energy conservation targets, reduction of energy consumption and consumption of water and other resources. In order to reduce the unit energy consumption of the Company's products, we promote energy conservation and consumption reduction activities within the Company, measure the production volume and energy consumption of our products and establish energy consumption targets. We embark on energy management and monitor the consumption and use of various energy and resources to alleviate the phenomenon of "deflation, leakage, drainage and dripping".

We also strenuously promote energy conservation and emission reduction in the Company; in addition to making well use of reusable resources to the fullest extent, we also encourage employees to rack their brains to turn waste into valuable assets in order to reduce the consumption of resources and strive for clean production of the Company.

We adhere to the green development concept and, on the premise of eliminating and reducing the impact of our products on the ecology and environment, roll out a series of management activities which put resources conservation, environmental protection and sustainable development at the core of corporate economic growth. Adhering to the environmental-friendly principle, our new and reconstruction projects adopt environmental-friendly management throughout the design, construction and operation stages. We have always taken into consideration environmental protection during our manufacturing and operation phases. We place resources conservation and waste reduction at the heart of green development with a view to achieving sustainable corporate development.

EMPLOYEES AND SOCIETY

Competent employees and sound governance are the basic driving forces of sustainable corporate development. Through the Company's "Staff Manual", we provide guidance to employees in areas such as recruitment, remuneration package, code of conduct, incentives and penalties, so that our employees are well informed about the rules and regulations of the Company, understand their rights as well as their responsibilities and obligations and can play an important role in promoting the corporate culture of the Company.

Employment

The Group is principally operating in Mainland China. We employ and manage our employees in accordance with the "Labour Law" and the "Labour Contract Law" of the PRC as well as various applicable local labour laws and regulations. We recruit staff through various channels, determine their salaries and bonuses based on their positions and performance and make social insurance contribution for them. Employees are entitled to statutory and discretionary holidays, including annual leaves, as stipulated by national and local regulations. In accordance with the different job positions of our employees, the Company can make application to the labour administration departments for the implementation of comprehensive working hours and flexible working hours systems as agreed in the employment contracts of staff.

In accordance with the incentive and penalty rules of the Company, we reward our employees on a discretionary basis in accordance with their work performance, contribution to the society and the Company and honour obtained.

Employment Rules

In terms of employment, we strictly comply with the relevant labour laws and regulations of areas where our employees located. The "Labour Law of the PRC", the "Law of the PRC on the Protection of Minors" and the "Provisions on the Prohibition of Using Child Labour" clearly prohibit the use of child labour and forced labour, and penalise violators.

The Group shall enter into written employment contracts with employees, which provide for the working hours, job positions, remuneration and other relevant benefits and conditions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Development and Training

We encourage our employees to pursue continuous learning in accordance with the Company's development needs; the Company and various departments organise well-planned trainings for different kinds and levels of staff to promote joint improvement of the Company and staff as well as offering fair promotion opportunities for their career development.

The internal tutors of the Company organise various internal teaching materials from time to time. The Company also cooperates with external institutions and invites tutors to give on-site trainings according to the Company's needs. In accordance with work requirements and subject to certain conditions, the Company also selects employees to participate in external trainings.

Health and Safety

As a service provider and equipment manufacturer of the oil and gas industry, "Health, Environmental Protection and Safety" are the integral parts of our corporate culture.

We have established a dedicated safety monitoring department and compiled a "Health, Safety and Environmental Protection Manual", which is thoroughly implemented, and in compliance with the relevant laws, regulations and national standards on safety production, environmental protection and occupational health, to offer guidance on different aspects such as factory areas, goods and materials, staff behaviour, manufacturing and operation procedures and management of related parties.

"Safety Comes First, Prevention-Oriented, Environmental Protection, Continuous Improvement" is our guiding occupational health, safety and environmental protection principle. For safety, it requires the full participation of all employees in the sense that they shall be responsible for the occupational safety of their respective job positions. While at work, each employee shall perform the basic duties of his job position and try his best "not to hurt himself or others or being hurt by others". Employees shall try their best to eradicate potential dangers and create a safe, civilised, clean and comfortable working environment for themselves and others.

We ensure that employees possess sufficient safety knowledge and skills through organising relevant trainings; we encourage all staff members to actively participate in the health, safety and environmental protection management activities of the Company; we also encourage them to make active contribution to the investigation and rectification of potential safety hazards, rectification of non-compliance issues, strengthening of labour protection and prevention of safety and manufacturing issues and occupation diseases.

Our clients, suppliers and third-party guests also have to comply with the occupational safety and health management rules of the Company. For visiting guests, they have to first attend our safety talks and wear protective gear before entering our production sites with the accompany of our tour guides.

Management of Supply Chains

Our suppliers include manufacturers, distributors, agents and service providers who provide products and services to the Group.

Our "Suppliers Management Procedures" aim at establishing a common practice for the resource, grading, assessment, registration and performance management of qualified suppliers. The effective control of suppliers ensure that the Group will continue to receive qualified products and services and help to mitigate potential risks during the procurement process.

The Group's procurement department is responsible for managing suppliers. It identifies, explores and assesses (qualification assessment and on-site assessment) suppliers as well as managing contract compliance issues and protecting the information of qualified suppliers; the department is also in charge of identifying quality and progress problems on the provision of products and services; it keeps track of the improvement and resolution of problems on the provision of products and services and assists suppliers to make follow-up improvements.

The Quality Department, Safety Department, Technical Department and Project Department participate in the qualification assessment and confirmation of suppliers, offering opinions on their quality control, contract compliance and technical capability.

On the basis of the operation license, quality management and control system, financial condition, relevant experience, results and reputation, after-sales services and health, safety and environment management systems, we assess and classify our suppliers under the principles of justice, fairness, openness and transparency.

Suppliers who have passed our assessment will be included in our "List of Qualified Suppliers" which is updated quarterly. We assess our suppliers on a monthly and yearly basis and urge them to address any defect while failed suppliers will be removed from the list.

Product responsibility

The Group mainly provides high-end oil and gas equipment and technical support services in the oil and natural gas industry. In oil and gas industry, safety and quality are essential factors that the customers are concerned about. Our service representatives must receive the required safety education and obtain a certificate before they are allowed to carry out the relevant tasks. In case of any incident, records will be kept as supporting evidence for assessment, rewards and punishments. In the entire process of project execution and product manufacturing, we and our customers go through a series of quality verification procedures to ensure that the product quality meets the expectation and requirements of customers.

We strive to provide our customers with competitive products and quality services and attach high importance to customer satisfaction. By understanding and being well-informed about customers' comments on product quality, delivery and services of the Group, we may analyse and compare the satisfaction and dissatisfaction factors and trend of customers and set up measures for correction and prevention, so as to ensure the improvement of product quality, delivery and services standard and fulfill the demand of our customers and the market.

Anti-corruption

The "Employee's Code" of the Company states clearly the code of conduct of employees. It requires that an employee shall obey the laws and regulations in operation activities, faithfully perform his own duties, carefully handle any relationships inside and outside of the workplaces and must not be involved in any illegal activities or violate the code of conduct at work. Employees shall strictly comply with relevant laws and regulations and follow common ethical standards and business practices when paying commission and remuneration or offering entertainment services or gifts, etc., to external parties or individuals. An employee must not, on any behalf or in any form, demand or accept benefits from business-related units. The Group has particularly formulated the "Group's Code of Conduct for Trade" and requests employees engaging in business and marketing activities to uphold the code. Employees must not have any illegal or unethical behaviour that may harm the interests, trustworthiness and reputation of the Group. They should also avoid any acts that may affect the trustworthiness and capacity of the Group. Employees are not allowed to accept or offer any gifts, giveaways or entertainment services that will create a sense of obligation on the receivers; all gifts, giveaways, donations or services shall be offered or received in line with the common business practices that are generally accepted and if made public, the employees or the Group will not feel embarrassed or be left in a predicament; the employees must not offer or accept any remuneration, bribes, gifts in return, giveaways, etc., that may be considered illegitimate or constitute an illegitimate act. In 2016, the Group did not discover any substantial risks involving corruption, nor be involved in any related lawsuits.

Community

We care for the needs of the communities where we operate. We identify ourselves as a member of the civil society, actively participate in related activities and try our best to make contributions.

INDEPENDENT AUDITOR'S REPORT

RSM

TO THE SHAREHOLDERS OF
JUTAL OFFSHORE OIL SERVICES LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Jutal Offshore Oil Services Limited and its subsidiaries (the "Group") set out on pages 42 to 99, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") 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 Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. 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 Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. 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. The key audit matters we identified are:

1. Goodwill impairment assessment

2. Revenue recognition for construction contracts

KEY AUDIT MATTERS (CONT'D)

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment Refer to note 19 to the consolidated financial statements. The Group has a significant amount of goodwill that has been allocated to the Group's offshore oil and natural gas exploration facilities fabrication business. Management has determined that there is no impairment in respect of this goodwill. This determination was based on a value in use model that required significant management judgement with respect to the discount rate and the assumptions underlying the forecast cash flows. The Group's accounting policy on goodwill and the critical accounting estimates and judgements on goodwill impairment are described in note 4(b) and 5(d) respectively to the consolidated financial statements.	Our procedures in relation to management's impairment assessment of goodwill that has been allocated to the Group's offshore oil and natural gas exploration facilities fabrication business included: – Working with internal valuation specialists to assess the mathematical accuracy of the value in use model and the appropriateness of the discount rate used; – Challenging the reasonableness of key assumptions used in the cash flow projections based on our knowledge of the business and industry; – Reconciling input data to supporting evidence, such as approved budgets and considering the historical accuracy of those budgets.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition for construction contracts Refer to the key sources of estimation uncertainly in note 5(b) to the consolidated financial statements and the accounting policies set out in note 4(i) and 4(t) to the consolidated financial statements. The Group's business involves entering into contractual relationships with customers to provide fabrication and technical support services. Total revenue for construction contracts was approximately RMB623,205,000 represents approximately 86% of the Group's turnover for the year ended 31 December 2016. Due to the nature of the contracting business, significant management estimates are required in relation to revenue recognition for construction contracts including the determination of costs to complete and total contract costs, the percentage of completion and the timing of revenue recognition and the timing and amount of variation orders recognised.	Our procedures in relation to the significant estimates made by management regarding revenue recognition for construction contracts included: – Evaluating and testing the effectiveness of internal controls over the calculation of contract revenues including those relating to (i) estimates of costs to complete and the total contract costs; (ii) the determination of the percentage of completion and timing of revenue recognition and (iii) the determination of the timing and amount of variation orders recognised. – Performing substantive procedures on a sample basis including: (a) Examining signed contracts, statements of work, variation orders and certifications of work; (b) Assessing the reasonableness of management estimates of forecast costs to complete and total contract costs; (c) Recalculating the percentage of completion for major contracts by reference to the proportion contract costs for work performed to date bear to the total estimated contract costs; and (d) Assessing whether contract revenue recognised in relation to variation orders met the applicable criteria in Hong Kong Accounting Standard 11 – "Construction Contracts".

