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

2018 Annual Report

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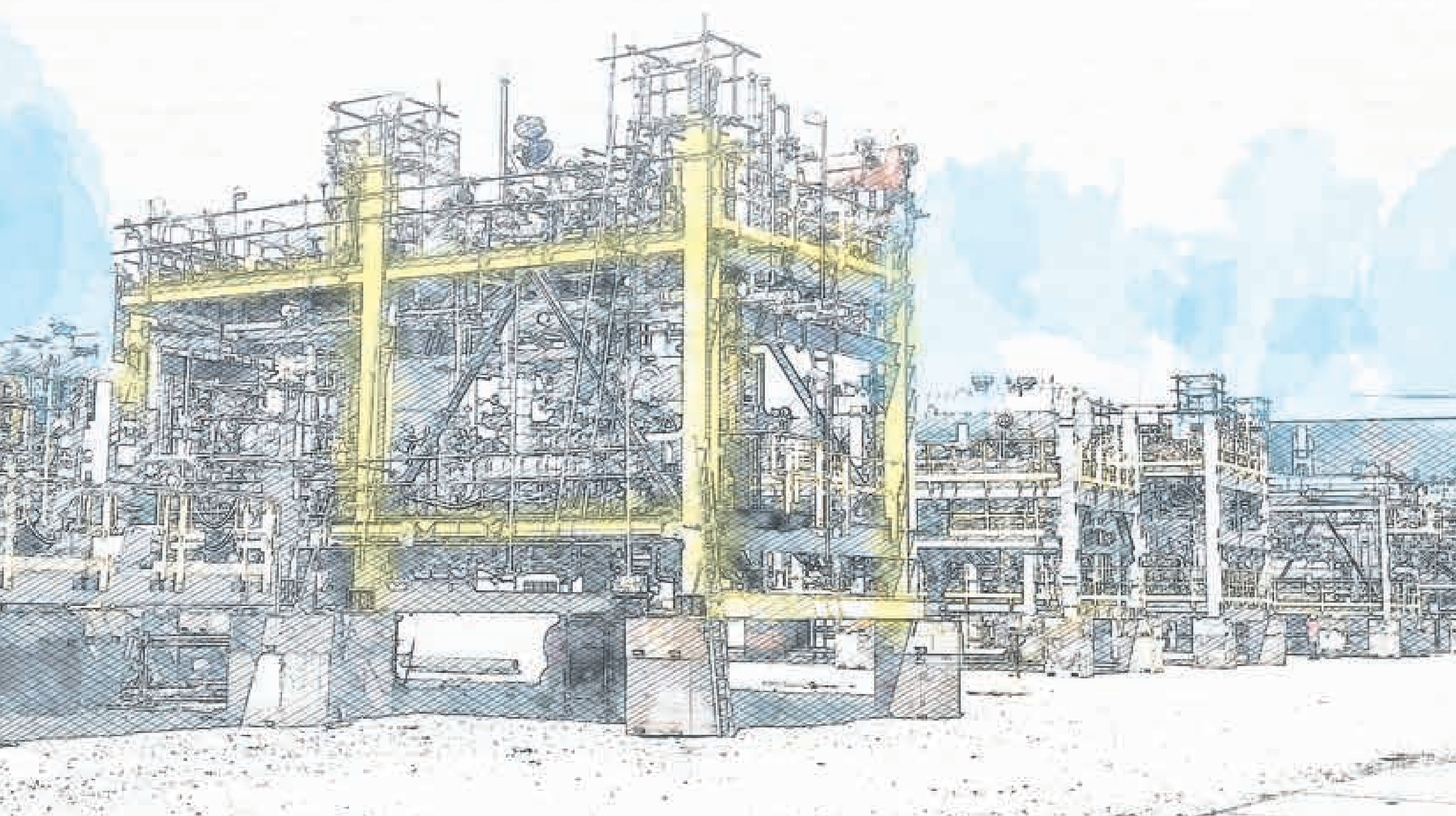

CORPORATE INFORMATION

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	:	1,634,016,389 ordinary shares
Website	:	http://www.jutal.com

BOARD OF DIRECTORS

Executive directors

Mr. Liu Lei (Chairman)
Mr. Wang Lishan
Mr. Lin Ke
Mr. Cao Yunsheng (CEO)
Mr. Liu Yunian
Mr. Tang Hui

Independent non-executive directors

Mr. Su Yang
Mr. Zheng Yimin
Mr. Qi Daqing

AUDIT COMMITTEE

Mr. Su Yang (Chairman)
Mr. Zheng Yimin
Mr. Qi Daqing

REMUNERATION COMMITTEE

Mr. Zheng Yimin (Chairman)
Mr. Su Yang
Mr. Qi Daqing

NOMINATION COMMITTEE

Mr. Qi Daqing (Chairman)
Mr. Su Yang
Mr. Zheng Yimin

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,
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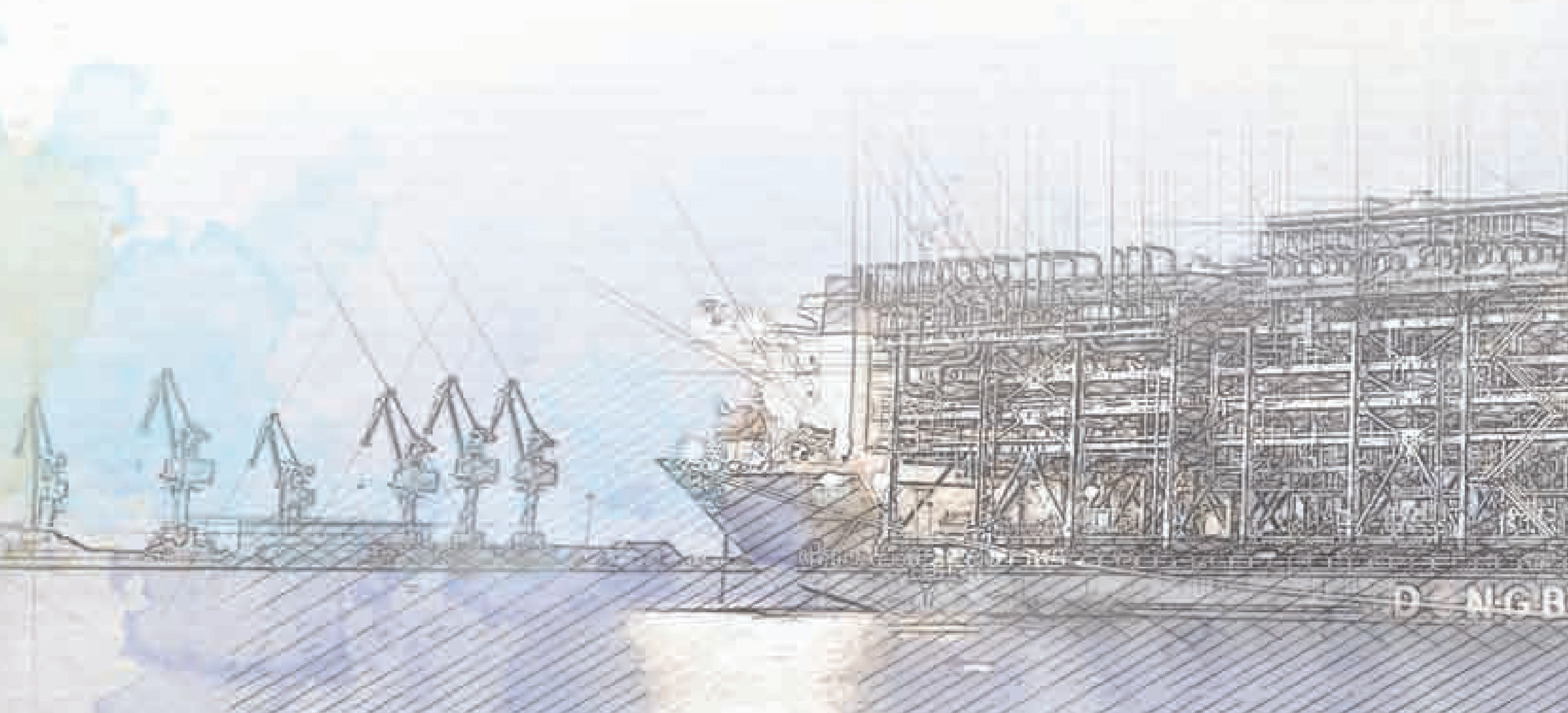

LEGAL ADVISORS

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)
11F, Block B, Anlian Building,
No.4018, Jintian Road,
Futian 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

SMP Partners (Cayman) Limited

Royal Bank House – 3rd Floor,
24 Shedden Road,
P.O. Box 1586,
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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Nanshan District
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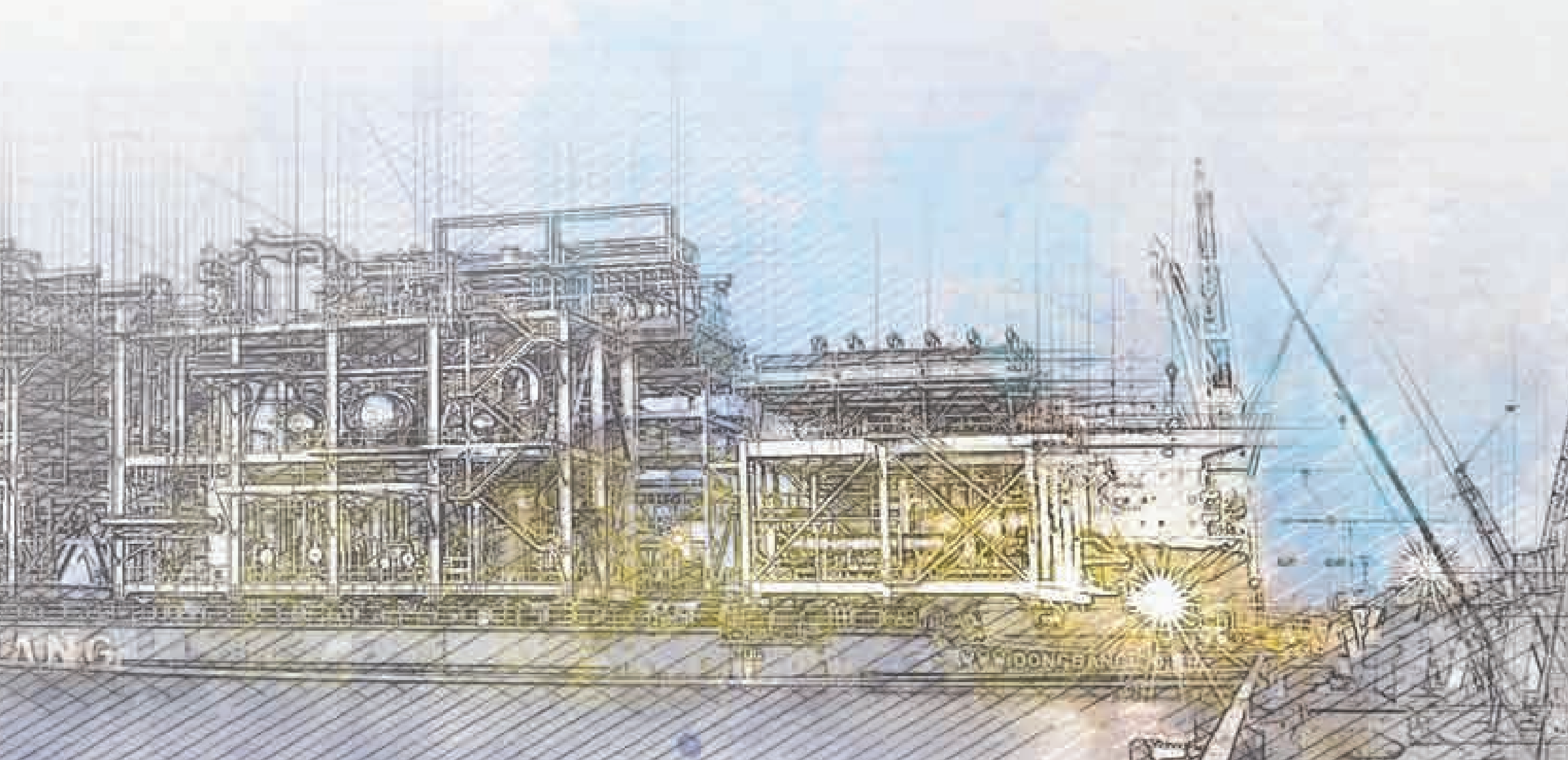
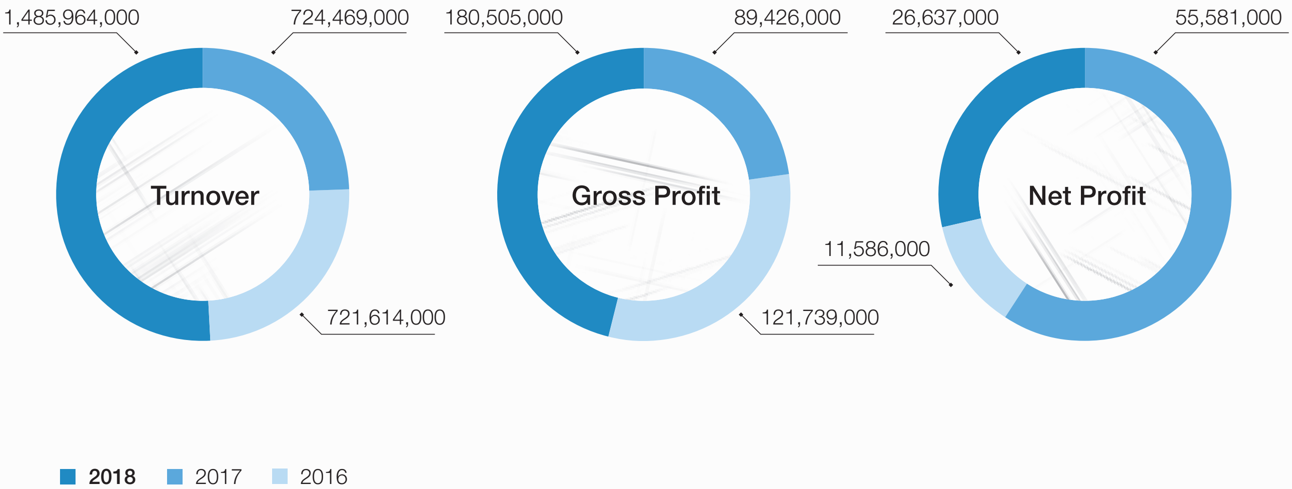


FINANCIAL HIGHLIGHTS

1. RESULTS (RMB)



2. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share were RMB0.0163 and RMB0.0162 respectively in 2018.