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors are responsible for the Other Information. The Other Information comprises all the information included in Jutal Offshore Oil Services Limited's 2016 annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information identified above and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion 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 HKSAs 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism 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 the directors.

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yam Tak Fai, Ronald.

RSM Hong Kong
Certified Public Accountants
Hong Kong
31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Turnover	*8*	**721,614**	658,566
Cost of sales and services		**(599,875)**	(529,797)
Gross profit		**121,739**	128,769
Other income	*9*	**13,446**	29,621
Administrative expenses		**(123,615)**	(126,912)
Other operating expenses		**(15,375)**	(4,577)
(Loss)/profit from operations		**(3,805)**	26,901
Finance costs	*11*	**(8,547)**	(10,358)
Share of profit of an associate	*22*	**29,608**	17,872
Profit before tax		**17,256**	34,415
Income tax expense	*12*	**(5,670)**	(7,701)
Profit for the year	*13*	**11,586**	26,714
Attributable to:			
Owners of the Company		**11,586**	26,714
Earnings per share	*16*		
		RMB	RMB
Basic		**1.45 cents**	3.34 cents
Diluted		**1.45 cents**	3.34 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
Profit for the year	**11,586**	26,714
Other comprehensive income:		
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**15,799**	9,654
Other comprehensive income for the year, net of tax	**15,799**	9,654
Total comprehensive income for the year	**27,385**	36,368
Attributable to:		
Owners of the Company	**27,385**	36,368

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	*17*	528,970	536,971
Prepaid land lease payments	*18*	417	482
Goodwill	*19*	202,327	191,084
Intangible assets	*20*	2,974	3,375
Investment in an associate	*22*	337,794	308,186
Deferred tax assets	*37*	282	765
		1,072,764	1,040,863
Current assets			
Inventories	*23*	24,392	25,618
Trade and bills receivables	*24*	214,774	164,587
Gross amount due from customers for contract work	*25*	186,820	189,967
Prepayments, deposits and other receivables	*26*	49,420	78,334
Derivative financial instruments	*27*	176	926
Due from directors	*28*	2,710	1,147
Due from an associate	*29*	–	398
Current tax assets		1,086	227
Pledged bank deposits	*30*	43,527	22,141
Bank and cash balances	*30*	100,535	58,486
		623,440	541,831
Current liabilities			
Trade and bills payables	*31*	175,125	141,290
Gross amount due to customers for contract work	*25*	15,469	16,483
Accruals and other payables	*32*	49,490	78,180
Derivative financial instruments	*27*	–	2,356
Warranty provisions	*33*	1,866	3,058
Bank borrowings	*34*	213,628	131,476
Current tax liabilities		33	154
		455,611	372,997
Net current assets		167,829	168,834
Total assets less current liabilities		1,240,593	1,209,697

	Note	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Deferred revenue	*36*	24,629	21,331
Deferred tax liabilities	*37*	35,422	30,871
		60,051	52,202
NET ASSETS		1,180,542	1,157,495
Capital and reserves			
Share capital	*38*	7,506	7,506
Reserves	*41(a)*	1,173,036	1,149,989
TOTAL EQUITY		1,180,542	1,157,495

Approved by the Board of Directors on 31 March 2017 and are signed on its behalf by:

Wang Lishan
Chairman

Cao Yunsheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company										
	Share capital	Share premium account	Special reserve	Convertible loan notes equity reserve	Foreign currency translation reserve	Share-based payment reserve	Warrants reserve	Statutory reserves	Retained profits	Proposed final dividend	Total equity
	(Note 38)	*(Note 41(c)(i))*	*(Note 41(c)(iii))*	*(Note 41(c)(vi))*	*(Note 41(c)(v))*	*(Note 41(c)(ii))*	*(Note 41(c)(vii))*	*(Note 41(c)(iv))*			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	7,504	851,024	(52,040)	2,951	(59,383)	6,132	160	36,915	326,705	6,401	1,126,369
Total comprehensive income for the year	–	–	–	–	9,654	–	–	–	26,714	–	36,368
Share-based payments	–	–	–	–	–	991	–	–	–	–	991
Issue of shares on exercise of share options *(note 38(a))*	2	239	–	–	–	(71)	–	–	–	–	170
Share options forfeited	–	–	–	–	–	(1,527)	–	–	1,527	–	–
Transfer to statutory reserves	–	–	–	–	–	–	–	1,727	(1,727)	–	–
Dividends paid	–	–	–	–	–	–	–	–	(2)	(6,401)	(6,403)
2015 proposed final dividend	–	–	–	–	–	–	–	–	(6,723)	6,723	–
Changes in equity for the year	2	239	–	–	9,654	(607)	–	1,727	19,789	322	31,126
At 31 December 2015 and 1 January 2016	7,506	851,263	(52,040)	2,951	(49,729)	5,525	160	38,642	346,494	6,723	1,157,495
Total comprehensive income for the year	–	–	–	–	15,799	–	–	–	11,586	–	27,385
Share-based payments	–	–	–	–	–	2,465	–	–	–	–	2,465
Share options forfeited	–	–	–	–	–	(131)	–	–	131	–	–
Transfer to statutory reserves	–	–	–	–	–	–	–	957	(957)	–	–
Dividends paid	–	–	–	–	–	–	–	–	(80)	(6,723)	(6,803)
Changes in equity for the year	–	–	–	–	15,799	2,334	–	957	10,680	(6,723)	23,047
At 31 December 2016	7,506	851,263	(52,040)	2,951	(33,930)	7,859	160	39,599	357,174	–	1,180,542

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**17,256**	34,415
Adjustments for:			
Finance costs		**8,547**	10,358
Share of profit of an associate		**(29,608)**	(17,872)
Equity settled share-based payments		**2,465**	991
Interest income		**(363)**	(842)
Depreciation		**31,490**	28,389
Amortisation of prepaid land lease payments		**65**	65
Amortisation of intangible assets		**1,150**	1,176
Net loss on disposals of property, plant and equipment		**766**	91
Allowances for inventories		**598**	–
Reversal of allowance for inventories		**–**	(3,248)
Allowances for trade and other receivables		**2,491**	2,754
Reversal of allowance for trade and other receivables		**(156)**	(3,075)
Impairment losses on gross amount due from customers for contract work		**6,689**	–
Reversal of impairment losses on gross amount due from customers for contract work		**–**	(5,970)
(Reversal of provisions)/provisions of warranty		**(1,192)**	357
Fair value loss on derivative financial instruments		**2,054**	667
Government grants income		**(7,677)**	(8,423)
Operating profit before working capital changes		**34,575**	39,833
Decrease/(increase) in inventories		**628**	(2,618)
(Increase)/decrease in trade and bills receivables		**(52,678)**	124,242
(Increase)/decrease in gross amount due from customers for contract work		**(3,542)**	31,336
Decrease/(increase) in prepayments, deposits and other receivables		**30,587**	(13,999)
(Increase)/decrease in amounts due from directors		**(1,563)**	240
Decrease/(increase) in amount due from an associate		**398**	(228)
Increase/(decrease) in trade and bills payables		**33,835**	(75,874)
(Decrease)/increase in gross amount due to customers for contract work		**(1,014)**	11,031
Decrease in accruals and other payables		**(28,690)**	(28,845)
Cash generated from operations		**12,536**	85,118
Income taxes (paid)/refunded		**(1,616)**	115
Interest paid		**(7,999)**	(9,933)
Other finance costs		**(726)**	(946)
Net cash generated from operating activities		**2,195**	74,354

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		363	842
Purchases of property, plant and equipment		(25,236)	(40,375)
Proceeds from disposals of property, plant and equipment		1,168	898
Purchase of intangible assets		(749)	(1,185)
(Increase)/decrease in pledged bank deposits		(15,796)	12,428
Government grants received		9,458	22,754
Net (payment)/receipt from settlement of derivative financial instruments		(3,660)	763
Net cash used in investing activities		(34,452)	(3,875)
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank loans raised		341,237	263,942
Repayment of bank loans		(259,085)	(362,706)
Dividends paid	*15*	(6,803)	(6,403)
Proceeds from issue of shares on exercise of share options	*38(a)*	–	170
Net cash generated from/(used in) financing activities		75,349	(104,997)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		43,092	(34,518)
Effect of foreign exchange rate changes		4,547	649
CASH AND CASH EQUIVALENTS AT 1 JANUARY		74,641	108,510
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		122,280	74,641
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		100,535	58,486
Pledged bank deposits		21,745	16,155
		122,280	74,641

Pledged bank deposits can be reconciled to the consolidated statement of financial position as follows:

	2016 RMB'000	2015 RMB'000
Pledged bank deposits (mature in three months or less)	21,745	16,155
Pledged bank deposits (mature after three months)	21,782	5,986
	43,527	22,141

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1–1111, Cayman Islands. The address of its principal place of business is 10th Floor, Chiwan Petroleum Building, Shekou, Nanshan District, Shenzhen, the People's Republic of China (the "PRC"). The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 21 to the consolidated financial statements.

In the opinion of the directors of the Company, as at 31 December 2016, Cheung Hing Investments Limited, a company incorporated in the Samoa, is the immediate and ultimate parent; and Mr. Wang Lishan is the ultimate controlling party of the Company.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2016. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2016. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7 Statement of Cash Flows: Disclosure initiative	1 January 2017
Amendments to HKAS 12 Income Taxes: Recognition of deferred tax assets for unrealised losses	1 January 2017
Amendments to HKFRS 4 Insurance Contracts: Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
HKFRS 9 Financial Instruments	1 January 2018
HKFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to HKFRS 15 Revenue from Contracts with Customers: Clarification to HKFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to HKFRS 2 Share-based Payment: Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 16 Leases	1 January 2019
Amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures: Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

(b) New and revised HKFRSs in issue but not yet effective (cont'd)

HKFRS 9 Financial Instruments

The standard replaces HKAS 39 Financial Instruments: Recognition and Measurement.