3. DIVIDEND

The Board of the Directors recommend the payment of a final dividend of HK$0.02 per share for the year ended 31 December 2018.

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 2018 to the shareholders.

CEO STATEMENT

BUSINESS REVIEW

The Group is an integrated service provider offering equipment fabrication and engineering services in the energy industry, which primarily include offshore engineering, construction of modular petroleum and natural gas chemical plant, FPSO (Floating Production Storage and Offloading) topside module construction and oil and gas processing equipment.

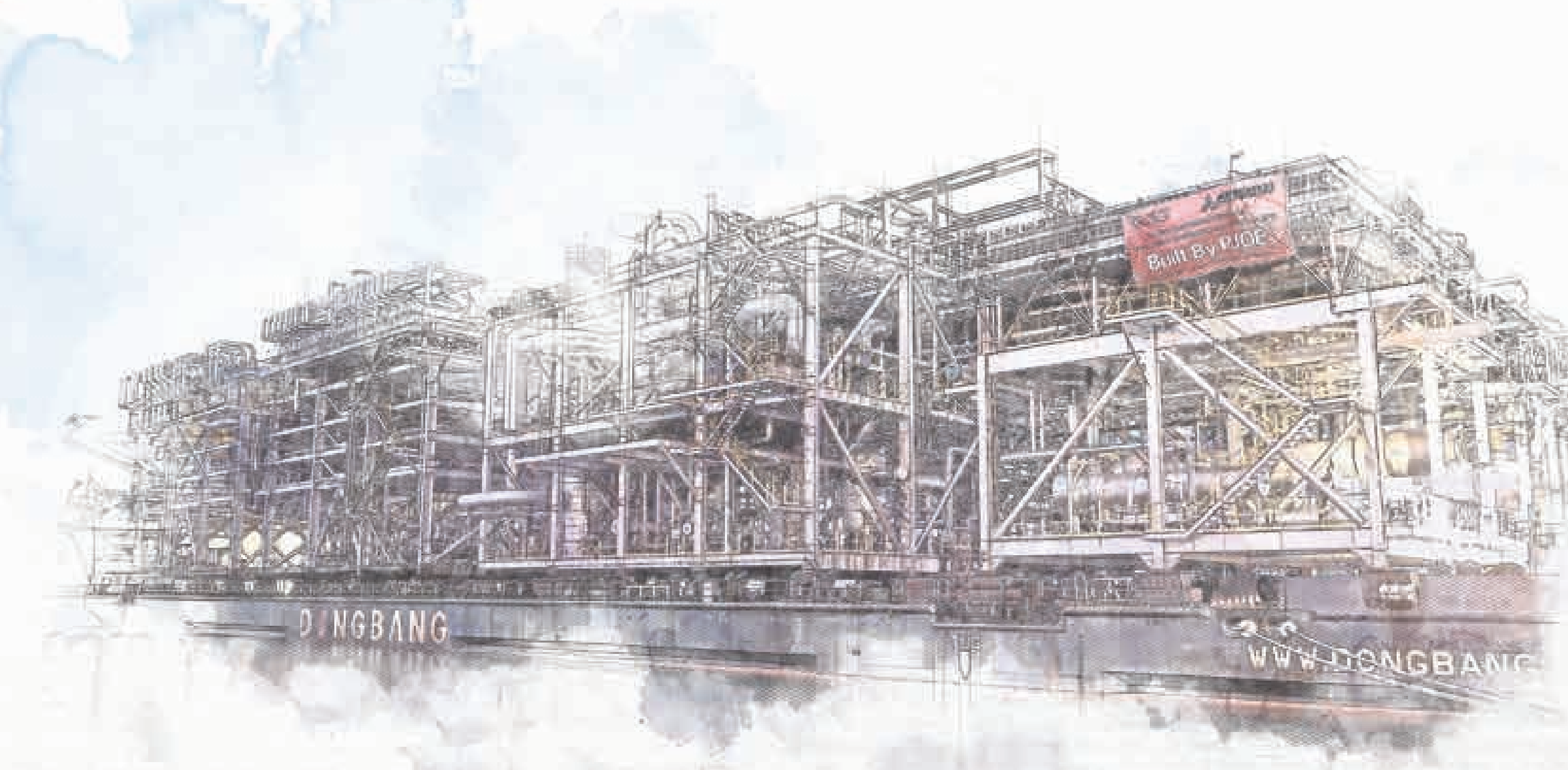
In 2018, the global oil and gas market experienced a moderate recovery, and the market competition is still relatively intense. During the year, The Group actively participated in bidding for projects in the market, developed new customers and maintained and enhanced partnership with existing customers. For the purpose of exploring opportunities in the North American market, during the year, the Group set up subsidiaries in the US and Canada respectively, to supply equipment and oil and gas related engineering services to local customers.

In mid-2018, Penglai Jutal Offshore Engineering Heavy Industries Company Limited* (蓬萊巨濤海洋工程重工有限公司) ("Penglai Jutal"), a subsidiary of the Company, was awarded a major construction contract, in relation to providing natural gas petrochemical modules of nearly total 100,000 tons with a contractual amount over RMB2 billion. As the project is primarily at the preparation stage during the year, and the other projects successfully bid for and conducted by the two construction sites of the Group in Penglai and Zhuhai are relatively small in scale, generally, the Group's construction sites were not in full operation during the year.

Following the completion of the acquisition of the entire equity interests of Penglai Jutal at the end of 2017, the Group has made active adjustments to its corporate management structure and business operation. Adjustments and integration have been made in various aspects such as facility, customer resource and operating system, to optimize resource allocation and in turn to enable the full utilization of the advantages of the two construction plants which are located in South and North China respectively and to realize more efficient management.

During 2018, the integration of safety and quality systems of Penglai and Zhuhai sites were substantially completed, with all safety, environmental protection and quality indicators being at satisfactory level and remarkable results being maintained.

High quality site resources and outstanding construction capability are the core competitive strengths of the Group. During the year, in order to meet the site construction needs of certain potential major projects, we carried out expansion at our Penglai site and upgraded certain of its facilities.



PROSPECTS

The market has gradually recovered from years of downturn in oil prices and the market. The global market sees certain large-scale projects, which usher in many observable market opportunities. The Group will focus on market development and fully promote the project progress. Meanwhile, it will also strive for opportunities from small and medium-sized projects in the near future to make up for workload shortage in the short term.

By the middle of 2019, the Group's construction at the Penglai site is expected to reach its peak. The Group will also need to make rational arrangements for and investments in the two major construction sites to enhance production capacity and efficiency by expanding and optimizing site facilities, so as to meet the needs of construction work and more projects to be undertaken in the future as well as enhance its core competitiveness and maintain the leading position in the construction business.

In addition, the Group will continue to improve its processes and methods in various aspects, including marketing and commercial work, production and operation, material procurement and subcontracting tender, to reduce costs and improve work efficiency. Simultaneously, efforts shall be made on risk prevention through strict capital planning and project management and control.

Moreover, the Group will explore opportunities and possibilities for external cooperation in diversified modes, such as mergers and acquisitions, equity participation or project cooperation, in a prudent manner, to enhance its core capabilities and expand its industrial scale. While focusing on the energy industry and continuously improving the core competitiveness in technology, the Group will carefully monitor the industry development, track the demand for technology and services, promote the development of emerging businesses and make innovation in models, with a view to offer customers more convenient and sound services.

By Order of the Board

CAO Yunsheng

CEO

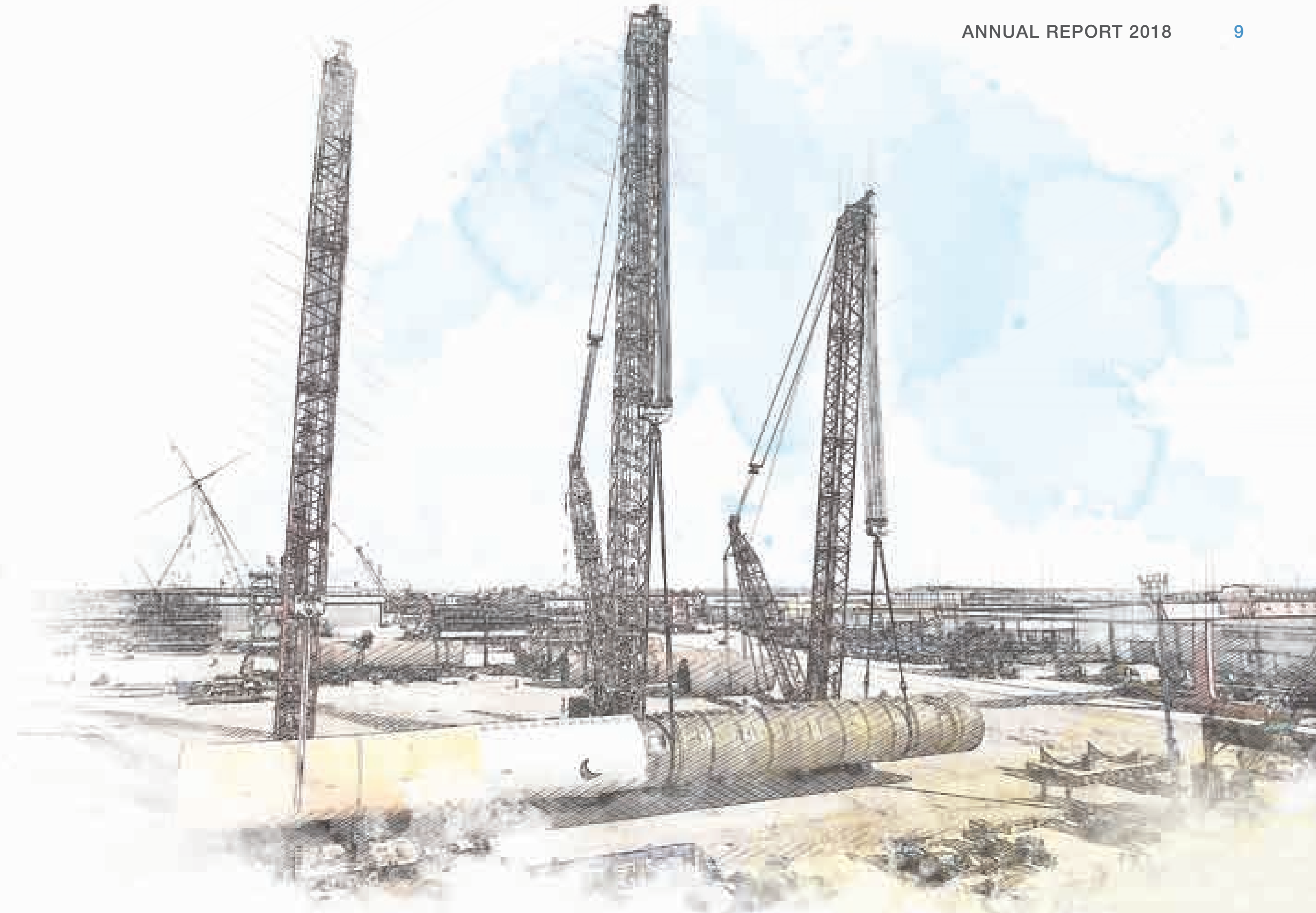
Hong Kong, 29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL AND BUSINESS REVIEW

Turnover

Upon completion of the acquisition of Penglai Jutal in late 2017, the financial result of Penglai Jutal had been consolidated into the Group's consolidated financial statements. In year 2018, the Group recorded turnover of approximately RMB1,485,964,000, representing an increase of 105% or RMB761,495,000 as compared with year 2017. Among others, turnover from the fabrication of facilities and provision of integrated services for oil and gas industries increased by 113.65% or RMB522,964,000 as compared with that of year 2017, which was mainly due to the consolidation of Penglai Jutal's financial results. Turnover from the fabrication of facilities and provision of integrated services for other energy and refining and chemical industries increased by 114.86% or RMB259,449,000 as compared with that of year 2017, which was mainly due to the fact that projects secured in previous years were intensively implemented in the year and the Group took up some trading business. Turnover from the provision of technical support services for shipbuilding industry decreased by 27.79% or RMB5,007,000 as compared with that of year 2017, which was mainly due to the further decrease in the workload of such business of the Group caused by the continually weakened ship-building market.



The table below sets out the analysis of turnover by business segments for the years 2018, 2017 and 2016:

	For the financial year ended 31 December					
	2018		2017		2016	
Business Segments	**RMB'000**	**Percentage to total turnover (%)**	RMB'000	Percentage to total turnover (%)	RMB'000	Percentage to total turnover (%)
1 Fabrication of facilities and provision of integrated services for oil and gas industries	**983,112**	**66**	460,148	64	681,224	95
2 Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries	**485,334**	**33**	225,885	31	–	–
3 Provision of technical support services for shipbuilding industry	**13,012**	**1**	18,019	2	31,946	4
4 Others	**4,506**	**–**	20,417	3	8,444	1
Total	**1,485,964**	**100**	724,469	100	721,614	100

Cost of sales and services

Cost of sales and services of the Group amounted to approximately RMB1,305,459,000 in year 2018, representing an increase of 106% or RMB670,416,000 as compared with that of year 2017. Cost of sales and services comprised direct costs and manufacturing overheads. Direct costs in the current period amounted to approximately RMB1,095,454,000, representing 83.91% of the total cost of sales and services, and an increase of RMB515,110,000 or 88.76% from RMB580,344,000 in last year. The Group calculates the cost of sales and services of projects on an order-by-order basis. Since the composition of cost differs for each project, the composition of cost of sales and services varies from project to project. Manufacturing overheads has increased by RMB155,306,000 or 284% from RMB54,699,000 in last year to approximately RMB210,005,000 in current reporting period, which was mainly due to the consolidation of financial results of Penglai Jutal.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit

The total gross profit of the Group for the year 2018 amounted to approximately RMB180,505,000, representing an increase of 102% or RMB91,079,000 as compared with RMB89,426,000 in year 2017. The overall gross profit margin was 12%, same as that in 2017. The gross profit margin of the fabrication of facilities and provision of integrated services for oil and gas industries increased from 8.3% in year 2017 to 10.76%, and the gross profit margin of the fabrication of facilities and provision of integrated service for other energy and refining and chemical industries decreased from 20.69% in year 2017 to 16.14%, whereas the gross profit margin of the provision of technical support services for shipbuilding industry increased from negative 13.61% in year 2017 to negative 10.21%. Changes in business structure resulted in various changes in the gross profit margin of different business segments during the current period. The increase in the gross profit margin of the fabrication of facilities and provision of integrated services for oil and gas industries was mainly due to the reduction of final settlement amount of subcontracting fee and other expenses of a few projects and higher gross profit recorded by certain projects.

The following shows the breakdown of gross profit/(loss) by business segments for the years 2018, 2017 and 2016:

	For the financial year ended 31 December								
	2018			2017			2016		
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 Fabrication of facilities and provision of integrated services for oil and gas industries	**105,830**	**11**	**59**	38,207	8	43	109,458	16	90
2 Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries	**78,343**	**16**	**43**	46,745	21	52	–	–	–
3 Provision of technical support services for shipbuilding industry	**(1,329)**	**(10)**	**(1)**	(2,453)	(14)	(3)	8,285	26	7
4 Others	**(2,339)**	**(52)**	**(1)**	6,927	34	8	3,996	47	3
Total	**180,505**		**100**	89,426		100	121,739		100

Other income

Other income for the year increased by 239% or RMB161,935,000 from 2017, which was mainly due to reversal of provision for claim of certain contract works during the year.

Administrative and other operating expenses

Administrative and other operating expenses in aggregate increased by 156% or RMB200,389,000 as compared with that of year 2017 to approximately RMB328,902,000, primarily due to the consolidation of the financial results of Penglai Jutal and an increase of exchange losses, share option expenses, provision of trade receivables and other receivables as compared to that of last year.

Finance costs

Finance costs in aggregate amounted to approximately RMB50,819,000 in year 2018, which was mainly comprised of interests on bank and other borrowings of approximately RMB44,801,000 in aggregate and bank charges and other finance costs of approximately RMB6,018,000.

Profit attributable to owners of the Company and earnings per share

In summary, in year 2018, profit attributable to owners of the Company amounted to approximately RMB26,637,000, which represented a decrease of 52.08% or RMB28,944,000 as compared to that of RMB55,581,000 in year 2017. Basic and diluted earnings per share attributable to owners of the Company for year 2018 were RMB0.0163 and RMB0.0162 respectively.

2. LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the working funds (cash and cash equivalent) of the Group amounted to approximately RMB902,562,000 (2017: RMB1,455,265,000). During the year, net cash outflow from operating activities amounted to approximately RMB650,578,000, net cash inflow from investing activities amounted to approximately RMB200,812,000, and net cash outflow from financing activities amounted to approximately RMB157,867,000.

As at 31 December 2018, the Group had approximately RMB630,523,000 (2017: RMB228,723,000) of available undrawn banking facilities. Available undrawn banking facilities include bank borrowings, letters of credit, bank guarantees, etc.

As at 31 December 2018, the Group had obtained bank guarantees under performance bonds for construction contracts of approximately RMB171,699,000 (2017: RMB321,803,000).

3. CAPITAL STRUCTURE

As of 31 December 2018, the share capital of the Company comprises 1,634,016,389 ordinary shares (2017: 1,632,016,389 ordinary shares). As at 31 December 2018, net assets of the Group amounted to approximately RMB2,133,016,000 (2017: RMB2,058,934,000), comprising non-current assets of approximately RMB1,668,337,000 (2017: RMB1,681,920,000), net current assets of approximately RMB903,067,000 (2017: RMB765,818,000) and non-current liabilities of approximately RMB438,388,000 (2017: RMB388,804,000).

4. SIGNIFICANT INVESTMENT

During the year, the construction of the foundation of Penglai Jutal's west factory area, the construction site as well as the auxiliary work to wind energy, water energy and electric energy was already in progress in the second half of the year, with total investment of approximately RMB57,000,000, was expected to be completed in the first half of 2019.

The construction of Jutal administrative buildings in Zhuhai was already in progress, with total investment of approximately RMB40,000,000, was expected to be completed in 2019.

Apart from the above, the Group had no other significant investment for the year ended 31 December 2018.

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$). During the years ended 31 December 2018 and 2017, the Group has entered into foreign exchange forward contracts to hedge the foreign currency risk arising from certain of its contract revenue and trade receivables denominated in Euro and US$. The Group currently does not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

6. ASSETS PLEDGED BY THE GROUP

As at 31 December 2018, approximately RMB69,040,000 of the bank deposits and RMB8,846,000 of other receivables were pledged as security deposits for bank and other borrowings, the issuance of performance bonds, letter of credits and bank acceptance.

As at 31 December 2018, the carrying amount of fixed assets pledged as security for the Group's bank and other borrowings amounted to approximately RMB124,423,000 (2017: RMB10,331,000).

7. CONTINGENT LIABILITIES

Other than as disclosed in note 43 to the consolidated financial statements, as at 31 December 2018, the Group did not have any significant contingent liabilities.

8. CAPITAL MANAGEMENT

The Group's main 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.

The Group monitors capital by using a gearing ratio, which is total 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 2018 and at 31 December 2017 were as follows:

	2018 **RMB'000**	2017 RMB'000
Bank and other borrowings	**805,999**	845,772
Loan from ultimate holding company	**–**	80,000
Total borrowings	**805,999**	925,772
Total equity	**2,133,016**	2,058,934
Gearing ratio	**37.79%**	44.96%

The decrease in the gearing ratio in 2018 was mainly due to the decrease in total borrowings. The Group adjusts the amount of bank and other borrowings from time to time to meet the Group's working capital needs.

9. EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had total 2,747 employees (31 December 2017: 3,399 employees), of which 1,201 (31 December 2017: 978) were management and technical staff, and 1,546 (31 December 2017: 2,421) were technicians. The decrease in headcount was mainly due to insufficient workload in construction sites leading to a decrease in number of workers.

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 and housing funds for employees according to the local laws and regulations.

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

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Liu Lei (劉雷), aged 52, is an executive director and the chairman of the Company. Mr. Liu obtained a Bachelor of Engineering degree from the Chinese People's Liberation Army General Logistics Institute (中國人民解放軍學院) in 1988. He joined Beijing Sanju Environmental Protection and New Materials Co., Ltd. (北京三聚環保新材料股份有限公司) ("Sanju"), a company established in the PRC with limited liability and listed on the Shenzhen Stock Exchange (Shenzhen Stock Exchange Stock Code 300072) in June 2000 as the chairman of Sanju. Mr. Liu has also been acting as the director and general manager of Beijing Haidian Technology Development Co., Ltd (北京海澱科技發展有限公司) as well as director or chairman of a number of companies including Beijing Daxing Foundation Technology Development Co., Ltd (北京大行基業科技發展有限公司) and Beijing Daxing Foundation business management Co., Ltd (北京大行基業商業管理有限公司). Mr. Liu was appointed as an executive director in June 2017.

Mr. Wang Lishan (王立山), aged 60, is an executive director of the Company. 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 (渤海石油公司平台製造廠) 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. Lin Ke (林科), aged 57, is an executive director of the Company. Mr. Lin obtained a bachelor of engineering degree from the Beijing University of Science and Technology in 1987. He founded Sanju in June 1997 and has extensive experience in the clean energy industry. Since June 2000, Mr. Lin has been acting as the vice chairman and the president of Sanju and has extensive experience in the clean energy industry. Mr. Lin was appointed as an executive director in June 2017.

Mr. Cao Yunsheng (曹雲生), aged 56, 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 (渤海石油公司平台製造廠), the chief accountant of China Offshore Oil Platform Construction Company (中國海洋石油平台製造公司) and a financial controller of Offshore Oil Engineering Co., Ltd. (海洋石油工程股份有限公司). Mr. Cao was appointed as an executive director in November 2005.

Mr. Liu Yunian (劉玉年), aged 57, is an executive director and the general manager of Penglai Jutal Offshore Engineering Heavy Industries Co., Ltd. ("Penglai Jutal"). Mr. Liu was graduated from Tianjin University (天津大學) in 1983 with a bachelor's degree in offshore engineering. He joined the Group in 2001, and has served as the operation manager, the deputy general manager and general manager of Penglai Jutal. Prior to joining the Group, Mr. Liu had served in CNOOC platform Fabrication Co. (中海油平台製造公司), Shenzhen Chiwan Offshore Engineering Co., Ltd. (深圳赤灣海洋工程有限公司). Mr. Liu was appointed as an executive director in June 2018.

Mr. Tang Hui (唐暉), aged 47, is an executive director and the vice president of the Company, who is responsible for the Group's marketing and commercial. 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 June 2018.

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Su Yang (蘇洋), aged 51, 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 is also an independent non-executive director of Oriental Fashion Driving School Co., Ltd. (東方時尚駕駛股份有限公司) (Shanghai Stock Code 603377) Mr. Su was appointed as an independent non-executive director in August 2006.

Mr. Zheng Yimin (鄭益民), aged 57, is an independent non-executive director of the Company. Mr. Zheng obtained a bachelor of economics degree from Capital University of Economics (首都經濟貿易大學). He has rich experience in the field of finance. Mr. Zheng was the credit manager and trust manager of Agricultural Bank of China and was responsible for the credit management of companies in Zhongguancun Science and Technology Park (中關村科技園區). From 2009 to 2015, Mr. Zheng acted as the president of China Venture Capital Guarantee Co., Ltd (中國創投融資擔保有限公司) and was responsible for the corporate finance activities of various state-owned enterprises and private enterprises. In 2015, Mr. Zheng founded Hong Mao Heng Asset Management (Beijing) Co., Ltd (鴻茂恒資產管理(北京)有限公司) ("Hong Mao") and has been acting as the president of Hong Mao. Mr. Zheng was appointed as an independent non-executive director in June 2017.

Mr. Qi Daqing (齊大慶), aged 55, is an independent non-executive director of the Company. Mr. Qi graduated from Fudan University (復旦大學) 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., Momo Inc., SinoMedia Holding Ltd. (中視金橋國際傳媒控股有限公司) (Hong Kong Stock Code 623), Bison Finance Group Limited (貝森金融集團有限公司) (Hong Kong Stock Code 888), Haidilao International Holdings Ltd. (海底撈國際控股有限公司) (Hong Kong Stock Code 6862) 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. Li Jing (李靖), aged 51, is the vice president of the Company, who is responsible for the Group's marketing and business management. 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 from the year 2004 to 2009. Prior to joining the Group, Mr. Li had worked in CNOOC platform Fabrication Co. (中海油平台製造公司), 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. Shi Fei (石飛), aged 50, is the vice president of the Company, and is responsible for the Group's business management and marketing. 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. Zhao Wuhui (趙武會), aged 45, is the vice president of the Company and the Board secretary. 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. 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. Liu Dongtao (劉東濤), aged 44, is the executive deputy general manager of Penglai Jutal and is responsible for the Group's project management, HSE and production. He obtained a master's degree in business administration from Dalian University of Technology (大連理工大學) in 2015. Mr. Liu joined the Group in 2006 and has served as the operation manager, production supervisor, deputy general manager and executive deputy general manager of Penglai Jutal. Prior to joining the group, Mr. Liu had worked in CNOOC platform Fabrication Co. (中海油平台製造公司), Shenzhen Chiwan Offshore Engineering Co., Ltd. (深圳赤灣海洋工程有限公司).and Shenzhen Chiwan Shengbaowang Engineering Co., Ltd. (深圳赤灣勝寶旺工程有限公司).

Mr. Chen Xinzhou (陳新周), aged 40, is the vice president of the Company, responsible for finance control of the Group. He graduated from Northwest University (西北大學) with a bachelor's degree in accounting in 2003. Mr. Chen Joined the Group in 2006 and has served as senior accountant, finance manager of Zhuhai Jutal Offshore Oil Services Ltd. (珠海巨濤海洋石油服務有限公司) ("Zhuhai Jutal") and deputy general manager of Penglai Jutal. Prior to joining the Group, Mr. Chen had worked in Airmate Electric (Shenzhen) Co., Ltd. (艾美特電器(深圳)有限公司) and Dawn Optoelectronics (Dongguan) Co., Ltd. (敦樸光電(東莞)有限公司).