The standard introduces a new approach to the classification of financial assets which is based on cash flow characteristics and the business model in which the asset is held. A debt instrument that is held within a business model whose objective is to collect the contractual cash flows and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at amortised cost. A debt instrument that is held within a business model whose objective is achieved by both collecting the contractual cash flows and selling the instruments and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at fair value through other comprehensive income. All other debt instruments are measured at fair value through profit or loss. Equity instruments are generally measured at fair value through profit or loss. However, an entity may make an irrevocable election on an instrument-by-instrument basis to measure equity instruments that are not held for trading at fair value through other comprehensive income.

The requirements for the classification and measurement of financial liabilities are carried forward largely unchanged from HKAS 39 except that when the fair value option is applied changes in fair value attributable to changes in own credit risk are recognised in other comprehensive income unless this creates an accounting mismatch.

HKFRS 9 introduces a new expected-loss impairment model to replace the incurred-loss impairment model in HKAS 39. It is no longer necessary for a credit event or impairment trigger to have occurred before impairment losses are recognised. For financial assets measured at amortised cost or fair value through other comprehensive income, an entity will generally recognise 12-month expected credit losses. If there has been a significant increase in credit risk since initial recognition, an entity will recognise lifetime expected credit losses. The standard includes a simplified approach for trade receivables to always recognise the lifetime expected credit losses.

The de-recognition requirements in HKAS 39 are carried forward largely unchanged.

HKFRS 9 substantially overhauls the hedge accounting requirements in HKAS 39 to align hedge accounting more closely with risk management and establish a more principle based approach.

The new expected credit loss impairment model in HKFRS 9 may result in the earlier recognition of impairment losses on the Group's trade receivables and other financial assets. The Group is unable to quantify the impact until a more detailed assessment is completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

(b) New and revised HKFRSs in issue but not yet effective (cont'd)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 replaces all existing revenue standards and interpretations.

The core principle of the standard is that an entity recognises revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to become entitled in exchange for those goods and services.

An entity recognises revenue in accordance with the core principle by applying a 5-step model:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies a performance obligation

The standard also includes comprehensive disclosure requirements relating to revenue.

The Group is currently assessing the impacts of adopting HKFRS 15 on the consolidated financial statements and has identified the following areas that are likely to be affected:

The Group currently recognises revenue from construction contracts over time by reference to the stage of completion of the contract activity in accordance with the requirements in HKAS 11 Construction Contracts. Under HKFRS 15 revenue is recognised over time only if specific criteria are met otherwise revenue is recognised at a point in time which may not be until completion.

HKFRS 15 also introduces new requirements on accounting for contract modifications (variations) and variable consideration (such as claims and incentive payments) which may impact the timing of revenue recognition over the contract period.

In addition, certain costs of obtaining construction contracts which are currently expensed may need to be capitalised.

The Group is unable to estimate the impact of the new standard on the consolidated financial statements until a more detailed analysis is completed.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

(b) New and revised HKFRSs in issue but not yet effective (cont'd)

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right–of–use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

The Group's office property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under HKFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in note 44, the Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to approximately RMB15,887,000 as at 31 December 2016. The Group will need to perform a more detailed assessment in order to determine the new assets and liabilities arising from these operating leases commitments after taking into account the transition reliefs available in HKFRS 16 and the effects of discounting.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. certain financial instruments that are measured at fair value).

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated foreign currency translation reserve relating to that subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Consolidation (cont'd)

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group. The functional currency of the Company is Hong Kong dollars ("HK$").

(ii) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) *Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities and of borrowings are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Property, plant and equipment

Property, plant and equipment, including buildings and leasehold land (classified as finance leases), held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Buildings	20 – 44 years
Plant and machinery	5 – 10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years
Leasehold land	Over the term of the lease

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(f) Intangible assets — patents and computer software

Patents and computer software are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 4 to 10 years.

(g) Leases

The Group as lessee

(i) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

Prepaid land lease payments are stated at cost and subsequently amortised on the straight-line basis over the remaining term of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. Net realisable value for inventories of raw materials held for trading is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Net realisable value for inventories of raw materials and consumables held to be used in construction contracts is determined by reference to the underlying specific contracts in progress in which the inventories will ultimately be used.

(i) Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured. If the variations have not been agreed with customer, variations will be recognised only to the extent of contract cost incurred that it is probable will be recoverable.

Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

The Group uses the "percentage-of-completion method" to determine the appropriate amount of revenue in a given period. When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total costs of the relevant contracts. Revenue from a cost plus construction contract is recognised on the percentage-of-completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total costs of the relevant contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are probable to be recoverable. When it is probable that total contracts costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Construction contracts in progress at the end of the reporting period are recorded at the amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the consolidated statement of financial position as "Gross amount due from customers for contract work". When progress billings exceed costs incurred plus recognised profits less recognised losses, the surplus is recorded in the consolidated statement of financial position as "Gross amount due to customers for contract work". Progress billings not yet paid by the customer are included in the consolidated statement of financial position under "Trade and bills receivables". Amounts received before the related work is performed are included in the consolidated statement of financial position under "Accruals and other payables".

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(k) Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either financial assets classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these financial assets are recognised in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Typically trade and other receivables, bank balances and cash are classified in this category.

(l) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(n) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(p) Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair value and are subsequently measured at the higher of:

– the amount of the obligations under the contracts, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

– the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight-line basis over the terms of the guarantee contracts.

(q) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(s) Derivative financial instruments

All derivatives are initially recognised and subsequently measured at fair value.

Changes in the fair value of derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss as they arise.

Derivatives embedded in other financial instruments or non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the combined instrument is not carried at fair value with changes in fair value recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income is recognised on a straight-line basis over the lease term.

Dividend income is recognised when the shareholders' rights to receive payment are established.

Revenue from the sales of equipments and trading of raw materials are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Revenue from technical consultancy services and repair and maintenance services is recognised as services are rendered.

Revenue from construction contracts is recognised based on the stage of completion of the contract activity as detailed in note 4(i) above.

(u) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

(v) Share-based payments

The Group issues equity-settled share-based payments to certain directors and employees. Equity-settled share-based payments are measured at the fair value (excluding the effect of non-market based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(w) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are 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, until such time as 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 eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(x) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the periods to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to the purchase of assets are recorded as deferred revenue and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

(y) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(y) Taxation (cont'd)

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(z) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

(aa) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount 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. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

(bb) Impairment of financial assets

At the end of each reporting period, the Group assesses whether its financial assets (other than those at fair value through profit or loss) are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected.

For trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(bb) Impairment of financial assets (cont'd)

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

(cc) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if 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 Company or of a parent of the Company.

(B) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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).

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(dd) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(ee) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

The carrying amount of property, plant and equipment as at 31 December 2016 was approximately RMB528,970,000 (2015: RMB536,971,000).

(b) Revenue and profit recognition

The Group estimates the percentage of completion of the construction contracts by reference to the proportion of contract costs incurred for work performed to date to the estimated total costs for the contracts. When the final cost incurred by the Group is different from the amounts that were initially budgeted, such differences will impact the revenue and the profit or loss recognised in the period in which such determination is made. Budget cost of each project will be reviewed periodically and revised accordingly where significant variances are noted during the revision. During the year, approximately RMB623,205,000 (2015: RMB545,393,000) of revenue from construction contracts was recognised.

(c) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the year, approximately RMB5,670,000 (2015: RMB7,701,000) of income tax expense was charged to profit or loss based on the Group's estimated profit for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONT'D)

(d) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was approximately RMB202,327,000 (2015: RMB191,084,000).

(e) Allowance for trade and other receivables

The Group recognises allowance for trade and other receivables based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

As at 31 December 2016, allowances were made for trade receivables and other receivables of approximately RMB7,510,000 (2015: RMB5,019,000) and RMB1,991,000 (2015: RMB2,147,000) respectively.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

Most of the Group's business transactions, assets and liabilities are principally denominated in RMB, Euro and United States dollars ("US$"). During the years ended 31 December 2016 and 2015, the Group started to enter into foreign exchange forward contracts to hedge the foreign currency risk arising from certain of its contract revenue and trade receivables denominated in Euro and US$. The Group currently does not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities.

At 31 December 2016, if the US$ had weakened 5 per cent against RMB with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB3,983,000 (2015: RMB1,076,000) lower, arising mainly as a result of the foreign exchange loss on bank deposits and net position of trade receivables and trade payables denominated in US$. If the US$ had strengthened 5 per cent against RMB with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB3,983,000 (2015: RMB1,076,000) higher, arising mainly as a result of the foreign exchange gain on bank deposits and net position of trade receivables and trade payables denominated in US$.

At 31 December 2016, if the Euro had weakened 5 per cent against RMB with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB1,022,000 (2015: RMB603,000) lower, arising mainly as a result of the foreign exchange loss on bank deposits and net position of trade receivables and accruals and other payables denominated in Euro. If the Euro had strengthened 5 per cent against RMB with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB1,022,000 (2015: RMB603,000) higher, arising mainly as a result of the foreign exchange gain on bank deposits and net position of trade receivables and accruals and other payables denominated in Euro.

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk

The Group's credit risk is primarily attributable to its bank and cash balances and trade and other receivables.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

In respect of trade and other receivables balances, individual credit evaluations are performed for all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow-up action is taken to recover overdue debts. In addition, the directors review the recoverable amount of each individual trade and other receivable balance at the end of each reporting period to ensure adequate allowance are made for the estimated irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

As at 31 December 2016, one customer (2015: one) which contributed over 10% of the Group's trade and other receivables. The aggregate carrying amount of trade and other receivables from this customer amounted to 11% of the Group's total trade and other receivables as at 31 December 2016 (2015: 15%).

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis based on contractual undiscounted cash flows of the Group's financial liabilities is as follows:

	On demand or less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2016					
Trade and bills payables	**175,125**	**–**	**–**	**–**	**175,125**
Accruals and other payables	**48,770**	**–**	**–**	**–**	**48,770**
Bank borrowings *(note)*	**218,926**	**–**	**–**	**–**	**218,926**
At 31 December 2015					
Trade and bills payables	141,290	–	–	–	141,290
Accruals and other payables	69,811	–	–	–	69,811
Bank borrowings *(note)*	134,770	–	–	–	134,770

Note:

Bank borrowing with a repayment on demand clause are included in the 'on demand or less than 1 year' time band in the above maturity analysis. As at 31 December 2016, the undiscounted aggregate principal amounts of these bank borrowings amounted to approximately RMB6,868,000 (2015: RMB3,876,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the bank will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank borrowings will be repaid three years after the end of the reporting period in accordance with the scheduled repayment dates or conditions set out in the loan agreement. At that time, the aggregate principal and interest cash outflows will amount to approximately RMB8,370,000 (2015: RMB4,945,000).