Mr. Liang Hai (梁海), aged 50, is the deputy general manager of Penglai Jutal, and responsible for the marketing and business management of the Group. He was graduated from Tianjin University (天津大學) in 1991 with a bachelor's degree in offshore engineering. Mr. Liang joined the Group in 1999 and had served as project manager and assistant president. Prior to joining the Group, he had worked in Bohai Petroleum Platform Manufacturing Factory (渤海石油公司平台製造廠), 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. Chen Die (陳耋), aged 48, is the deputy general manager of Penglai Jutal, who is responsible for the marketing and commercial. He was graduated from University of Houston with a bachelor's degree in Chemical Engineering and a master degree in Electrical Engineering from University of Texas Austin. Mr. Chen joined Penglai Jutal in 2006, and has served as project manager, manager of project department, director of mechanical division and assistant general manager. Prior to joining the Group, Mr. Chen had worked in Shenzhen Chiwan Sembawang Engineering Co., Ltd. (深圳赤灣勝寶旺工程有限公司) and ConocoPhillips Co., Ltd.

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 2018.

PRINCIPLE ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. The Group is principally engaged in fabrication of facilities and provision of integrated services for oil and gas industries, other energy and refining and chemical industries and provision of technical support services for 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 always regards its employees as the most important partners, formulated various personnel management policies and offered reasonable wages and welfare on the basis of the well-being of its employees. The Group values internal training, and always encourages the employees' personal and career development through 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's customers include energy enterprises, chemical and refining enterprises, general construction contractors and professional equipment manufacturing contractors, provide its customers with customised facilities and solutions. Many customers have established years of cooperation with the Group. The projects obtained by the Group are generally through tendering. The annual major customers may not be the same as different projects undertaken each year. The Group also enters into service agreements with certain customers on a continuous basis in order to provide daily technical support to them for those long term service business. 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, we established our qualified suppliers list based on our suppliers management policies and subject to an review annually. The Group usually 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

As a services provider and equipment fabricator in energy and chemical and refining industries, health, safety and environmental protection represent the core corporate culture of the Group.

To effectively control the influence of its businesses on the environment, the Group implements consistent environmental policies and waste management regulations for all operating projects. The Group sticks to the goal of "Safety Comes First, Prevention-Oriented, Environmental Protection, Continuous Improvement", so as to keep its businesses in line with relevant national laws and standards concerning safety production and environmental protection.

The Group takes the health and safety of its employees as its primary consideration. All businesses must comply with the Group's overall policies. The Group provides its employees with appropriate equipment and guides as needed, conducts regular training and emergency exercises to protect employees from occupational hazards, supervises all job positions to implement effective management measures so as to ensure the health and safety of the work environment.

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 its products. Indicators for energy consumption have also been set up to decrease the energy consumption per unit of its products. The Group advocates the effective use and conservation of resources, tries to reuse reusable materials whenever possible so as to minimise the consumption of resources, strives to realise clean production, reduces wastes as much as possible, makes all-out efforts to prevent pollution, improves the working environment and labour condition continuously, and makes continuous improvement.

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 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. 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.

In response to the stakeholders' demands and changes in market conditions, the Group will continue to assume corporate responsibilities, increase communications with its stakeholders, and integrate the sustainable development concept into its business policies.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group conducts its business mainly through the subsidiaries in mainland China as well as that in U.S.A., Canada, Singapore and Hong Kong and complies with the relevant laws and regulations of each business location. The Group keeps abreast of the possible impacts of the newly enacted laws and regulations or the amendments of existing laws and regulations on the Group's operations, and takes appropriate measures after evaluation.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's share premium reserve was approximately RMB1,733,618,000 (subject to section 34 of the Cayman Companies Law and the Article of Association of the Company), and the retained earnings approximately RMB55,090,000 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.

DIRECTORS' REPORT

DIVIDEND POLICY

The Company does not have any pre-determined dividend payout ratio.

According to the dividend policy of the Company ("Dividend Policy"), in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, among others, that the financial results, cash flow situation, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, interests of shareholders, business environment, any restrictions on payment of dividends, and any other factors that the Board may consider relevant.

The declaration and payment of dividends by the Corporation shall be determined at the sole discretion of the Board and shall be subject to the Memorandum of Association and the Bye-Laws of the Company and all applicable laws and regulations. The Dividend Policy will continue to be reviewed by the Board from time to time and there can be no assurance that dividends will be proposed or declared in any particular amount for any given period.

RESULTS AND DIVIDENDS

Details of the Group's result for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss on page 40.

The Directors recommend the payment of a final dividend of HK$0.02 per share for the year ended 31 December 2018.

SHARE CAPITAL AND TRANSACTIONS INVOLVING SHARES OF THE COMPANY

In 2018, the authorised share capital of the Company is HK$40,000,000 (comprising 4,000,000,000 ordinary shares).

During the year 2018, 2,000,000 ordinary shares were issued through exercising share options by the share option holders of the Company under the Company's share option scheme.

As at 31 December 2018, the share capital of the Company comprised of 1,634,016,389 ordinary shares (2017: 1,632,016,389 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 2018 neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

USE OF THE RAISED PROCEEDS

On 15 March 2017, The Company entered into a subscription agreement with Sanju Environmental Protection (Hong Kong) Limited ("Sanju HK") and Golden Talent (HK) Technology company Limited ("Golden Talent"), pursuant to which the Company has conditionally agreed to allot and issue an aggregate of 803,562,111 subscription shares, of which Sanju HK and Golden Talent have conditionally agreed to subscribe for 641,566,556 shares and 161,995,555 shares respectively at the subscription price of HK$1.20 per subscription share (the net subscription price is approximately HK$1.197 per subscription share, and the close price of the share on 15 March 2017 was HK$2.00) (the "Subscription"). The Subscription has been approved by the shareholders of the Company at the extraordinary general meeting held on 26 May 2017 and completed on 2 June 2017.

The net proceeds from the Subscription was approximately HK$962,000,000. As at 31 December 2018, the raised fund has been used as follows:

	Plan of use of proceeds from the Subscription as stipulated in the circular of the Company dated 11 May 2017	Use of proceeds from the Subscription as at 31 December 2018	Plan of use of the outstanding balance of the proceeds from the Subscription
(1)	Approximately HK$500 million for the working capital in EPIC projects; and in built – transfer projects relating to the oil and gas equipment and facilities	Approximately HK$452 million has been used for the working capital of the Group's projects	The remaining approximately HK$48 million will be used for the working capital of the Group's future projects
(2)	Approximately HK$250 million for the capital expenditure in improving and expanding the production facilities and office facilities in the Group's Zhuhai operation	Approximately HK$11 million has been used for the capital expenditure in the production and office facilities of the Group's Zhuhai fabrication yard	The remaining approximately HK$239 million will be kept for the Group's future capital expenditure in the production and office facilities as necessary
(3)	Approximately HK$212 million for the general working capital of the Group	Approximately HK$209 million has been used for the general working capital of the Group	The remaining approximately HK$3 million will be continually used for the general working capital of the Group

In 2018, the fund of HK$3,240,000 raised through exercising share options by the share option holders of the Company were all used for the general working capital of the Group.

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 118 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; and any advisor (professional or otherwise), consultant, distributor, supplier, agent, customer, joint venture partner, services 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 (498,000,000 Shares) in issue on the date of the said Annual General Meeting.

DIRECTORS' REPORT

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 (622,799,278 Shares) in issue on the date of the said Annual General Meeting.

The 2006 Share Option Scheme was expired on 20 September 2016, and a new share option scheme of the Company ("2016 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 2016 Share Option Scheme must not, in aggregate, exceed 80,035,427 shares, representing 10% of the shares (800,354,278 shares) in issue on the date of the said Annual General Meeting.

The General Scheme Limit of the 2016 Share Option Scheme has been further refreshed and approved by Shareholder's resolution at the Company's Annual General Meeting held on 8 June 2018. The total number of Shares which may be issued upon exercise of all options to be granted under the 2016 Share Option Scheme must not, in aggregate, exceed 163,401,638 shares, representing 10% of the shares (1,634,016,389 Shares) in issue on the date of the said Annual General Meeting.

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 2008 to 31 December 2018, 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 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 2018	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 2018	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	2.10	–	–	–	–
Total					2,000,000	2,000,000		–	–	–	–

(ii) 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 2018	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 2018	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	0.05%
Total					800,000	–		–	–	800,000	0.05%

(iii) 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 2018	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 2018	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	0.06%
Other eligible participants	23/05/2011	23/05/2013 to 22/05/2021	1.06	1.04	550,000	–	–	–	–	550,000	0.03%
Total					1,550,000	–		–	–	1,550,000	0.09%

(iv) 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 2018	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 2018	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	0.31%
Cao Yunsheng	29/07/2015	29/07/2017 to 28/07/2025	0.86	0.83	8,000,000	–	–	–	–	8,000,000	0.49%
Total					13,000,000	–		–	–	13,000,000	0.80%

DIRECTORS' REPORT

(v) 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 as at 1 January 2018	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 2018	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	0.31%
Cao Yunsheng	14/10/2016	14/10/2018 to 13/10/2026	0.68	0.63	8,000,000	–	–	–	–	8,000,000	0.49%
Total					13,000,000	–	–	–	–	13,000,000	0.80%

(vi) Options granted in 2018

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 the 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 2018	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Wang Lishan	09/01/2018	09/01/2019 to 08/01/2028	2.14	2.11	2,300,000	–	–	–	–	2,300,000	0.14%
Cao Yunsheng	09/01/2018	09/01/2019 to 08/01/2028	2.14	2.11	8,000,000	–	–	–	–	8,000,000	0.49%
Tang Hui	09/01/2018	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	–	–	–	–	1,500,000	0.09%
Liu Yunian	09/01/2018	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	–	–	–	–	1,500,000	0.09%
Su Yang	09/01/2018	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	–	–	–	–	1,500,000	0.09%
Zheng Yimin	09/01/2018	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	–	–	–	–	1,500,000	0.09%
Qi Daqing	09/01/2018	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	–	–	–	–	1,500,000	0.09%
Other eligible participants	09/01/2018	09/01/2019 to 08/01/2028	2.14	2.11	49,200,000	–	–	–	–	49,200,000	3.01%
Total					67,000,000	–	–	–	–	67,000,000	4.09%

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. Liu Lei	10 June 2017	–	–
Mr. Wang Lishan	24 November 2005	–	–
Mr. Lin Ke	10 June 2017	–	–
Mr. Cao Yunsheng	24 November 2005	–	–
Mr. Cao Huafeng	25 August 2017	8 June 2018	Other job assignment
Mr. Sergey Borovskiy	25 August 2017	8 June 2018	Other job assignment
Mr. Liu Yunian	8 June 2018	–	–
Mr. Tang Hui	8 June 2018	–	–

Independent Non-executive Directors	Date of appointment	Date of resignation	Reason of resignation
Mr. Su Yang	26 August 2006	–	–
Mr. Qi Daqing	31 July 2015	–	–
Mr. Zheng Yimin	10 June 2017	–	–

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.

DIRECTORS' REPORT

Each of the independent non-executive Directors has signed an appointment letter with the Company for a term of 3 years. The Directors' fees is RMB10,000 per month for each 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 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 46 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' 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 2018, 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)	24.29%
	Beneficial owner	6,000,000 (L)	0.37%
	Share options	12,300,000 (L)	0.75%
Cao Yunsheng	Interest of a controlled corporation *(Note 3)*	8,000,000 (L)	0.49%
	Beneficial owner	2,200,000 (L)	0.13%
	Share options	25,800,000 (L)	1.58%
Tang Hui	Beneficial owner	366,000 (L)	0.02%
	Share options	1,500,000 (L)	0.09%
Liu Yunian	Share options	1,500,000 (L)	0.09%
Qi Daqing	Beneficial owner	1,550,000 (L)	0.09%
	Share options	1,500,000 (L)	0.09%
Su Yang	Share options	1,500,000 (L)	0.09%
Zheng Yimin	Share options	1,500,000 (L)	0.09%

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 Mr.Wang Lishan.

(3) The 8,000,000 shares are held by Sino Joint International Limited, which is wholly-owned by Mr.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.

DIRECTORS' REPORT

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

At 31 December 2018, 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 *(Note 1)*	Percentage of shareholding
Sanju Environmental Protection (Hong Kong) Limited	Beneficial owner *(Note 2)*	641,566,556 (L)	39.26%
Beijing Sanju Environmental Protection & New Materials Co., Ltd. (北京三聚環保新材料股份有限公司)	Interest of a controlled corporation *(Note 2)*	641,566,556 (L)	39.26%
Cheung Hing Investments Limited	Beneficial owner *(Note 3)*	396,911,278 (L)	24.29%
Wang Lishan	Interest of a controlled corporation *(Note 3)*	396,911,278 (L)	24.29%
	Beneficial owner	18,300,000 (L)	1.12%
Dongxing Securities Co., Ltd. (東興證券股份有限公司)	Interest of a controlled corporation *(Note 4)*	161,995,555 (L)	9.91%
Dongxing Securities (Hong Kong) Financial Holdings Limited (東興證券(香港)金融控股有限公司)	Person having a security interest in shares *(Note 4)*	161,995,555 (L)	9.91%
Hong Man Chu	Interest of spouse *(Note 5)*	161,995,555 (L)	9.91%
Lo Chun Yim	Interest of a controlled corporation *(Note 6)*	161,995,555 (L)	9.91%
Golden Talent (HK) Technology Co., Limited	Beneficial Owner *(Note 6)*	161,995,555 (L)	9.91%

Notes:

(1) The letters "L" denote a long position in the Shares respectively.