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For the year ended 31 December 2016

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (cont'd)

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted gross inflows and outflows on derivatives instruments that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrative by the yield curves at the end of the reporting period.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2016					
Derivative – gross settlement					
Foreign exchange forward contracts					
– Inflow	**11,816**	**–**	**–**	**–**	**11,816**
– Outflow	**(11,640)**	**–**	**–**	**–**	**(11,640)**
	176	**–**	**–**	**–**	**176**
At 31 December 2015					
Derivative – gross settlement					
Foreign exchange forward contracts					
– Inflow	255,602	–	–	–	255,602
– Outflow	(257,044)	–	–	–	(257,044)
	(1,442)	–	–	–	(1,442)

(d) Interest rate risk

The Group's exposure to interest rate risk arises from its bank deposits and bank borrowings. Part of the Group's bank deposits and bank borrowings bear interests at variable rates varied with the then prevailing market condition and expose the Group to cash flow interest rate risk.

At 31 December 2016, if interest rates had been 100 basis points lower with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB1,689,000 higher (2015: RMB3,055,000), arising mainly as a result of lower interest expenses on bank borrowings. If interest rates had been 100 basis points higher, with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB1,689,000 (2015: RMB3,055,000) lower, arising mainly as a result of higher interest expenses on bank borrowings.

The Group's other fixed-rate bank borrowings and bank deposits bear fixed interest rates and therefore are subject to fair value interest rate risks.

(e) Categories of financial instruments at 31 December

	2016 RMB'000	2015 RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**370,312**	276,988
Derivative financial instruments – held for trading	**176**	926
Financial liabilities:		
Financial liabilities at amortised cost	**437,523**	342,577
Derivative financial instruments – held for trading	**–**	2,356

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. FAIR VALUE MEASUREMENTS

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 following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 December:

	Fair value measurements as at	
Description	31 December 2016 using level 2 RMB	31 December 2015 using level 2 RMB
Recurring fair value measurements:		
Financial assets		
Derivatives		
Foreign currency forward	176	926
Recurring fair value measurements:		
Financial liabilities		
Derivatives		
Foreign currency forward	–	2,356

(b) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2016:

The Group has engaged external valuation expert with the professional qualifications and recent experience to perform the fair value measurement of foreign currency forward contracts outstanding as at 31 December 2016.

The valuation techniques used and the key inputs to the level 2 fair value measurements are set out below:

Level 2 fair value measurements			Fair value			
			2016 RMB'000		2015 RMB'000	
Description	Valuation technique	Key inputs	Assets	Liabilities	Assets	Liabilities
Derivatives – foreign currency forward	Discounted cash flows	Forward exchange rate; Contract forward rates; and Discount rate	176	–	926	(2,356)

During the two years, there were no changes in the valuation techniques used.

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8. TURNOVER

An analysis of the Group's turnover for the year is as follows:

	2016 RMB'000	2015 RMB'000
Revenue from construction contracts	623,205	545,393
Sales of goods	27,629	37,810
Other services rendered	70,780	75,363
	721,614	658,566

9. OTHER INCOME

	2016 RMB'000	2015 RMB'000
Government grants recognised *(note a)*	7,677	8,423
Interest income on bank deposits	363	842
Net foreign exchange gains	3,193	4,408
Reversal of allowance for trade and other receivables	156	3,075
Reversal of impairment loss on gross amount due from customers for contract work	–	5,970
Reversal of allowance for inventories	–	3,248
Others	2,057	3,655
	13,446	29,621

(a) For the year ended 31 December 2016, government grants of approximately RMB2,267,000 (2015: RMB3,884,000) are recognised in relation to compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs. Government grants of RMB5,410,000 (2015: RMB4,539,000) are recognised in relation to certain research and development activities.

10. SEGMENT INFORMATION

The Group has three reportable segments as follows:

(a) Provision of technical support and related services for oil and gas industry and sales of related equipment and materials.
(b) Fabrication of oil and gas facilities and oil and gas processing skid equipment.
(c) Provision of technical support services for shipbuilding industry.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The Group's other operating segment represents provision of undersea maintenance services for industries other than oil and gas and shipbuilding. This segment does not meet any of the quantitative thresholds for determining reportable segments. The information of this other operating segments is included in the "others" column.

The accounting policies of the reportable segments are the same as those described in note 4 to the consolidated financial statements. Segment profits or losses do not include other income, administrative expenses, other operating expenses, finance costs, share of profit of an associate and income tax expense. Segment assets do not include goodwill, investment in an associate, derivative financial instruments, current and deferred tax assets, pledged bank deposits, bank and cash balances and other corporate assets. Segment liabilities do not include bank borrowings, derivative financial instruments, current and deferred tax liabilities, deferred revenue, and other corporate liabilities.

10. SEGMENT INFORMATION (CONT'D)

Information about reportable segment profit or loss, assets and liabilities:

	Provision of technical support and related services for oil and gas industry and sales of related equipment and materials RMB'000	Fabrication of oil and gas facilities and oil and gas processing skid equipment RMB'000	Provision of technical support services for shipbuilding industry RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2016					
Turnover from external customers	89,965	591,259	31,946	8,444	721,614
Segment profit	9,802	99,656	8,285	3,996	121,739
Depreciation and amortisation	2,642	29,528	470	–	32,640
Other material non-cash items:					
Allowance for trade and other receivables	13	1,900	578	–	2,491
Impairment losses on gross amount due from customers for contract work	–	6,204	485	–	6,689
Additions to segment non-current assets	1,325	24,838	–	–	26,163
As at 31 December 2016					
Segment assets	45,186	900,761	15,310	7,562	968,819
Segment liabilities	31,142	185,606	3,873	1,723	222,344
Year ended 31 December 2015					
Turnover from external customers	113,172	501,139	44,255	–	658,566
Segment profit	22,954	101,656	4,159	–	128,769
Depreciation and amortisation	2,901	26,257	407	–	29,565
Other material non-cash items:					
Allowance for trade and other receivables	389	2,303	62	–	2,754
Reversal of impairment losses on gross amount due from customers for contract work	–	5,970	–	–	5,970
Reversal of allowance for trade receivables	–	3,075	–	–	3,075
Additions to segment non-current assets	1,933	40,127	21	–	42,081
As at 31 December 2015					
Segment assets	43,308	894,374	16,070	–	953,752
Segment liabilities	26,781	167,984	3,796	–	198,561

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10. SEGMENT INFORMATION (CONT'D)

Reconciliations of reportable segment profit or loss, assets and liabilities:

	2016 RMB'000	2015 RMB'000
Profit or loss		
Total profit or loss of reportable segments	121,739	128,769
Unallocated amounts:		
Finance costs	(8,547)	(10,358)
Other income	13,446	29,621
Other corporate expenses	(138,990)	(131,489)
Share of profit of an associate	29,608	17,872
Consolidated profit before tax for the year	17,256	34,415
Assets		
Total assets of reportable segments	968,819	953,752
Unallocated amounts:		
Bank and cash balances	100,535	58,486
Pledged bank deposits	43,527	22,141
Derivative financial instruments	176	926
Current tax assets	1,086	227
Deferred tax assets	282	765
Investment in an associate	337,794	308,186
Goodwill	202,327	191,084
Other corporate assets	41,658	47,127
Consolidated total assets	1,696,204	1,582,694
Liabilities		
Total liabilities of reportable segments	222,344	198,561
Unallocated amounts:		
Bank borrowings	213,628	131,476
Derivative financial instruments	–	2,356
Current tax liabilities	33	154
Deferred revenue	24,629	21,331
Deferred tax liabilities	35,422	30,871
Other corporate liabilities	19,606	40,450
Consolidated total liabilities	515,662	425,199

10. SEGMENT INFORMATION (CONT'D)

Geographical information:

The Group's turnover from external customers by location of customers and information about its non-current assets (excluding deferred tax assets) by location of assets are detailed below:

	Turnover		Non-current assets	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
PRC except Hong Kong	367,000	377,576	1,072,364	1,039,882
Singapore	187,143	116,412	–	–
Portugal	167,471	51,453	–	–
Netherlands	–	91,539	–	–
Other Asian Countries	–	221	–	–
Others	–	21,365	118	216
Consolidated total	721,614	658,566	1,072,482	1,040,098

Turnover from major customers:

	Provision of technical support and related services for oil and gas industry and sales of related equipment and materials RMB'000	Fabrication of oil and gas facilities and oil and gas processing skid equipment RMB'000	Provision of technical support services for shipbuilding industry RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2016					
Customer A	–	170,956	–	–	170,956
Customer B	–	95,922	–	–	95,922
Customer C	51,571	68,495	–	–	120,066
Customer D	21,936	23,757	29,956	–	75,649
Customer E	–	–	–	–	–
Year ended 31 December 2015					
Customer A	–	55,943	–	–	55,943
Customer B	–	25,914	–	–	25,914
Customer C	72,739	52,026	3,506	–	128,271
Customer D	25,563	48,525	34,572	–	108,660
Customer E	–	91,539	–	–	91,539

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11. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank borrowings	**7,999**	9,933
Amount capitalised	**(178)**	(521)
	7,821	9,412
Others	**726**	946
	8,547	10,358

The weighted average capitalisation rate on funds borrowed generally is at a rate of 5.1% per annum (2015: 5.7%).

12. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Current tax – PRC Enterprise Income Tax		
Provision for the year	**209**	157
Under/(over)-provision in prior years	**427**	(589)
	636	(432)
Deferred tax *(note 37)*	**5,034**	8,133
	5,670	7,701

(a) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax is required since the Group has no assessable profits arising in Hong Kong for the years ended 31 December 2016 and 2015.

(b) PRC Enterprise Income Tax

Pursuant to relevant laws and regulations in the PRC, the applicable PRC Enterprise Income Tax rates of the Group's PRC subsidiaries are as follows:

(i) Zhuhai Jutal Offshore Oil Services Company Limited ("Zhuhai Jutal")

Zhuhai Jutal was approved to recognise as a new and high technology enterprise in the PRC since the year ended 31 December 2010 and until year ending 31 December 2018 (the "Period"). Zhuhai Jutal is therefore entitled to enjoy a reduced income tax rate of 15% throughout the Period.

(ii) The tax rate applicable to other Group's PRC subsidiaries were 25% during the year.

(c) Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

12. INCOME TAX EXPENSE (CONT'D)

The reconciliation between the income tax expense and the product of (loss)/profit before tax multiplied by the PRC enterprise income tax rate is as follows:

	2016 RMB'000	2015 RMB'000
(Loss)/profit before tax (excluding share of profit of an associate)	(12,352)	16,543
Tax at the PRC enterprise income tax rate of 25% (2015: 25%)	(3,088)	4,136
Tax effect of income that is not taxable	(736)	(1,716)
Tax effect of expenses that are not deductible	9,033	6,364
Tax effect of tax losses not recognised	4,200	2,009
Deferred tax on undistributed earnings of the PRC subsidiaries and an associate	581	1,142
Tax benefit for qualifying research and development expenses	(3,894)	(3,005)
Under/(over)-provision in prior years	427	(589)
Effect of different tax rates of subsidiaries	(853)	(640)
Income tax expense	5,670	7,701

13. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

		2016 RMB'000	2015 RMB'000
(a)	Staff costs (including directors' emoluments):		
	Salaries, wages and other benefits	227,969	272,595
	Retirement scheme contributions	12,768	11,565
	Share-based payments	2,465	991
		243,202	285,151
(b)	Others items:		
	Amortisation of intangible assets@	1,150	1,176
	Depreciation	31,490	28,389
	Net loss on disposals of property, plant and equipment*	766	91
	Net foreign exchange gains#	(3,193)	(4,408)
	Operating lease charges		
	– Plant and equipment	9,574	7,757
	– Land and buildings	5,485	8,608
	Research and development expenditure	31,149	25,633
	Auditor's remuneration	1,097	1,061
	Cost of inventories utilised in construction contracts and sold	150,059	112,973
	Allowance for inventories*	598	–
	Reversal of allowance for inventories#	–	(3,248)
	Allowance for trade and other receivables*	2,491	2,754
	Reversal of allowance for trade and other receivables#	(156)	(3,075)
	Impairment loss on gross amount due from customers for contract work*	6,689	–
	Reversal of impairment loss on gross amount due from customers for contract work#	–	(5,970)
	Fair value loss on derivative financial instruments*	2,054	667

* *These amounts are included in "Other operating expenses"*

\# *These amounts are included in "Other income"*

@ *This amount is included in "Administrative expenses"*

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14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments of every director is set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking					
	Fees	Salaries and allowances	Discretionary bonus	Share-based payments	Retirement benefits scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Mr. Wang Lishan	**–**	**2,040**	**–**	**948**	**71**	**3,059**
Mr. Cao Yunsheng	**–**	**1,042**	**–**	**1,517**	**49**	**2,608**
Mr. Tang Hui *(note a)*	**–**	**633**	**–**	**–**	**41**	**674**
Mr. Li Jing *(note a)*	**–**	**574**	**–**	**–**	**41**	**615**
Mr. Zhao Wuhui *(note b)*	**–**	**109**	**–**	**–**	**8**	**117**
Mr. Li Chunyi *(note c)*	**–**	**48**	**–**	**–**	**–**	**48**
	–	**4,446**	**–**	**2,465**	**210**	**7,121**
Independent non-executive directors						
Mr. Su Yang	**120**	**–**	**–**	**–**	**–**	**120**
Mr. Xiang Qiang	**120**	**–**	**–**	**–**	**–**	**120**
Mr. Qi Daqing *(note d)*	**120**	**–**	**–**	**–**	**–**	**120**
	360	**–**	**–**	**–**	**–**	**360**
Total for 2016	**360**	**4,446**	**–**	**2,465**	**210**	**7,481**
Executive directors						
Mr. Wang Lishan	–	1,944	–	335	44	2,323
Mr. Cao Yunsheng	–	1,042	–	536	44	1,622
Mr. Zhao Wuhui *(note b)*	–	652	–	–	44	696
Mr. Li Chunyi *(note c)*	–	414	–	–	–	414
Mr. Chen Guocai *(note e)*	–	174	–	–	7	181
	–	4,226	–	871	139	5,236
Independent non-executive directors						
Mr. Su Yang	120	–	–	–	–	120
Mr. Xiang Qiang	120	–	–	–	–	120
Mr. Qi Daqing *(note d)*	50	–	–	–	–	50
Mr. Lan Rong *(note f)*	70	–	–	–	–	70
Mr. Meng Liming *(note g)*	70	–	–	–	–	70
Mr. Gao Liangyu *(note h)*	–	–	–	–	–	–
	430	–	–	–	–	430
Total for 2015	430	4,226	–	871	139	5,666

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONT'D)

(a) Directors' emoluments (cont'd)

Notes:

(a) Mr. Tang Hui and Mr. Li Jing were appointed as executive directors on 1 March 2016.

(b) Mr. Zhao Wuhui resigned as executive director on 1 March 2016.

(c) Mr. Li Chunyi was appointed as executive director on 20 March 2015 and resigned on 1 March 2016.

(d) Mr. Qi Daqing was appointed as independent non-executive director on 31 July 2015.

(e) Mr. Chen Guocai resigned as executive director on 20 March 2015.

(f) Mr. Lan Rong resigned as independent non-executive director on 31 July 2015.

(g) Mr. Meng Liming was appointed as independent non-executive director on 1 January 2015 and resigned on 31 July 2015.

(h) Mr. Gao Liangyu resigned as independent non-executive director on 1 January 2015.

Save as disclosed above, there was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 December 2016 and 2015.

(b) Employees' emoluments

The five highest paid individuals in the Group during the year included two (2015: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2015: two) individuals are set out below:

	2016 RMB'000	2015 RMB'000
Basic salaries and allowances	3,449	1,636
Discretionary bonus	–	–
Share-based payments	–	–
Retirement benefits scheme contributions	48	89
	3,497	1,725

The emoluments of these remaining three (2015: two) individuals fell within the following band:

	Number of individuals	
	2016	2015
HK$500,001 to HK$1,000,000 (approximately RMB425,001 to RMB850,000)	–	1
HK$1,000,001 to HK$1,500,000 (approximately RMB850,001 to RMB1,275,000)	2	1
HK$1,500,001 to HK$2,000,000 (approximately RMB1,275,001 to RMB1,700,000)	1	–

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

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14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONT'D)

(c) Directors' material interests in transactions, arrangements or contracts

Pursuant to a master service agreement dated 2 December 2014 made between the Company and Dalian Shipbuilding Industry Offshore Company Limited ("Dalian Shipbuilding Offshore"), Dalian Shipbuilding Offshore agrees to engage the Group to provide construction support services including constructions and other agreed services. Contract revenue and other sales income received/receivable from Dalian Shipbuilding Offshore was amounted to approximately RMB46,670,000 for the year ended 31 December 2016 (2015: RMB67,964,000). Mr. Wang Lishan, an executive director of the Company, is interested in this transaction to the extent that Dalian Shipbuilding Offshore is an associate of Prospering Investments Limited, a Company beneficially wholly-owned by Mr. Wang Lishan.

Save for contracts amongst group companies and the aforementioned transaction, no other significant transactions, arrangements and contracts to which the Company was a party and in which a director of the Company and other director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

15. DIVIDENDS

	2016 RMB'000	2015 RMB'000
2015 final dividend of HK$0.01 (2015: 2014 final dividend of HK$0.01) per ordinary share	6,803	6,403

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

16. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

	2016 RMB'000	2015 RMB'000
Earnings		
Earnings for the purpose of calculating basic and diluted earnings per share	11,586	26,714

	2016	2015
Number of shares		
Issued ordinary shares at 1 January	800,354,278	800,154,278
Effect of shares issued on exercise of share options	–	135,890
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	800,354,278	800,290,168
Effect of dilutive potential ordinary shares arising from share options	–	218,184
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	800,354,278	800,508,352

Basic earnings per share attributable to owners of the Company is calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of the ordinary shares in issue during the year.

Diluted earnings per share attributable to owners of the Company is calculated by dividing the profit attributable to owners of the Company for the year by the weighted average number of ordinary shares in issue during the year after adjusting for the number of diluted potential ordinary shares granted under the Company's share option scheme.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Leasehold land RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2015	261,241	88,899	22,554	20,014	231,182	2,929	626,819
Additions	–	9,766	1,285	496	–	29,349	40,896
Reclassification	6,991	–	–	–	–	(6,991)	–
Disposals	(724)	(280)	(7)	(2,200)	–	–	(3,211)
Exchange realignment	–	17	11	27	–	–	55
At 31 December 2015 and 1 January 2016	267,508	98,402	23,843	18,337	231,182	25,287	664,559
Additions	–	16,082	3,072	291	–	5,969	25,414
Reclassification	30,233	–	–	–	–	(30,233)	–
Disposals	(2,213)	(315)	(15)	–	–	–	(2,543)
Exchange realignment	–	21	14	35	–	–	70
At 31 December 2016	295,528	114,190	26,914	18,663	231,182	1,023	687,500
Accumulated depreciation							
At 1 January 2015	28,654	30,468	12,883	14,415	14,957	–	101,377
Charge for the year	9,012	8,896	3,488	1,941	5,052	–	28,389
Disposals	–	(18)	(4)	(2,200)	–	–	(2,222)
Exchange realignment	–	17	11	16	–	–	44
At 31 December 2015 and 1 January 2016	37,666	39,363	16,378	14,172	20,009	–	127,588
Charge for the year	11,447	10,378	2,930	1,683	5,052	–	31,490
Disposals	(448)	(148)	(13)	–	–	–	(609)
Exchange realignment	–	20	14	27	–	–	61
At 31 December 2016	48,665	49,613	19,309	15,882	25,061	–	158,530
Carrying amount							
At 31 December 2016	246,863	64,577	7,605	2,781	206,121	1,023	528,970
At 31 December 2015	229,842	59,039	7,465	4,165	211,173	25,287	536,971

At 31 December 2016 the carrying amount of property, plant and equipment pledged as security for the Group's bank borrowings amounted to approximately RMB11,596,000 (2015: Nil).

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18. PREPAID LAND LEASE PAYMENTS

The Group's interests in prepaid land lease payments represent prepaid operating lease payments and their net book value are analysed as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	482	547
Amortisation of prepaid land lease payments	(65)	(65)
At 31 December	417	482

19. GOODWILL

	RMB'000
Cost and carrying amount	
At 1 January 2015	182,090
Exchange difference	8,994
At 31 December 2015 and 1 January 2016	191,084
Exchange difference	11,243
At 31 December 2016	202,327

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	2016 RMB'000	2015 RMB'000
Offshore oil and natural gas exploration facilities fabrication business	200,123	188,880
Undersea maintenance services	2,204	2,204
At 31 December	202,327	191,084

As at 31 December 2016 and 31 December 2015, no impairment loss on goodwill is recognised.