(2) The 641,566,556 Shares are held by Sanju Environmental Protection (Hong Kong) Limited, which is wholly-owned by Beijing Sanju Environmental Protection & New Materials Co., Ltd. (北京三聚環保新材料股份有限公司)

(3) The 396,911,278 Shares are held by Cheung Hing Investments Limited, which is wholly-owned by Mr. Wang Lishan.

(4) The 161,995,555 Shares are held by Dongxing Securities (Hong Kong) Financial Holdings Limited, which is wholly-owned by Dongxing Securities Co., Ltd.

(5) Hong Man Chu is the spouse of Mr. Lo Chun Yim.

(6) These Shares are held by Golden Talent (HK) Technology Co., Limited,, which is beneficially and wholly-owned by Mr. Lo Chun Yim

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 45% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 10.81% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 9.35% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 2.83% of the Group's total purchases.

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.

CONNECTED TRANSACTIONS

The Group's related parties or related party transactions for the year ended 31 December 2018 set out in note 46 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.

1. Transactions with Dalian Shipbuilding Industry Offshore Co., Ltd. ("Dalian Shipbuilding Offshore")

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 an executive Director and a substantial 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 ("Dalian CCT") for the Company and are subject to the reporting and announcement requirements and requires the approval of the Independent Shareholders.

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

During the year ended 31 December 2018, the Group and Dalian Shipbuilding Offshore did not enter into any new transaction agreement, but few projects undertaken in the previous years were completed and generated revenue in 2018. The independent directors had conducted an annual review of these projects and transactions in 2018.

DIRECTORS' REPORT

2. The continuing connected transactions with Beijing Sanju Environmental Protection & New Materials Co., Ltd. ("Sanju")

On 19 September 2017, the Company entered into a master agreement ("Master Agreement") with Sanju (a connected person of the Company by virtue of its being an associate (as defined under the Listing Rules) of Sanju Environmental Protection (Hong Kong) Limited, a controlling shareholder (as defined under the Listing Rules) of the Company), pursuant to which Sanju, for itself and also as agent of its wholly-owned subsidiaries and controlling companies, agrees to engage the Group to provide: (i) purifying and refining device project contracting* (淨化及煉化相關的工程承包); (ii) special equipment/facilities manufacturing* (專用設備或裝置製造); and (iii) project management and labour outsourcing services* (項目管理或提供勞務派遣等服務) (the "Company Services") for a term of 13 months from 1 December 2017 to 31 December 2018 (both days inclusive), and the Company also agrees to engage Sanju to provide products such as catalyst* (催化劑等物品的供貨) (the "Sanju Services") for a term of 12 months from 1 January 2018 to 31 December 2018 (both days inclusive).

As the relevant percentage ratios on an annual basis exceeds 5% and the transactions amount under the Master Agreement exceeds HK$10,000,000, the transactions under the Master Agreement constitute a non-exempt continuing connected transactions ("Sanju 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 Sanju CCT for the periods concerned under the Master Agreement are subject to annual caps and shall not exceed the amounts set out below (RMB million):

Annual Caps	From 1 December 2017 to 31 December 2017	For the year ended 31 December 2018
Company Services	632	2,100
Sanju Services	N/A	100

The Independent Shareholders approved the Sanju CCT and the respective annual caps of Company Services and Sanju Services for the period from 1 December 2017 to 31 December 2017 and the year ended 31 December 2018 at the extraordinary general meeting held on 5 December 2017.

According to the Rule 14A.55 of the Listing Rules, the independent non-executive Directors had reviewed annually the transactions with Dalian Shipbuilding Offshore and the continuing connected transactions with Sanju, 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 continuing connected transactions 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 continuing connected transactions of the Group:

(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.

As the Master Agreement was expired on 31 December 2018, on 14 November 2018, the Company entered into a new master agreement ("New Master Agreement") with Sanju, pursuant to which Sanju, for itself and also as agent of its wholly-owned subsidiaries and controlling companies, agrees to engage the Group to provide the Company Services for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive), and the Company agrees to engage Sanju to provide the Sanju Service also for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive).

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

Annual Caps	**For the year ending 31 December 2019**	**For the year ending 31 December 2020**	**For the year ending 31 December 2021**
Company Services	500	500	500
Sanju Services	100	100	100

The Independent Shareholders approved the Sanju CCT and the respective annual caps of Company Services and Sanju Services for the year ending 31 December 2019, the year ending 31 December 2020 and the year ending 31 December 2021 at the extraordinary general meeting held on 18 January 2019.

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 2018.

PERMITTED INDEMNITY PROVISIONS

A permitted indemnity provision for the benefit of the Directors is currently in force throughout the year ended 31 December 2018. 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.

On behalf of the Board

Liu Lei
CHAIRMAN

Hong Kong

29 March 2019

CORPORATE GOVERNANCE REPORT

The Company has adopted the Corporate Governance Code (the "Corporate Governance Code") 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 Corporate Governance Code for the year ended 31 December 2018, save and except the Company provides the three board members, namely Mr. Liu Lei, Mr. Wang Lishan and Mr. Cao Yunsheng, 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 six executive Directors and three independent non-executive Directors.

Executive Directors

Mr. Liu Lei (Chairman), Mr. Wang Lishan, Mr. Lin Ke, Mr. Cao Yunsheng (CEO), Mr. Liu Yunian, Mr. Tang Hui

Independent Non-executive Directors

Mr. Su Yang, Mr. Zheng Yimin, Mr. Qi Daqing

Mr. Liu Lei 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 knowledge 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 2018, 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 preparing 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 36.

RSM Hong Kong has been re-appointed as the Company's external auditor at the annual general meeting of 2018 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 2018 are as below:

	Fee paid/payable HK$
Audit services	1,450,000
Review of the interim report	290,000
Other assurance and non-assurance services	165,000

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 procedures.

CORPORATE GOVERNANCE REPORT

The relevant departments of the Group have certain functions for the Group'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 Group 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 Group 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 Group. Upon review, the Board considers that the Group 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, which are Mr. Su Yang, Mr. Qi Daqing and Mr. Zheng Yimin. 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 for improvement and made the management to implement. The audit committee also discussed the risk management and internal control systems with the management of the Company, and 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 2018. 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 2018. The audit committee also reviewed and recommended to the Board approval of the unaudited financial statements for the first six months of 2018, 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 2019.

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. Zheng Yimin, Mr. Su Yang, and Mr. Qi Daqing. Mr. Zheng Yimin 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, two remuneration committee meetings were held in the year to discuss and suggest:

(1) annual salary review for 2018 for the Directors and the senior management;

(2) the remuneration policy; and

(3) the remuneration of the new Directors.

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. Zheng Yimin. 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, two nomination committee meetings 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 new Directors; and

(3) review the roles of Directors regularly by considering the issues of conflict of interest, their performance and conduct.

CORPORATE GOVERNANCE REPORT

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 2018, the Board held 11 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 2018 is set out in the table below:

	Attendance/Number of meetings				
Name of Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Mr. Liu Lei	11/11	–	–	–	1/1
Mr. Wang Lishan	7/11	–	–	–	0/1
Mr. Lin Ke	9/11	–	–	–	0/1
Mr. Cao Yunsheng	10/11	–	–	–	1/1
Mr. Cao Huafeng (resigned on 8 June 2018)	4/11	–	–	–	0/1
Mr. Sergey Borovskiy (resigned on 8 June 2018)	3/11	–	–	–	1/1
Mr. Liu Yunian (appointed on 8 June 2018)	7/11	–	–	–	0/1
Mr. Tang Hui (appointed on 8 June 2018)	7/11	–	–	–	0/1
Mr. Su Yang	9/11	2/2	2/2	2/2	0/1
Mr. Zheng Yimin	11/11	2/2	2/2	2/2	1/1
Mr. Qi Daqing	10/11	2/2	2/2	2/2	1/1

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, not all the Directors could have an attendance at the general meeting of the Company. However, the Directors who present at the general meeting enabled 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 2018, 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 may be 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 or 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 and in the "Corporate Information" of this annual report.

SIGNIFICANT CHANGES ON THE ARTICLES OF ASSOCIATION

During the year 2018, there is no significant change to the articles of association of the Company.

INDEPENDENT AUDITOR'S REPORT

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 (the "Company") and its subsidiaries (the "Group") set out on pages 40 to 117, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of 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 2018, 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. Recognition of revenue from construction contracts and other services contracts over time

KEY AUDIT MATTERS (CONT'D)

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment 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. Refer to note 19 to the consolidated financial statements, a significant amount of the Group's goodwill of RMB52,444,000 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.	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; and – Reconciling input data to supporting evidence, such as approved budgets and considering the historical accuracy of those budgets.
Recognition of revenue from construction contracts and other services contracts over time 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(k) and 4(v) to the consolidated financial statements. The Group's business involves entering into contractual relationships with customers to provide fabrication and other technical support services. Revenue from construction contracts and other service contracts recognised over time amounted to approximately RMB890,768,000 and represents approximately 60% of the Group's turnover for the year ended 31 December 2018. For the revenue from construction contracts and other service contracts recognised over time, the Group recognise revenue of these contracts by using the percentage of completion method, depend on the nature of the contract works, measured by reference to the proportion of the actual costs incurred relative to the estimated total costs or to the percentage of certified work performed to date to the estimated total contract sum. Significant management estimates are required in relation to recognition of revenue from construction contracts and other service contracts over time including the determination of costs to complete and estimated total contract costs, the percentage of completion and the timing of revenue recognition.	Our procedures in relation to the significant estimates made by management regarding recognition of revenue from construction contracts and other services contracts over time 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. – 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; and (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.

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 2018 annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of 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 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.

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.

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

- 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
29th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong
29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Turnover	*8*	1,485,964	724,469
Cost of sales and services		(1,305,459)	(635,043)
Gross profit		180,505	89,426
Other income	*9*	229,821	67,886
Impairment losses on trade and bills receivables		(18,939)	(705)
Impairment losses on other receivables		(8,756)	(673)
Impairment losses on contract assets/gross amount due from customers for contract work		(1,416)	(3,110)
Administrative expenses		(230,105)	(122,014)
Other operating expenses		(69,686)	(2,011)
Profit from operations		81,424	28,799
Finance costs	*11*	(50,819)	(10,749)
Share of profit of an associate	*21(b)(i)*	–	37,931
Profit before tax		30,605	55,981
Income tax expense	*12*	(3,968)	(400)
Profit for the year	*13*	26,637	55,581
Attributable to:			
Owners of the Company		26,637	55,581
Earnings per share	*16*		
		RMB	RMB
Basic		1.63 cents	4.32 cents
Diluted		1.62 cents	4.27 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Profit for the year	26,637	55,581
Other comprehensive income:		
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	54,935	(64,127)
Other comprehensive income for the year, net of tax	54,935	(64,127)
Total comprehensive income for the year	81,572	(8,546)
Attributable to:		
Owners of the Company	81,572	(8,546)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Fixed assets	17	1,548,655	1,621,710
Prepaid land lease payments	18	287	352
Goodwill	19	54,648	54,648
Intangible assets	20	5,758	2,942
Trade receivables, non-current	23	46,129	–
Other receivables, non-current	26	8,846	–
Deferred tax assets	37	4,014	2,268
		1,668,337	1,681,920
Current assets			
Inventories	22	80,669	57,268
Trade and bills receivables	23	543,712	424,799
Contract cost assets	24	56,316	–
Contract assets	25	406,382	–
Gross amount due from customers for contract work	25	–	410,882
Prepayments, deposits and other receivables	26	234,618	158,565
Derivative financial instruments	27	670	4,865
Due from directors	28	733	411
Current tax assets		2,285	613
Pledged bank deposits	30	69,040	298,554
Bank and cash balances	30	900,712	1,443,302
		2,295,137	2,799,259
Current liabilities			
Trade and bills payables	31	659,695	955,435
Contract liabilities	25	53,702	–
Gross amount due to customers for contract work	25	–	37,524
Accruals and other payables	32	112,763	126,715
Derivative financial instruments	27	390	–
Loan from ultimate holding company	29	–	80,000
Provisions	33	82,664	221,828
Bank and other borrowings	34	470,331	567,772
Current tax liabilities		12,525	44,167
		1,392,070	2,033,441
Net current assets		903,067	765,818
Total assets less current liabilities		2,571,404	2,447,738

	Note	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Deferred revenue	*36*	37,071	39,870
Bank and other borrowings	*34*	335,668	278,000
Deferred tax liabilities	*37*	65,649	70,934
		438,388	388,804
NET ASSETS		2,133,016	2,058,934
Capital and reserves			
Share capital	*38*	14,755	14,739
Reserves	*41(a)*	2,118,261	2,044,195
TOTAL EQUITY		2,133,016	2,058,934

Approved by the Board of Directors on 29 March 2019 and are signed on its behalf by:

Liu Lei
Chairman

Cao Yunsheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	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 2017	7,506	851,263	(52,040)	2,951	(33,930)	7,859	160	39,599	357,174	–	1,180,542
Issue of shares on subscription	6,990	830,669	–	–	–	–	–	–	–	–	837,659
Issue of shares on exercise of share options	70	11,971	–	–	–	(2,577)	–	–	–	–	9,464
Issue of shares on exercise of warrants	173	36,443	–	–	–	–	(160)	–	–	–	36,456
Total comprehensive income for the year	–	–	–	–	(64,127)	–	–	–	55,581	–	(8,546)
Share-based payments	–	–	–	–	–	3,359	–	–	–	–	3,359
Share options forfeited	–	–	–	–	–	(442)	–	–	442	–	–
Transfer to statutory reserves	–	–	–	–	–	–	–	676	(676)	–	–
Proposed final dividend	–	–	–	–	–	–	–	–	(40,637)	40,637	–
Changes in equity for the year	7,233	879,083	–	–	(64,127)	340	(160)	676	14,710	40,637	878,392
At 31 December 2017	14,739	1,730,346	(52,040)	2,951	(98,057)	8,199	–	40,275	371,884	40,637	2,058,934
Adjustment on initial application of											
– HKFRS 9 *(note 3(a))*	–	–	–	–	–	–	–	–	(827)	–	(827)
– HKFRS 15 *(note 3(a))*	–	–	–	–	–	–	–	–	(4,312)	–	(4,312)
Restated balance at 1 January 2018	14,739	1,730,346	(52,040)	2,951	(98,057)	8,199	–	40,275	366,745	40,637	2,053,795
Issue of shares on exercise of share options	16	3,272	–	–	–	(695)	–	–	–	–	2,593
Total comprehensive income for the year	–	–	–	–	54,935	–	–	–	26,637	–	81,572
Share-based payments	–	–	–	–	–	35,743	–	–	–	–	35,743
2017 Final dividend paid	–	–	–	–	–	–	–	–	(50)	(40,637)	(40,687)
Proposed final dividend	–	–	–	–	–	–	–	–	(28,635)	28,635	–
Changes in equity for the year	16	3,272	–	–	54,935	35,048	–	–	(2,048)	(12,002)	79,221
At 31 December 2018	14,755	1,733,618	(52,040)	2,951	(43,122)	43,247	–	40,275	364,697	28,635	2,133,016

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		30,605	55,981
Adjustments for:			
Finance costs		50,819	10,749
Share of profit of an associate		–	(37,931)
Equity settled share-based payments		35,743	3,359
Interest income		(13,055)	(4,878)
Depreciation		121,848	31,105
Amortisation of prepaid land lease payments		65	65
Amortisation of intangible assets		780	1,302
Net loss on disposals of fixed assets		657	184
(Reversal of)/allowances for inventories		(6,588)	1,480
Impairment losses on trade and bills receivables, net		18,939	705
Impairment losses on other receivables		8,756	673
Impairment losses on contract assets/gross amount due from customers for contract work		1,416	3,110
Provisions of warranty, net		19,832	–
Reversal of provision for claim on construction contract		(158,018)	–
Fair value changes on derivative financial instruments		(4,904)	(62)
Gain on deemed disposal of an associate		–	(28,266)
Government grants income		(14,707)	(19,224)
Operating profit before working capital changes		92,188	18,352
Increase in inventories		(16,813)	(11,497)
Increase in trade and bills receivables		(187,938)	(173,478)
Increase in contract cost assets		(56,316)	–
Decrease in contract assets		901	–
Increase in gross amount due from customers for contract work		–	(83,309)
Increase in prepayments, deposits and other receivables		(93,837)	(90,025)
(Increase)/decrease in amounts due from directors		(322)	2,299
(Decrease)/increase in trade and bills payables		(295,740)	187,557
Increase in contract liabilities		16,178	–
Increase in gross amount due to customers for contract work		–	22,055
Decrease in accruals and other payables		(13,952)	(17,523)
Provision for claim on construction contract used		(978)	–
Cash used in operations		(556,629)	(145,569)
Income taxes paid		(43,130)	(1,861)
Interest paid		(44,801)	(9,314)
Other finance costs		(6,018)	(1,435)
Net cash used in operating activities		(650,578)	(158,179)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		13,055	4,878
Purchases of fixed assets		(51,809)	(9,598)
Acquisition of a subsidiary	*21(b)(iii)*	–	446,198
Proceeds from disposals of fixed assets		2,364	7,093
Purchase of intangible assets		(3,596)	(1,171)
Decrease/(increase) in pledged bank deposits		219,401	(259,769)
Dividend income from an associate		–	108,000
Government grants received		11,908	29,903
Net receipt from settlement of derivative financial instruments		9,489	238
Net cash generated from investing activities		200,812	325,772

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank and other borrowings raised		559,500	460,972
Repayment of bank and other borrowings		(599,273)	(208,528)
Dividend paid		(40,687)	–
(Repayment of loan)/loan advance from ultimate holding company		(80,000)	80,000
Proceeds from issue of shares upon subscription	*38(c)*	–	837,659
Proceeds from issue of shares on exercise of warrants	*38(d)*	–	36,456
Proceeds from issue of shares on exercise of share options	*38(b),(e)*	2,593	9,464
Net cash (used in)/generated from financing activities		(157,867)	1,216,023
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(607,633)	1,383,616
Effect of foreign exchange rate changes		54,930	(50,631)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		1,455,265	122,280
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		902,562	1,455,265
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		900,712	1,443,302
Pledged bank deposits		1,850	11,963
		902,562	1,455,265

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

	2018 RMB'000	2017 RMB'000
Pledged bank deposits (mature in three months or less)	1,850	11,963
Pledged bank deposits (mature after three months)	67,190	286,591
	69,040	298,554

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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(a) to the consolidated financial statements.

In the opinion of the directors of the Company, as at 31 December 2018, Sanju Environmental Protection (Hong Kong) Limited, a company incorporated in Hong Kong, is the immediate parent of the Company; and Beijing Sanju Environmental Protection & New Materials Co., Limited ("Sanju"), a company incorporated in the People's Republic of China (the "PRC") and listed on the Shenzhen Stock Exchange, is the ultimate parent 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.

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

(a) Application of new and revised HKFRSs

HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2018. Of these, the following developments are relevant to the Group's consolidated financial statements:

(i) HKFRS 9 Financial Instruments; and

(ii) HKFRS 15 Revenue from Contracts with Customers

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 9 Financial instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(a) Application of new and revised HKFRSs (Cont'd)

HKFRS 9 Financial instruments (Cont'd)

The adoption of HKFRS 9 resulted in the following changes to the Group's accounting policies.

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

– those to be measured subsequently at FVTOCI or FVTPL; and

– those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

(ii) Measurement

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

At initial recognition, the Group measures a financial assets at its fair value plus, in the case of a financial assets not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

– Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

– FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognsied in other gains/(losses). Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment losses are presented as separate line item in the statement of profit or loss.

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

(a) Application of new and revised HKFRSs (Cont'd)

HKFRS 9 Financial instruments (Cont'd)

(ii) Measurement (Cont'd)

– FVTPL: Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

(iii) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the trade receivables and contract assets.

Set out below is the impact of the adoption of HKFRS 9 on the Group.

The following table summarises the impact on the Group's opening retained earnings as at 1 January 2018 is as follows:

	Note	RMB'000
Increase in impairment losses for:		
– Trade and bills receivables	*(a)*	325
– Contract assets	*(c)*	560
– Other receivables	*(a)*	182
Related tax		(240)
Adjustment to retained earnings from adoption of HKFRS 9 on 1 January 2018		827
Attributable to owners of the Company		827

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(a) Application of new and revised HKFRSs (Cont'd)

HKFRS 9 Financial instruments (Cont'd)

(iii) Impairment (Cont'd)

The following table and the accompanying notes below explain the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018.

Financial assets	*Note*	Classification under HKAS 39	Classification under HKFRS 9	Carrying amount under HKAS 39 RMB'000	Carrying amount under HKFRS 9 RMB'000
Trade and bills receivables	*(a)*	Loans and receivables	Amortised cost	424,799	424,474
Other receivables	*(a)*	Loans and receivables	Amortised cost	43,438	43,256
Due from directors	*(a)*	Loans and receivables	Amortised cost	411	411
Derivative financial instruments	*(b)*	FVTPL	FVTPL	4,865	4,865

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application.

The Group did not designate or de-recognise any financial assets or financial liabilities at FVTPL at 1 January 2018.

Note:

(a) Trade and bills receivables, other receivables and due from directors that were classified as loans and receivables under HKAS 39 are now classified at amortised cost. An increase of approximately RMB325,000 and RMB182,000 in the allowance for impairment of the trade and bills receivables and other receivables respectively was recognised in opening retained earnings at 1 January 2018 on transition to HKFRS 9.

(b) Derivative financial instruments are required to be held as FVTPL as under HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

(c) Gross amount due from customers for contract work recognised in relation to the Group's construction contracts was reclassified as contract assets at 1 January 2018 under HKFRS 15. Contract assets are assessed for impairment in accordance with HKFRS 9. An increase of approximately RMB560,000 in the allowance for impairment of contract assets was recognised in opening retained earnings at 1 January 2018.

For assets in scope of the HKFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of HKFRS 9 impairment model requirements at 1 January 2018 results in an additional impairment allowance as follows:

	Note	RMB'000
Impairment allowance at 31 December 2017 under HKAS 39		10,879
Additional impairment recognised at 1 January 2018 on:		
– Trade and bills receivables	*(a)*	325
– Other receivables	*(a)*	182
– Contract assets	*(c)*	560
Impairment allowance at 1 January 2018 under HKFRS 9		11,946

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

(a) Application of new and revised HKFRSs (Cont'd)

HKFRS 9 Financial instruments (Cont'd)

(iii) Impairment (Cont'd)

Impairment losses related to trade and bills receivables, other receivables and contract assets are presented separately in the statement of profit or loss. As a result, the Group reclassified impairment losses on trade receivables and other receivables amounting to approximately RMB705,000 and RMB673,000 respectively, recognised under HKAS 39, and impairment losses on gross amount due from customers for contract work amounting to approximately RMB3,110,000, from "other operating expenses" to "impairment losses on trade and bills receivables", "impairment losses on other receivables" and "impairment losses on contract assets/gross amount due from contract assets" respectively in the statement of profit or loss for the year ended 31 December 2017.

HKFRS 15 Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The adoption of HKFRS 15 resulted in the following changes to the Group's accounting policies.

Revenue from construction contracts

The Group's revenue from construction contracts is recognised when customer obtains control of the promised goods or services in the contract and it is probable that the Group will collect the consideration to which it will be entitled in exchanging for transferring goods or services to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the promised goods or services may regards as being transferred over time or at a point in time. Control of the promised goods or services is regarded as being transferred over time when:

– the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

– the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

– the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If the contract terms and the Group's activities do not fall into these 3 situations, then under HKFRS 15 the Group recognises revenue for the transferring goods or services to the customer at a point in time.

If control of the promised goods or services regards as transfers over time, revenue is recognised over the period of the contract by the method that best depicts the Group's performance in satisfying the performance obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(a) Application of new and revised HKFRSs (Cont'd)

Revenue from trading of oil and gas, chemical and other energy products

The Group also engaged in trading of oil and gas, chemical and other energy products. Trading revenue are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion to use the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped or transport to the specific location.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The adoption of HKFRS 15 does not have a significant impact on how the Group recognises revenue from trading of oil and gas, chemical and other energy products.

Revenue from providing technical consultancy; repair and maintenance and installation services ("technical support services")

The Group also provides technical consultancy; repair and maintenance and installation services to customer. Such services are recognised as a performance obligation satisfied over time as the customers simultaneously receive and consume the benefit as the Group performs the services. Revenue is recognised for these services based on the stage of completion of the contract. Payment for these services is not due from the customer until the related services are complete and therefore a contract asset is recognised over the period in which these services are performed representing the entity's right to consideration for the services performed to date.

The adoption of HKFRS 15 does not have a significant impact on how the Group recognises revenue from providing technical support services.

Significant financing component

In respect of the Group's construction and trading business, in determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed provides the customer with a significant benefit of financing for the transfer of goods or services to the customer. In these circumstances, the contract contains a significant financing component.

For contracts where the period between payments and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Costs to fulfil a contract

HKFRS 15 specifies that certain costs to fulfil a contract to be capitalised as other contract cost assets.

The Group incurred costs that were previously expensed and which related to construction contracts. Management considered that the effect of other contract cost assets is not significant as at 1 January 2018.

Set out below is the impact of the adoption of HKFRS 15 on the Group.

The following table summarises the impact on the Group's opening retained earnings as at 1 January 2018 is as follows:

	Note	RMB'000
Revenue and related costs from contracts previously recognised as over time and recognised as a point of time under HKFRS 15	*(a)*	(1,268)
Revenue from contracts with financing component	*(b)*	(3,986)
Related tax		942
Adjustment to retained earnings from adoption of HKFRS 15 on 1 January 2018		(4,312)

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

(a) Application of new and revised HKFRSs (Cont'd)

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Note	Amounts reported in accordance with HKFRS 15 RMB'000	Hypothetical amounts under HKASs 18 and 11 RMB'000	Estimated impact of adoption of HKFRS 15 RMB'000
As at 31 December 2018				
Consolidated statement of financial position (extract)				
Trade and bills receivables	*(b)*	589,841	515,706	74,135
Contract cost assets	*(a)*	56,316	–	56,316
Gross amount due from customers for contract work	*(a) & (c)*	–	557,164	(557,164)
Contract assets	*(c)*	406,382	–	406,382
Gross amount due to customers for contract work	*(c)*	–	(35,496)	35,496
Contract liabilities	*(c)*	(53,702)	–	(53,702)
Accruals and other payables	*(c)*	(112,763)	(130,969)	18,206
Deferred tax liabilities	*(a) & (b)*	(65,649)	(69,427)	3,778
Retained earnings		(393,332)	(409,885)	16,553
For the year ended 31 December 2018				
Consolidated statement of profit or loss (extract)				
Revenue	*(a) & (b)*	1,485,964	1,540,806	(54,842)
Cost of sales and services	*(a)*	(1,305,459)	(1,343,834)	38,375
Other income	*(b)*	229,821	228,431	1,390
Income tax expenses	*(a) & (b)*	(3,968)	(6,804)	2,836

The significant difference arises as a result of the changes in accounting policies described above.