The recoverable amounts of the CGUs have been determined on the basis of their value in use using discounted cash flow method. The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates, budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the business of the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 5% (2015: 5%) and 3% (2015: 3%) for the Group's offshore oil and natural gas exploration facilities fabrication business and undersea maintenance services activities respectively. These rates do not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from the Group's offshore oil and natural gas exploration facilities fabrication business and undersea maintenance services activities are 12.26% (2015: 11.62%) and 18.88% (2015: 17.31%) respectively.

20. INTANGIBLE ASSETS

	Patents and computer software RMB'000
Cost	
At 1 January 2015	8,354
Additions	1,185
At 31 December 2015 and 1 January 2016	**9,539**
Additions	**749**
At 31 December 2016	**10,288**
Accumulated amortisation	
At 1 January 2015	4,988
Amortisation for the year	1,176
At 31 December 2015 and 1 January 2016	**6,164**
Amortisation for the year	**1,150**
At 31 December 2016	**7,314**
Carrying amount	
At 31 December 2016	**2,974**
At 31 December 2015	3,375

The Group's patents and computer software protect the design and specification of certain type of the Group's products and services. The average remaining amortisation period of patents and computer software are 4.7 years (2015: 5 years).

21. SUBSIDIARIES

Particulars of the Group's major subsidiaries as at 31 December 2016 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing Direct	Indirect	Principal activities
Directly held:					
Jutal Investment Limited	British Virgin Islands	5 ordinary shares of US$1 each	100%	–	Investment holding
Indirectly held:					
Jutal Engineering Company Limited	Hong Kong	2 ordinary shares	–	100%	Provision of technical support and related services for oil and gas industry and sale of related equipment and materials
Jutal Holdings Limited	British Virgin Islands	2 ordinary shares of US$1 each	–	100%	Investment holding
Hong Kong Jutal Holdings Limited	Hong Kong	157,045,432 ordinary shares	–	100%	Investment holding

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21. SUBSIDIARIES (CONT'D)

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing Direct	Indirect	Principal activities
Indirectly held: (cont'd)					
Stand Success Resources Limited	British Virgin Islands	1 ordinary share of US$1	–	100%	Investment holding
巨濤油田服務(天津)有限公司* (Jutal Oilfield Services (Tianjin) Company Limited)	PRC	Registered capital of HK$10,000,000	–	100%	Provision of technical support and related services for oil and gas industry and sale of related equipment and materials
深圳巨濤機械設備有限公司* (Shenzhen Jutal Machinery Equipment Company Limited)	PRC	Registered capital of RMB200,000,000	–	100%	Fabrication of oil and gas facilities and oil and gas processing skid equipment, provision of technical supporting and related services for oil and gas industry and sale of related equipment and materials and provision of technical support services for shipbuilding industry
珠海巨濤海洋石油服務有限公司 (Zhuhai Jutal Offshore Oil Services Company Limited)	PRC	Registered capital of RMB304,000,000	–	100%	Fabrication of oil and gas processing skid equipment
巨濤海洋船舶工程服務(大連)有限公司# (Jutal Offshore Shipbuilding Services (Dalian) Company Limited)	PRC	Registered capital of HK$33,330,000	–	100%	Provision of technical support services for shipbuilding industry
成都巨濤油氣工程有限公司 (Chengdu Jutal Oil and Gas Engineering Co., Ltd.)	PRC	Registered capital of RMB10,000,000	–	100%	Fabrication of oil and gas facilities and oil and gas processing skid equipment and provision of technical support and related services for oil and gas industry
深圳市藍海潛水工程有限公司 (Shenzhen Marine Diving Engineering Co., Ltd.)	PRC	Registered capital of RMB20,000,000	–	100%	Provision of undersea maintenance services

* *Registered as a wholly-foreign-owned enterprise established in the PRC*

\# *Registered as a sino-foreign equity joint venture established in the PRC*

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

As at 31 December 2016, the bank and cash balances of the Group's subsidiaries in the PRC denominated in RMB amounted to approximately RMB100,151,000 (2015: RMB55,961,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

22. INVESTMENT IN AN ASSOCIATE

	2016 RMB'000	2015 RMB'000
Unlisted investments:		
Share of net assets	337,794	308,186

Details of the Group's associate at 31 December 2016 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing
Penglai Jutal Offshore Engineering Heavy Industries Company Limited (蓬萊巨濤海洋工程重工有限公司)	PRC	Registered capital of US$43,500,000	30%

Principal activities:

(a) Sales and construction of (i) offshore oil and natural gas exploration facilities; (ii) quayside machineries and (iii) chemical engineering facilities;

(b) Design, fabrication, installation and repair of steel formation structures; and

(c) Provision of other quayside and warehouse services.

Penglai Jutal is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented in the below is based on the HKFRS financial statements of Penglai Jutal.

	2016 RMB'000	2015 RMB'000
At 31 December		
Non-current assets	963,304	994,002
Current assets	1,501,731	916,038
Non-current liabilities	(264,230)	(85,660)
Current liabilities	(1,074,826)	(797,094)
Net assets	1,125,979	1,027,286
Group's share of net assets	337,794	308,186

	2016 RMB'000	2015 RMB'000
Year ended 31 December		
Turnover	1,599,740	1,469,770
Profit from continuing operations	98,693	59,574
Other comprehensive income	–	–
Total comprehensive income	98,693	59,574
Dividends received from the associate	–	–

As at 31 December 2016, the bank and cash balances of the Group's associate in the PRC denominated in RMB amounted to approximately RMB446,953,000 (2015: RMB169,192,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

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23. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**24,392**	25,618

During the year ended 31 December 2015, certain slow-moving raw materials were used in the Group's construction contracts, allowance made in prior years against these inventories of approximately RMB3,248,000 was reversed in the same year.

24. TRADE AND BILLS RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**211,030**	146,506
Allowance for doubtful debts	**(7,510)**	(5,019)
	203,520	141,487
Bills receivables	**11,254**	23,100
	214,774	164,587

The Group's trade receivables mainly represent progress billings receivables from contract customers.

The Group's trading terms with contract customers are mainly on credit. The credit terms other than retentions receivables generally range from 30 to 90 days. The credit terms for retentions receivables generally range from 12 to 24 months after completion of the contracts. Application for progress payment of contract works is made on a regular basis. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The ageing analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	2016 RMB'000	2015 RMB'000
0 to 30 days	**80,655**	71,522
31 to 90 days	**47,481**	37,171
91 to 365 days	**50,121**	10,949
Over 365 days	**25,263**	21,845
	203,520	141,487

As at 31 December 2016, trade receivables aged over 90 days includes retentions receivables amounted to approximately RMB12,828,000 (2015: RMB12,610,000).

At 31 December 2016, bills receivables of RMB10,000,000 (2015: RMB18,600,000) were pledged to banks to secure certain bank borrowings.

24. TRADE AND BILLS RECEIVABLES (CONT'D)

As at 31 December 2016, an allowance was made for estimated irrecoverable trade receivables of approximately RMB7,510,000 (2015: RMB5,019,000). The reconciliation of allowance for trade receivables is as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	5,019	7,463
Allowance for the year	2,491	2,754
Reversal	–	(3,065)
Amounts written off	–	(2,133)
At 31 December	7,510	5,019

As of 31 December 2016, trade receivables of approximately RMB55,175,000 (2015: RMB23,910,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2016 RMB'000	2015 RMB'000
Up to 3 months	39,251	5,483
3 to 6 months	4,578	3,943
Over 6 months	11,346	14,484
	55,175	23,910

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

	2016 RMB'000	2015 RMB'000
RMB	131,682	131,277
US$	56,436	27,610
Euro	23,436	5,700
HK$	3,220	–
Total	214,774	164,587

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25. GROSS AMOUNT DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	2016 RMB'000	2015 RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	**973,091**	1,059,068
Less: Progress billings	**(806,273)**	(885,777)
Add: Exchange differences	**4,533**	193
	171,351	173,484
Gross amount due from customers for contract work	**186,820**	189,967
Gross amount due to customers for contract work	**(15,469)**	(16,483)
	171,351	173,484

In respect of construction contracts in progress at the end of the reporting period, retentions receivables included in trade and bills receivables amounted to approximately RMB13,918,000 (2015: RMB12,931,000). Retentions receivables expected to be recovered after more than twelve months amounted to approximately RMB6,816,000 (2015: Nil).

Advances received in respect of construction contracts amounted to approximately RMB720,000 at 31 December 2016 (2015: RMB8,369,000) and is included in accruals and other payables.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments	**18,872**	42,119
Deposits	**3,645**	3,972
Other receivables	**28,894**	34,390
	51,411	80,481
Less: Allowance for other receivables	**(1,991)**	(2,147)
	49,420	78,334

As at 31 December 2016, an allowance was made for estimated irrecoverable other receivables of approximately RMB1,991,000 (2015: RMB2,147,000). The reconciliation of allowance for other receivables is as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**2,147**	2,157
Reversal	**(156)**	(10)
At 31 December	**1,991**	2,147

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2016 RMB'000	2015 RMB'000
Financial assets		
Derivatives not under hedge accounting:		
Foreign currency forward	176	926
Financial liabilities		
Derivatives not under hedge accounting:		
Foreign currency forward	–	2,356

At 31 December 2016, the Group had outstanding foreign currency forward contracts mainly to hedge the foreign currency risk arising from certain of its contract revenue and trade receivables denominated in Euro (2015: Euro and US$). The maximum notional principal amounts of these outstanding foreign currency forward contracts at 31 December 2016 were as follows:

	2016 RMB'000	2015 RMB'000
Sell US$ for RMB	–	182,724
Sell Euro for RMB	11,483	71,428

The carrying amounts of the foreign currency forward contracts are the same as their fair value. The above transactions involving derivative financial instruments are conducted with commercial banks with high credit-ratings assigned by international credit-rating agencies.

The Group did not fulfill the conditions of hedging relationship under the stringent and comprehensive documentation requirements as defined in HKAS 39 "Financial Instruments: Recognition and Measurement" and the foreign currency forward contracts are measured at fair value through profit or loss.

The net change in the fair value of all of the non-hedging foreign currency forward contracts amounting to approximately RMB2,054,000 (2015: RMB667,000) was charged to the profit or loss for the year ended 31 December 2016.

28. DUE FROM DIRECTORS

Due from directors represents cash advanced to directors and have the following terms and conditions:

Name	Terms	Balance at 31 December 2016 RMB'000	Balance at 1 January 2016 RMB'000	Maximum amount outstanding during the year RMB'000
Mr. Wang Lishan	Unsecured, interest-free and no fixed repayment terms	882	777	1,121
Mr. Cao Yunsheng	Unsecured, interest-free and no fixed repayment terms	682	370	682
Mr. Tang Hui	Unsecured, interest-free and no fixed repayment terms	553	–	553
Mr. Li Jing	Unsecured, interest-free and no fixed repayment terms	593	–	593
		2,710	1,147	

Amounts due from directors represents cash advance to directors to be used for the Group's daily operation.

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29. DUE FROM AN ASSOCIATE

The amount due from an associate is unsecured, interest-free and has no fixed repayment terms.

30. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group as set out in note 35 to the consolidated financial statements.

The carrying amounts of the Group's pledged bank deposits and bank and cash balances are denominated in the following currencies:

	2016 RMB'000	2015 RMB'000
RMB	100,151	55,961
HK$	2,714	1,162
US$	40,523	8,516
Euro	601	14,919
Others	73	69
	144,062	80,627

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

31. TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	175,125	115,833
Bills payables	–	25,457
	175,125	141,290

The ageing analysis of trade payables, based on the date of receipt of goods and services, is as follows:

	2016 RMB'000	2015 RMB'000
0 to 30 days	63,842	64,535
31 to 90 days	39,708	21,423
91 to 365 days	57,991	20,835
Over 365 days	13,584	9,040
	175,125	115,833

The carrying amounts of the Group's trade and bills payables are denominated in the following currencies:

	2016 RMB'000	2015 RMB'000
RMB	174,547	137,729
US$	578	3,561
Total	175,125	141,290

32. ACCRUALS AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Accrued staff salaries	**29,673**	29,440
Receipt in advances	**720**	8,369
Other payables	**13,041**	25,555
Payables for purchases of property, plant and equipment	**4,161**	12,249
Others	**1,895**	2,567
	49,490	78,180

33. WARRANTY PROVISIONS

	2016 RMB'000	2015 RMB'000
At 1 January	**3,058**	2,701
Additional provisions	**209**	357
Reversal of provisions	**(1,401)**	–
Provisions used	**–**	–
At 31 December	**1,866**	3,058

The warranty provision represents the Group's best estimate of the Group's liability under 18 - 60 months warranties granted to its customers in relation to certain fabrication of oil and gas facilities and oil and gas processing skid equipment contracts, under which defective works are rectified or replaced.

The amount of the warranty provision is estimated based on the industry average of the level of defective works and the estimation basis is reviewed on an ongoing basis and revised where appropriate.

34. BANK BORROWINGS

	2016 RMB'000	2015 RMB'000
Bank borrowings	**213,628**	131,476

The bank borrowings are repayable as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**206,760**	127,600
Portion of bank borrowings that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	**6,868**	3,876
	213,628	131,476
Less: Amount due for settlement within 12 months(shown under current liabilities)	**(213,628)**	(131,476)
Amount due for settlement after 12 months	**–**	–

The carrying amounts of the Group's bank borrowings are denominated in RMB.

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34. BANK BORROWINGS (CONT'D)

The average interest rate of the Group's bank borrowings at 31 December 2016 was 4.65% (2015: 5.32%) per annum.

Bank borrowings of approximately RMB181,760,000 (2015: RMB87,600,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Other bank borrowings were arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

Bank borrowings of approximately RMB16,628,000 (2015: RMB18,600,000) are secured by a charge over the Group's property, plant and equipment (note 17) and bills receivables (note 24) respectively. (2015: secured by a charge over the Group's bills receivables).

35. BANKING FACILITIES

At 31 December 2016, the Group had approximately RMB217,459,000 (2015: RMB417,856,000) of available undrawn banking facilities. Available undrawn banking facilities include bank loans, letters of credit, bank guarantees, etc. The Group's banking facilities are secured by:

(a) Pledges of the Group's property, plant and equipment (note 17), bills receivables (note 24) and bank deposits (note 30) respectively; and

(b) Corporate guarantees executed by the Company and three of its subsidiaries.

As at 31 December 2016, the Group had obtained bank guarantees under performance bonds for construction contracts of approximately RMB77,508,000 (2015: RMB44,118,000).

36. DEFERRED REVENUE

		2016 RMB'000	2015 RMB'000
At 1 January		**21,331**	8,000
Addition during the year		**8,708**	17,870
Recognised as income and included in the Group's other income		**(5,410)**	(4,539)
At 31 December		**24,629**	21,331
Represented by:	*Notes*		
Government grant A	*(i)*	**11,696**	15,598
Government grant B	*(ii)*	**12,933**	5,733
At 31 December		**24,629**	21,331
Analysed as:			
Non-current liabilities		**24,629**	21,331

Notes:

(i) The government grant was in relation to a development project commenced during the year ended 31 December 2014. The development project includes certain research and development activities, construction of production premises and acquisition of plant and machineries, in a parcel of leasehold land with site area of 77,650 square meters located in the Equipment Manufacture Area of Gaolan Port Economic Zone in Zhuhai Province in the PRC.

The grant is recognised as deferred revenue and a portion of the deferred revenue will be credited to profit or loss on a straight-line basis over the useful lives of the related assets when the assets are ready for management's intended used. The remaining portion will be credited to profit or loss when the related research and development activities are successfully completed. The Group has an obligation to repay the grant if the grant is not utilised for the development project. Deferred revenue of approximately RMB3,902,000 was transferred to profit or loss for the year ended 31 December 2016 (2015: RMB3,902,000).

(ii) During the year, the Group received approximately RMB8,708,000 (2015: RMB6,370,000) government grants in relation to certain development projects, including construction of certain production premises and acquisition of certain plant and machineries.

The grants are recognised as deferred revenue and the deferred revenue will be credited to profit or loss on a straight-line basis over the useful lives of the related assets when the assets are ready for management's intended used. Deferred revenue of approximately RMB1,508,000 was transferred to profit or loss for the year ended 31 December 2016 (2015: RMB637,000).

37. DEFERRED TAX

The following are the deferred tax liabilities and assets recognised by the Group.

	Accelerated tax depreciation RMB'000	Investment in an associate RMB'000	Recognition of contracting income RMB'000	Undistributed earnings of the PRC subsidiaries RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	2,169	18,690	7,561	2,009	(3,060)	(5,396)	21,973
Charge to profit or loss for the year *(note 12)*							
– Changes in temporary differences	(118)	1,051	5,424	91	2,077	(392)	8,133
At 31 December 2015 and 1 January 2016	**2,051**	**19,741**	**12,985**	**2,100**	**(983)**	**(5,788)**	**30,106**
Charge to profit or loss for the year *(note 12)*							
– Changes in temporary differences	**2,184**	**930**	**2,948**	**(349)**	**983**	**(1,662)**	**5,034**
At 31 December 2016	**4,235**	**20,671**	**15,933**	**1,751**	**–**	**(7,450)**	**35,140**

The following is the analysis of the deferred tax balances (after offset) for statement of financial position purposes:

	2016 RMB'000	2015 RMB'000
Deferred tax liabilities	**35,422**	30,871
Deferred tax assets	**(282)**	(765)
	35,140	30,106

At the end of reporting period the Group has unused tax losses of approximately RMB43,381,000 (2015: RMB31,056,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB16,802,000, RMB8,037,000, RMB4,420,000, RMB389,000 that can be carried forward by five years, four years, three years and two year respectively. Other tax losses may be carried forward indefinitely (2015: Included in unrecognised tax losses are losses of approximately RMB8,037,000, RMB4,420,000, RMB389,000 and RMB21,000 that can be carried forward by five years, four years, three years and one year respectively. Other tax losses may be carried forward indefinitely).

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately RMB1,751,000 (2015: RMB2,100,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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38. SHARE CAPITAL

	Number of Shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.01 (2015: HK$0.01) each		
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	**1,500,000,000**	**15,000**

	Note	Number of Shares	Amount HK$'000	Equivalent to Amount RMB'000
Issued and fully paid:				
Ordinary shares of HK$0.01 (2015: HK$0.01) each				
At 1 January 2015		800,154,278	8,002	7,504
Exercise of share options	*(a)*	200,000	2	2
At 31 December 2015, 1 January 2016 and 31 December 2016		**800,354,278**	**8,004**	**7,506**

Notes:

(a) *Share options were exercised by option holders during the year ended 31 December 2015 to subscribe for a total of 200,000 ordinary shares in the Company at total consideration of approximately HK$212,000 equivalent to approximately RMB170,000 of which approximately RMB2,000 was credited to share capital and the balance of approximately RMB168,000 was credited to the share premium account. Approximately RMB71,000 has been transferred from the share-based payment reserve to the share premium account.*

(b) *On 7 July 2014, the Company and not less than six independent entered into a warrants subscription agreement in respect of subscription of 20,000,000 warrants of HK$0.01 each to the independent investors. Each warrant entitle the holder to subscribe for one new ordinary share of the Company at subscription price of HK$2.1 at any time during a period from the seventh months to thirty-sixth months commencing from the date of issue of the warrants. The subscription was completed on 23 July 2014 and the proceeds on the issue of warrants, amounting to approximately RMB160,000, net of warrant issue expenses, was credited to the Company's warrants reserve account.*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital using a gearing ratio, which is bank borrowings divided by total equity of the Group. The Group's policy is to keep the gearing ratio at a reasonable level.

38. SHARE CAPITAL (CONT'D)

The gearing ratio as at the 31 December 2016 is as follows:

	2016 RMB'000	2015 RMB'000
Bank borrowings	**213,628**	131,476
Total equity	**1,180,542**	1,157,495
Gearing ratio	**18.10%**	11.36%

The increase in gearing ratio from year 2015 resulted primarily from increase of bank borrowings. The Group adjusts the amount of bank borrowings from time to time to meet the Group's working capital requirement.

The externally imposed capital requirement for the Group is in order to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares.

The Group receives a report from the share registrars weekly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2016, 48.91% (2015: 48.91%) of the shares were in public hands.

39. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The first option scheme was effective on 21 September 2006 and was ended during the year ended 31 December 2016.

On 8 June 2016, a new share option scheme (the "New Scheme") was adopted by the shareholders of the Company pursuant to the shareholder's resolution. Under the New Scheme, the Board of Directors of the Company may grant options to eligible participants. Eligible participants include the full time and part-time employees, directors (including independent non-executive directors), substantial shareholders of each member of the Group, associates of the directors and substantial shareholders of any member of the Group, trustee of any trust pre-approved by the Board; and any advisor (professional or otherwise), consultant, distributor, supplier, agent, customer, joint venture partner, service provider to the Group whom the Board considers, in its sole discretion, has contributed or contributes to the Group. The New Scheme unless otherwise cancelled or amended, will remain in force for 10 years from 8 June 2016.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of shares options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or Substantial Shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors (excluding an independent non-executive Director who is the Grantee of the Options). In addition, any share options granted to a Substantial Shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to Shareholders' approval in advance in a general meeting.