(a) For uncompleted contracts as at 1 January 2018 and 31 December 2018 that do not meet the criterion for the control of the promised goods or services regards as being transferred over time, the revenue, cost of sales and services, receivables and contract cost assets is adjusted as if the control of the promised goods or services regards as being transferred at a point of time.

(b) For contracts where the period between the payment by the customer and the transfer of goods or provide services to customers exceeds one year, the transaction price is adjusted for the effects of a financing component.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(a) Application of new and revised HKFRSs (Cont'd)

(c) Reclassifications were made as at 1 January 2018 to be consistent with the terminology under HKFRS 15:

Previously, contract balances relating to construction contracts in progress were presented in the statement of consolidated financial statement under "Gross amount due from customers for contract work" or "Gross amount due to customers for contract work". To reflect these changes in presentation, the Group has made the following reclassification adjustments at 1 January 2018, as a result of the adoption of HKFRS15:

Contract assets recognised in relation to construction were previously presented as "Gross amount due from customers for contract work".

Contract liabilities for progress billing recognised in relation to construction were previously presented as "Gross amount due to customers for contract work".

(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 2018. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16 Leases	1 January 2019
HK(IFRIC) 23 Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to HKFRSs 2015 -2017 Cycle	1 January 2019

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 HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

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.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating leases. The Group's office, staff quarters, warehouses and machineries 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.

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 (Cont'd)

As disclosed in note 45 to the financial statements, the Group's future minimum lease payments under non-cancellable operating leases for its office, staff quarters, warehouses and machineries leases amounted to approximately RMB8,380,000 as at 31 December 2018. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted unless they qualify for low value or short-term leases. The amount will be adjusted for the effects of discounting and the transition reliefs available to the Group.

HK(IFRIC) 23 Uncertainty over Income Tax Treatments

The interpretation of HKAS 12 Income Taxes sets out how to apply that standard when there is uncertainty about income tax treatments. Entities are required to determine whether uncertain tax treatments should be assessed separately or as a group depending on which approach will better predict the resolution of the uncertainties. Entities will have to assess whether it is probable that a tax authority will accept an uncertain tax treatment. If yes, the accounting treatment will be consistent with the entity's income tax filings. If not, however, entities are required to account for the effects of the uncertainty using either the most likely outcome or expected value method depending on which method is expected to better predict its resolution.

The Group is unable to estimate the impact of the interpretation on the consolidated financial statements until a more detailed assessment has been completed.

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 2018

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.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment loss.

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Foreign currency translation (Cont'd)

(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.

(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, pier and other infrastructure	8 – 44 years
Plant and machinery	5 – 15 years
Furniture, fixtures and equipment	5 – 12 years
Motor vehicles	5 – 8 years

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Intangible assets

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 16 years.

(g) Leases

The Group as lessee

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.

(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) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory or fixed assets.

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Incremental costs of obtaining a contract are capitalised when incurred if the costs are expected to be recovered, unless the expected amortisation period is one year or less from the date of initial recognition of the asset, in which case the costs are expensed when incurred. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the group entered into the contract. Other costs of fulfilling a contract, which are not capitalised as inventory or fixed assets are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Contract assets and contract liabilities

Contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses ("ECL") in accordance with the policy set out in note 4(dd) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

Policy prior to 1 January 2018

In the comparative period, contract balances were recorded for construction contracts at the net amount of costs incurred plus recognised profit less recognised losses and progress billings. These net balances were presented as the "gross amount due from customers for contract work" (as an asset) or the "gross amount due to customers for contract work" (as a liability). Progress billings not yet paid by the customer were included under "trade and bills receivable". Amounts received before the related work was performed were presented as "advances received" under "accruals and other payables". These balances have been reclassified as on 1 January 2018 as shown in note 3(a).

(k) Construction contracts

A contract with a customer is classified by the Group as a construction contract when the contract relates to fabrication of facilities for oil and gas industries and for other energy and refining and chemical industries.

Revenue from construction contracts is recognised when customer obtains control of the promised goods or services in the contract and it is probable that the Group will collect the consideration to which it will be entitled in exchanging for transferring goods or services to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the promised goods or services may regards as being transferred over time or at a point in time. Control of the asset is transferred over time if the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

For construction contracts of which the control of the promised goods or services to the customer regards as being transferred over time and when the outcome of a construction contract can be reasonably measured, revenue from the contract is recognised progressively over time using the percentage of completion method, depends on the nature of the contract works, measured by reference to the proportion of the actual costs incurred relative to the estimated total costs or to the percentage of certified work performed to date to the estimated total contract sum of the relevant contracts.

For other construction contracts, revenue is recognised at a point in time when the customers obtain control of the assets.

Generally, the Group becomes entitled to invoice customers for fabrication of facilities based on achieving a series of performance-related milestones. When a particular milestone is reached the customer is sent a relevant statement of work and an invoice for the related milestone payment. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognised to date under the percentage of completion method then the Group recognises a contract liability for the difference. Certain of the Group's fabrication contracts includes a significant financing component as the period between the recognition of revenue under the percentage to completion method and the milestone payment is over one year.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Construction contracts (Cont'd)

The likelihood of the Group earning contractual bonuses for early completion or suffering contractual penalties for late completion are taken into account in making these estimates, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised.

Policy prior to 1 January 2018

Revenue from construction contracts was recognised on a similar basis in the comparative period under HKAS 11.

(l) 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 and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(m) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Financial assets (Cont'd)

Debt investments

Debt investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

– FVTOCI - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVTPL if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Policy prior to 1 January 2018

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.

(n) Trade and other receivables

A receivable is recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that 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 for the purpose of the consolidated statement of cash flow. Cash and cash equivalents are assessed for ECL.

(p) 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.

(q) 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.

(r) Financial guarantee contract liabilities

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

– the amount determined in accordance with the ECL model under HKFRS 9; and

– the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(s) 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.

(t) Equity instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(u) Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in hybrid contracts with a financial asset host within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortised cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

If the hybrid contract is a quoted financial liability, instead of separating the embedded derivative, the Group generally designates the whole hybrid contract at FVTPL.

(v) Revenue recognition

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from trading of oil and gas, chemical and other energy products is recognised when control of the products has transferred, being when the products are delivered to the customer. Following delivery, the customer has full discretion to use the products, and has the primary responsibility when to sell the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Revenue from technical consultancy services, repair and maintenance and installation services is recognised based on the stage of completion of the contract. Payment for these services is not due from the customer until the related services are complete and therefore a contract asset is recognised over the period in which these services are performed representing the entity's right to consideration for the services performed to date.

Revenue from construction contracts is recognised in accordance with the policy set out on note 4(k) above.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(v) Revenue recognition (Cont'd)

Policy prior to 1 January 2018

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.

Revenue from the sales of goods is 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. Progress billings not yet paid by customers and revenue recognised from sales of goods but are not yet contractually able to issue invoices to customers (based on payment terms stipulated in the relevant contract) are included with "trade and other receivables" as billed and unbilled receivables respectively.

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(k) above.

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

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

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

(w) 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.

(x) 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 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(y) 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.

(z) 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.

(aa) 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(aa) Taxation (Cont'd)

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.

(bb) Research and development expenditure

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

(cc) 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.

(dd) Impairment of financial assets and contract assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(dd) Impairment of financial assets and contract assets (Cont'd)

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information where appropriate is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) The financial instrument has a low risk of default;

(ii) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and

(iii) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(dd) Impairment of financial assets and contract assets (Cont'd)

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

– when there is a breach of financial covenants by the counterparty; or

– information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

– significant financial difficulty of the issuer or the counterparty;

– a breach of contract, such as a default or past due event;

– it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(dd) Impairment of financial assets and contract assets (Cont'd)

Policy prior to 1 January 2018

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.

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.

(ee) 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)

(ff) 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.

(gg) 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. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting polices

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

(a) Legal titles of certain land and building

As stated in note 17 to the consolidated financial statements, a subsidiary of the Group, Penglai Jutal is still in the process of obtaining the land use right certificates of certain leasehold lands located in the PRC with carrying amount of approximately RMB30,785,000 and obtaining the ownership certificates of certain building structures erected on these leasehold lands that were not yet obtain the land use right certificates with the carrying amount of approximately RMB60,440,000.

In additional, Penglai Jutal is in the process of obtaining the ownership certificates of other building structures with carrying amounts of RMB40,688,000. These building structures were erected on certain leasehold lands which Penglai Jutal has obtained the land use right certificates.

Despite the fact that Penglai Jutal has not obtained the relevant legal titles, the directors determined to recognise those building structures and leasehold lands as fixed assets on the grounds that they expect the transfer of legal titles of the above building structures and leasehold lands in future should have no major difficulties and Penglai Jutal is in substance controlling and obtaining the economic benefits from those building structures and lands.

(b) Significant increase in credit risk

As explained in note 3(a) and 4(dd), ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. HKFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

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5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONT'D)

Critical judgements in applying accounting polices (Cont'd)

(c) *Other contract costs*

Other contract costs are divided into: (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred.

When determining the appropriate accounting treatment for such costs, the Group firstly considers any other applicable standards. If there are other standards preclude capitalisation of a particular cost, then an asset is not recognised under HKFRS 15.

If other standards are not applicable to other contract costs, the Group applies the criteria specified in HKFRS 15, if met, result in capitalisation. The assessment of the criteria requires the application of judgement, in particular when considering if costs generate or enhance resources to be satisfy future performance obligations and whether costs are expected to be recoverable.

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) *Fixed assets and depreciation*

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's fixed assets. This estimate is based on the historical experience of the actual useful lives and residual values of fixed assets 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 fixed assets as at 31 December 2018 was approximately RMB1,548,655,000 (2017: RMB1,621,710,000).

(b) *Recognition of revenue from construction contracts and other services contracts over time and measured by reference to cost to cost method*

As explained in policy notes 4(k) and 4(v), revenue from technical support services and certain construction contracts are recognised over time. The Group recognise revenue of these contracts by using the percentage of completion method measured by reference to the proportion of the actual costs incurred relative to the estimated total costs. Significant judgements and estimations are required in determining the completeness of the estimated total costs and the accuracy of progress towards complete satisfaction of the performance obligations. As part of this process, the estimated total costs of each contract will be reviewed periodically. Changes in cost estimates in future periods can have effect on the Group's revenue recognised. During the year, approximately RMB546,458,000 (2017: RMB578,848,000) of revenue from these 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 RMB3,968,000 (2017: RMB400,000) of income tax expense was charged to profit or loss based on the Group's estimated profit for the year.

(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 RMB54,648,000 (2017: RMB54,648,000).

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONT'D)

Key sources of estimation uncertainty (Cont'd)

(e) Impairment of trade and bills receivables and contract assets

Prior to the adoption of HKFRS 9 on 1 January 2018, the management of the Group assesses at the end of each reporting period whether there is any objective evidence that trade and bills receivables and gross amount due from customers for contract work are impaired. The provision policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of trade receivables and gross amount due from customers for contract work, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

As at 31 December 2017, the aggregate carrying amount of trade and bills receivables and gross amount due from customers for contract work is RMB835,681,000 (net of allowance for doubtful debts of RMB8,215,000).

Since the adoption of HKFRS 9 on 1 January 2018, the management of the Group estimates the amount of impairment loss for ECL on trade and bills receivables and contract assets based on the credit risk of trade and bills receivables and contract assets. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2018, the aggregate carrying amount of trade and bills receivables and contract assets is RMB996,223,000 (net of allowance for doubtful debts of RMB29,455,000).

(f) Provision for claims on construction work

When accounting for provision for claims on construction works by customers, the Group has taken internal advice in considering known claims and actions made by or against the Group. It carefully assesses the likelihood of success of a claim or action. Appropriate provisions are made for claims or actions against the Group on the basis of likely outcome. In making its judgements, the management assessed the Group's liability and obligations based on the terms of the subcontracting agreement, supporting evidence of work done and the basis of charge for the rectification of related works. Provision on probable obligations, if appropriate, are made based on management's best estimates and judgements. Where the final outcome of the claim and negotiation with the customer is different from the estimation made by the directors of the Company, such difference will impact the provision for claims in the year in which such determination is finalised.

As at 31 December 2018, no provision for claims was made (2017: RMB158,996,000).

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For the year ended 31 December 2018

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 and United States dollars ("US$"). During the years ended 31 December 2018 and 2017, the Group started to enter into foreign exchange forward contracts to hedge the foreign currency risk arising from certain of its contract revenue and trade receivables denominated in Euro and US$. The Group currently does not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities.

At 31 December 2018, 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 RMB5,191,000 (2017: RMB5,252,000) 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 RMB5,191,000 (2017: RMB5,252,000) 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$.

As set out in note 27 of the consolidated financial statements, at the end of the reporting period, the Group had outstanding foreign currency forward contracts which also expose the Group to foreign currency risk.

At 31 December 2018, all outstanding foreign currency forward contracts are used to hedge the risk of depreciation of US$ against RMB and depreciation of Euro against RMB. The directors of the Group consider that the foreign currency exposure in respect of the outstanding foreign currency forward contracts for the year ended 31 December 2018 is insignificant to the Group and therefore no sensitivity analysis is presented thereon.

At 31 December 2017, all outstanding foreign currency forward contracts are used to hedge the risk of depreciation of US$ against RMB. Based on the terms of these contracts, at 31 December 2017, 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 RMB17,522,000 higher. 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 RMB7,781,000 lower. In the opinion of the directors, the sensitivity analysis is unrepresentative of the inherent market risk as the price model used involves multiple variables and certain variables which are interdependent.

(b) Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade and bills receivables and contract assets) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group's exposure to credit risk arising from cash and cash equivalents and derivative financial instruments is limited because the counterparties are banks and financial institutions with high credit-rating assigned by international credit-rating agencies, for which the Group considers to have low credit risk.