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For the year ended 31 December 2016

39. SHARE-BASED PAYMENTS (CONT'D)

Equity-settled share option scheme (cont'd)

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of the offer of the share options.

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

Details of the specific categories of options are as follows:

	Date of grant	Vesting period	Exercise period	Exercise price HK$
2007A	16 March 2007	16 March 2007 to 15 March 2008	16 March 2008 to 15 March 2017	1.68
2007B	16 March 2007	16 March 2007 to 15 March 2009	16 March 2009 to 15 March 2017	1.68
2008A	12 March 2008	12 March 2008 to 11 March 2009	12 March 2009 to 11 March 2018	1.62
2008B	12 March 2008	12 March 2008 to 11 March 2010	12 March 2010 to 11 March 2018	1.62
2009A	14 August 2009	14 August 2009 to 13 August 2010	14 August 2010 to 13 August 2019	0.92
2009B	14 August 2009	14 August 2009 to 13 August 2011	14 August 2011 to 13 August 2019	0.92
2010A	27 May 2010	27 May 2010 to 26 May 2013	27 May 2013 to 26 May 2020	0.93
2010B	27 May 2010	27 May 2010 to 26 May 2014	27 May 2014 to 26 May 2020	0.93
2010C	27 May 2010	27 May 2010 to 26 May 2015	27 May 2015 to 26 May 2020	0.93
2011A	23 May 2011	23 May 2011 to 22 May 2013	23 May 2013 to 22 May 2021	1.06
2011B	23 May 2011	23 May 2011 to 22 May 2014	23 May 2014 to 22 May 2021	1.06
2015A	29 July 2015	29 July 2015 to 28 July 2017	29 July 2017 to 28 July 2025	0.86
2015B	29 July 2015	29 July 2015 to 28 July 2018	29 July 2018 to 28 July 2025	0.86
2016A	14 October 2016	14 October 2016 to 13 October 2018	14 October 2018 to 13 October 2026	0.68
2016B	14 October 2016	14 October 2016 to 13 October 2019	14 October 2019 to 13 October 2026	0.68

If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group.

39. SHARE-BASED PAYMENTS (CONT'D)

Equity-settled share option scheme (cont'd)

Details of the share options outstanding during the year are as follows:

	2016		2015	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at the beginning of the year	27,850,000	1.13	19,750,000	1.35
Granted during the year	13,000,000	0.68	13,000,000	0.86
Forfeited during the year	(400,000)	1.06	(4,700,000)	1.29
Exercised during the year	–	–	(200,000)	1.06
Outstanding at the end of the year	40,450,000	0.99	27,850,000	1.13
Exercisable at the end of the year	14,450,000	1.38	14,850,000	1.37

The options outstanding at the end of the year have a weighted average remaining contractual life of 6.6 years (2015: 6.1 years) and the exercise price ranges from HK$0.68 to HK$1.68 (2015: HK$0.86 to HK$1.68).

In 2016, options were granted on 14 October 2016. The estimated fair value of the options on this date is approximately HK$4,604,000 (equivalent to RMB3,913,000). This estimated fair value was calculated using the Binomial Option-pricing model. The inputs into the model are as follows:

	2016
Number of share options granted	13,000,000
Grant date share price	HK$0.65
Expected volatility	65.06%
Expected life	10 years
Risk free rate	1.04%
Expected dividend yield	1.42%

Expected volatility was determined by calculating the historical volatility of the Company's share price since its Initial Public Offerings to the valuation date. The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Investments in a subsidiary		468,003	423,453
Current assets			
Prepayments, deposits and other receivables		305	288
Due from subsidiaries		552,488	542,649
Bank and cash balances		1,247	503
		554,040	543,440
Current liabilities			
Accruals and other payables		1,191	1,096
Due to subsidiaries		43,276	43,901
Financial guarantee contract liability		27,448	40,709
		71,915	85,706
Net current assets		482,125	457,734
NET ASSETS		950,128	881,187
Capital and reserves			
Share capital		7,506	7,506
Reserves	*41(b)*	942,622	873,681
TOTAL EQUITY		950,128	881,187

The Company's statement of financial position was approved by the Board of Directors on 31 March 2017 and signed on its behalf by:

Wang Lishan
Chairman

Cao Yunsheng
Director

41. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Company

	Share premium account RMB'000	Convertible loan notes equity reserve RMB'000	Foreign currency translation reserve RMB'000	Share-based payment reserve RMB'000	Warrants reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2015	851,024	2,951	(94,773)	6,132	160	47,814	6,401	819,709
Share-based payments	–	–	–	991	–	–	–	991
Issue of shares on exercise of share options *(note 38(a))*	239	–	–	(71)	–	–	–	168
Share options forfeited	–	–	–	(1,527)	–	1,527	–	–
Total comprehensive income for the year	–	–	39,162	–	–	20,054	–	59,216
Dividends paid	–	–	–	–	–	(2)	(6,401)	(6,403)
2015 proposed final dividend	–	–	–	–	–	(6,723)	6,723	–
At 31 December 2015 and 1 January 2016	851,263	2,951	(55,611)	5,525	160	62,670	6,723	873,681
Share-based payments	–	–	–	2,465	–	–	–	2,465
Share options forfeited	–	–	–	(131)	–	131	–	–
Total comprehensive income for the year	–	–	53,193	–	–	20,086	–	73,279
Dividends paid	–	–	–	–	–	(80)	(6,723)	(6,803)
At 31 December 2016	851,263	2,951	(2,418)	7,859	160	82,807	–	942,622

(c) Nature and purpose of reserves

(i) Share premium account

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Share-based payment reserve

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to directors and employees of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 4(v) to the consolidated financial statements.

(iii) Special reserve

The special reserve represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof pursuant to the reorganisation as set out in the prospectus of the Company dated 11 September 2006.

(iv) Statutory reserves

The statutory reserves, which are non-distributable, are appropriated from the profit after taxation of the Group's PRC subsidiaries under the applicable laws and regulations in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

41. RESERVES (CONT'D)

(c) Nature and purpose of reserves (cont'd)

(v) *Foreign currency translation reserve*

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(d)(iii) to the consolidated financial statements.

(vi) *Convertible loan notes equity reserve*

The convertible loan notes equity reserve represents the value of the unexercised equity component of convertible notes issued by the Company and was recognised from the difference between the proceeds of issue of the convertible loans and the fair value assigned to the liability component.

(vii) *Warrants reserve*

Warrants reserve represents fair value of consideration received from the subscription of warrants as details in note 38(b). It is transferred to share premium account when the warrant is exercised or released directly to retained profits when the warrant is expired.

42. CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any significant contingent liabilities (2015: Nil).

43. CAPITAL COMMITMENTS

Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

	2016 RMB'000	2015 RMB'000
Property, plant and equipment	577	11,081

44. LEASE COMMITMENTS

At 31 December 2016 the total future minimum lease payments under non-cancellable operating leases of which the Group as lessee are payable as follows:

	2016 RMB'000	2015 RMB'000
Within one year	1,976	4,522
In the second to fifth years, inclusive	3,500	1,185
After five years	10,411	564
	15,887	6,271

Operating lease payments represent rentals payable by the Group for certain of its office, staff quarters, warehouses, machineries and motor vehicles. Leases are negotiated for an average term of 3 years and rentals are fixed over the lease terms and do not include contingent rentals.

45. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year:

	Note	2016 RMB'000	2015 RMB'000
Contract revenue received/receivable from an associate, Penglai Jutal		**1,328**	5,593
Contract revenue and other sales income received/receivable from a related company, Dalian Shipbuilding Offshore	*(a)*	**46,670**	67,964

(a) Dalian Shipbuilding Offshore is an associate of Prospering Investments Limited, a Company beneficially wholly-owned by Mr. Wang Lishan, the chairman of the Company, an executive director and is the ultimate controlling party of the Company. At 31 December 2016, contract revenue receivable of approximately RMB2,596,000 (2015: RMB6,817,000) from Dalian Shipbuilding Offshore was included in the Group's trade and bills receivables.

The related party transactions with Dalian Shipbuilding Offshore constitute as continuing connected transactions as defined in Chapter 14A of the Listing Rules, further details of which are included in the Directors' Report on pages 26 to 27.

46. EVENTS AFTER THE REPORTING PERIOD

On 15 March 2017, the Company and two independent subscribers (the "Subscribers") entered into a subscription agreement pursuant to which the Company has conditionally agreed to allot and issue and the Subscribers have conditionally agreed to subscribe for an aggregate of 803,562,111 subscription shares of the Company at subscription price of HK$1.2 per subscription share (the "Subscription").

As at the date of these consolidated financial statements, the Subscription has not yet been completed. The completion of the Subscription is subjected to certain conditions and subjected to the approval from the independent shareholders of the Company at the extraordinary general meeting. Details of the Subscription are set out in the Company's announcement of 21 March 2017.

FINANCIAL SUMMARY

(All amounts in RMB'000 unless otherwise stated)

SUMMARY OF FINANCIAL DATA ANNOUNCED IN PREVIOUS FIVE YEARS

INCOME STATEMENT

	For the year ended 31 December				
	2012	2013	2014	2015	**2016**
Turnover	608,614	889,827	950,881	658,566	**721,614**
Profit for the year attributable to owners of the Company	41,394	55,645	28,456	26,174	**11,586**

ASSETS AND LIABILITIES

	As at 31 December				
	2012	2013	2014	2015	**2016**
Total assets	1,269,569	1,595,612	1,728,262	1,582,694	**1,696,204**
Total liabilities	(395,294)	(577,058)	(601,893)	(425,199)	**(515,662)**
Total equity	874,275	1,018,554	1,126,369	1,157,495	**1,180,542**

LIQUIDITY AND GEARING RATIO

	As at 31 December				
	2012	2013	2014	2015	**2016**
Current Ratio(1)	1.10	1.27	1.27	1.45	**1.37**
Quick Ratio(2)	1.07	1.21	1.24	1.38	**1.31**
Gearing Ratio(3)	14.41%	22.97%	20.44%	11.36%	**18.10%**

Notes:

(1) *Current ratio is calculated as current assets divided by current liability.*

(2) *Quick ratio is calculated as current assets less inventories divided by current liability.*

(3) *Asset-liability ratio is calculated as bank borrowing divided by total equities and multiplied by 100%.*

(4) *Both current ratio and quick ratio as at 31 December 2016 was lower as compared with 31 December 2015, mainly attribute to*

(i) *decrease in operating cash inflow of the Group in the year 2016; and*

(ii) *the significant increase of bank borrowings of the Group compared with year 2015.*