Trade receivables and contract assets

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. The Group obtained collaterals from certain of its contract customers.

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

Trade receivables and contract assets (Cont'd)

The Group measures loss allowances for trade and bills receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following tables provide information about the Group's exposure to credit risk and ECLs for trade and bills receivables as at 31 December 2018:

	Current	Not more than 90 days past due	More than 90 days past due	More than 180 days past due	More than 1 year past due	More than 2 years past due	Total
Trade and bills receivables							
Expected loss rate	0.39%	1.20%	6.51%	27.04%	32.05%	37.48%	
Gross carrying amount (RMB'000)	488,618	62,376	13,512	36,853	11,092	4,869	617,320
Loss allowance							
– Collectively assessed (RMB'000)	1,926	751	880	3,280	3,555	1,825	12,217
– Specifically assessed (RMB'000)	–	–	–	15,262	–	–	15,262
Total	1,926	751	880	18,542	3,555	1,825	27,479

Expected loss rate of current contract assets is assessed to be 0.48%. As at 31 December 2018, the loss allowance provision for contract assets amounted to RMB1,976,000.

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables and contract assets.

For trade receivables and contract assets due from individual customer which determined as credit-impaired, the Group will specifically assessed the expected loss rate by adjusting for factors that are specific to these customers.

Prior to 1 January 2018

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. At 31 December 2017, trade receivables of RMB8,215,000 were determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 RMB'000
Neither past due nor impaired	366,113
Up to 90 days past due	26,644
91 to 180 days	13,209
181 to 360 days	8,414
361 to 720 days	997
Over 720 days	9,422
	424,799

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6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

Receivables that were past due but not impaired related to a number of independent customers for whom there was no recent history of default. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Movement in the loss allowance account in respect of trade and bills receivables and contract assets during the year is as follows:

	Trade receivables RMB'000	Contract assets RMB'000	Total RMB'000
Loss allowance at 31 December 2017 under HKAS 39	8,215	–	8,215
Impairment on initial application of HKFRS 9 *(note 3)*	325	560	885
Adjusted loss allowance at 1 January 2018	8,540	560	9,100
Provision for loss allowance for the year	18,939	1,416	20,355
Loss allowance at 31 December 2018	27,479	1,976	29,455

The following changes in the gross carrying amounts of trade and bills receivables and contract assets contributed to the increase in the loss allowance during 2018:

- origination of new trade receivables net of those settled resulted in an increase in loss allowance of RMB3,007,000; and

- increase in days past due over 90 days resulted in an increase in loss allowance of RMB5,252,000.

Other receivables and amount due from directors

All of the Group's other receivables and amount due from directors are considers to have low credit risk, and the loss allowance recognised during the year was therefore limited to 12-month expected losses.

The loss allowance for other receivables as at 31 December 2017 reconciles to the opening loss allowance on 1 January 2018 and to the closing allowance as at 31 December 2018 as follows:

	Other receivables RMB'000
Loss allowance at 31 December 2017 under HKAS 39	2,664
Impairment on initial application of HKFRS 9 *(note 3(a))*	182
Adjusted loss allowance at 1 January 2018	2,846
Provision for loss allowance for the year	8,756
Loss allowance at 31 December 2018	11,602

The Group has assessed that the loss allowance of amount due from directors are not material, and no loss allowance was recognised for amount due from directors.

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(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 2018					
Trade and bills payables	**659,695**	**–**	**–**	**–**	**659,695**
Accruals and other payables	**112,763**	**–**	**–**	**–**	**112,763**
Loan from ultimate holding company	**–**	**–**	**–**	**–**	**–**
Bank and other borrowings *(note)*	**492,880**	**205,853**	**165,113**	**–**	**863,846**
At 31 December 2017					
Trade and bills payables	955,435	–	–	–	955,435
Accruals and other payables	124,310	–	–	–	124,310
Loan from ultimate holding company	80,000	–	–	–	80,000
Bank borrowings	594,932	103,743	201,837	–	900,512

Note:

Bank borrowings 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 2018, the undiscounted aggregate principal amounts of these bank borrowings amounted to approximately RMB151,164,000 (2017: RMB5,100,000). 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 two (2017: 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 RMB164,976,000 (2017: RMB5,924,000).

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 2018					
Derivative – gross settlement					
Foreign exchange forward contracts					
– Inflow	**53,439**	**41,613**	**28,222**	**–**	**123,274**
– Outflow	**(53,551)**	**(41,223)**	**(28,220)**	**–**	**(122,994)**
– Inflow	**(112)**	**390**	**2**	**–**	**280**
At 31 December 2017					
Derivative - gross settlement					
Foreign exchange forward contracts					
– Inflow	259,642	–	–	–	259,642
– Outflow	(254,777)	–	–	–	(254,777)
	4,865	–	–	–	4,865

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For the year ended 31 December 2018

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(d) Interest rate risk

The Group's exposure to interest rate risk arises from its bank deposits, loan from ultimate holding company and bank and other borrowings. Part of the Group's bank deposits and bank and other 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 2018, 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 RMB2,718,000 lower, arising mainly as a result of lower interest income on bank deposits. 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 RMB2,718,000 higher, arising mainly as a result of higher interest income on bank deposits.

At 31 December 2017, 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 RMB10,751,000 lower, arising mainly as a result of lower interest income on bank deposits. 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 RMB10,751,000 higher, arising mainly as a result of higher interest income on bank deposits.

The Group's other fixed-rate bank and other borrowings, loan from ultimate holding company 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

	2018 RMB'000	2017 RMB'000
Financial assets:		
Financial assets measured at amortised cost	1,694,192	–
Loans and receivables (including cash and cash equivalents)	–	2,217,342
Derivative financial instruments – held for trading	670	4,865
Financial liabilities:		
Financial liabilities at amortised cost	1,578,457	2,005,517
Derivative financial instruments – held for trading	390	–

(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 2018 using level 2 RMB'000	31 December 2017 using level 2 RMB'000
Recurring fair value measurements:		
Financial assets		
Derivatives		
Foreign currency forward	670	4,865
Financial liabilities		
Derivatives		
Foreign currency forward	390	–

(b) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2018:

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 2018.

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			
			2018 RMB'000		2017 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	670	(390)	4,865	–

There were no changes in the valuation techniques used for the years ended 31 December 2018 and 2017.

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8. TURNOVER

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by type of contract for the year from continuing operations is as follows:

Revenue from contracts with customers within the scope of HKFRS 15	2018 RMB'000	2017 RMB'000
Disaggregated by type of contract		
– Revenue from construction contracts	914,932	497,680
– Trading of oil and gas, chemical and other energy products	507,083	145,621
– Technical support services	63,949	81,168
	1,485,964	724,469

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following type of contract:

For the year ended 31 December	Revenue from construction contracts		Trading of oil and gas, chemical and other energy products		Technical support services		Total	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Timing of revenue recognition								
Goods and services transferred at a point in time	88,113	–	507,083	145,621	–	–	595,196	145,621
Goods and services transferred over time	826,819	497,680	–	–	63,949	81,168	890,768	578,848
Total	914,932	497,680	507,083	145,621	63,949	81,168	1,485,964	724,469

The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11.

(b) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue as follows:

	Construction contracts RMB'000	Trading of oil and gas, chemical and other energy products RMB'000	Technical support services RMB'000
Within one year	1,505,126	30,665	6,971
More than one year but not more than two years	732,506	–	–
More than two years	284,913	–	–
	2,522,545	30,665	6,971

The above amount also does not include any amounts of completion bonuses that the Group may earn in the future by meeting the conditions set out in the Group's construction contracts and technical support service contracts with customers, unless at the reporting date it is highly probable that the Group will satisfy the conditions for earning those bonuses.

9. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Reversal of provision of claim *(note 33)*	158,018	–
Compensation income	12,647	–
Reversal of allowance for inventories	6,588	–
Gain on deemed disposal of an associate	–	28,266
Government grants recognised *(note a)*	14,707	19,224
Interest income on bank deposits	13,055	4,878
Net foreign exchange gains	–	14,693
Fair value gains on derivative financial instruments	4,904	62
Reversal of other receivables previously written off	5,000	–
Sales of scrap materials	5,440	–
Others	9,462	763
	229,821	67,886

Note:

(a) For the year ended 31 December 2018, government grants of approximately RMB9,895,000 (2017: RMB13,972,000) 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 approximately RMB4,812,000 (2017: RMB5,252,000) are recognised in relation to certain research and development activities.

10. SEGMENT INFORMATION

The Group has three reportable segments as follows:

(a) Fabrication of facilities and provision of integrated services for oil and gas industries
(b) Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries
(c) Provision of technical support services for shipbuilding industry

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

The Group's other operating segment mainly represents provision of undersea maintenance services for industries other than oil and gas, energy and refinery 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, 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 and other borrowings, derivative financial instruments, current and deferred tax liabilities, deferred revenue, loan from ultimate holding company and other corporate liabilities.

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10. SEGMENT INFORMATION (CONT'D)

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

	Fabrication of facilities and provision of integrated services for oil and gas industries RMB'000	Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries RMB'000	Provision of technical support services for shipbuilding industry RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2018					
Turnover from external customers	983,112	485,334	13,012	4,506	1,485,964
Segment profit/(loss)	105,830	78,343	(1,329)	(2,339)	180,505
Depreciation and amortisation	121,522	1,146	25	–	122,693
Other material non-cash items:					
Impairment losses on trade and other receivables, net	26,493	1,033	104	65	27,695
Impairment losses on contract asset	985	409	22	–	1,416
Additions to segment non-current assets	55,374	31	–	–	55,405
As at 31 December 2018					
Segment assets	2,475,898	375,913	22,934	12,277	2,887,022
Segment liabilities	720,290	157,393	18,033	2,438	898,154
Year ended 31 December 2017					
Turnover from external customers	460,148	225,885	18,019	20,417	724,469
Segment profit/(loss)	38,207	46,745	(2,453)	6,927	89,426
Depreciation and amortisation	30,176	1,600	696	–	32,472
Other material non-cash items:					
Impairment losses on trade and other receivables, net	1,007	123	42	206	1,378
Impairment losses on gross amount due from customers for contract work	3,110	–	–	–	3,110
Additions to segment non-current assets	10,769	–	–	–	10,769
As at 31 December 2017					
Segment assets	2,291,592	288,652	32,443	18,985	2,631,672
Segment liabilities	1,154,848	150,249	17,558	4,239	1,326,894

10. SEGMENT INFORMATION (CONT'D)

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

	2018 RMB'000	2017 RMB'000
Profit or loss		
Total profit or loss of reportable segments	180,505	89,426
Unallocated amounts:		
Finance costs	(50,819)	(10,749)
Impairment losses on contract assets/gross amount due from customers for contract work	(1,416)	(3,110)
Impairment losses on trade and bills receivables	(18,939)	(705)
Impairment losses on other receivables	(8,756)	(673)
Other income	229,821	67,886
Other corporate expenses	(299,791)	(124,025)
Share of profit of an associate	–	37,931
Consolidated profit before tax for the year	30,605	55,981
Assets		
Total assets of reportable segments	2,887,022	2,631,672
Unallocated amounts:		
Bank and cash balances	900,712	1,443,302
Pledged bank deposits	69,040	298,554
Derivative financial instruments	670	4,865
Current tax assets	2,285	613
Deferred tax assets	4,014	2,268
Goodwill	54,648	54,648
Other corporate assets	45,083	45,257
Consolidated total assets	3,963,474	4,481,179
Liabilities		
Total liabilities of reportable segments	898,154	1,326,894
Unallocated amounts:		
Bank and other borrowings	805,999	845,772
Derivative financial instruments	390	–
Current tax liabilities	12,525	44,167
Deferred revenue	37,071	39,870
Deferred tax liabilities	65,649	70,934
Loan from ultimate holding company	–	80,000
Other corporate liabilities	10,670	14,608
Consolidated total liabilities	1,830,458	2,422,245

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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	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
PRC except Hong Kong	905,369	538,072	1,664,323	1,679,595
United States	234,822	1,319	–	–
Switzerland	118,490	–	–	–
Sweden	49,595	–	–	–
Singapore	26,807	10,782	–	–
Portugal	113,150	369	–	–
France	8,185	100,096	–	–
Spain	–	73,675	–	–
United Kingdom	22,260	–	–	–
Others	7,286	156	–	57
Consolidated total	1,485,964	724,469	1,664,323	1,679,652

Turnover from major customers:

	Fabrication of facilities and provision of integrated services for oil and gas industries RMB'000	Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries RMB'000	Provision of technical support services for shipbuilding industry RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2018					
Customer A	160,631	–	–	–	160,631
Customer B	139,127	–	–	–	139,127
Customer C	–	–	–	–	–
Customer D	3,728	–	–	–	3,728
Year ended 31 December 2017					
Customer A	–	–	–	–	–
Customer B	100,096	–	–	–	100,096
Customer C	–	145,305	–	–	145,305
Customer D	73,675	–	–	–	73,675

11. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank borrowings	44,671	9,234
Interest on loan from ultimate holding company	130	80
Others	6,018	1,435
	50,819	10,749

12. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current tax – PRC Enterprise Income Tax		
Provision for the year	30,389	18,947
(Over)/under-provision in prior years	(20,572)	218
	9,817	19,165
Deferred tax *(note 37)*	(5,849)	(18,765)
	3,968	400

(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 2018 and 2017.

(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 since 30 November 2016 to 29 November 2019 and therefore entitled to a preferential income tax rate of 15% if all the required conditions have been met in the respective year. During the year ended 31 December 2018, Zhuhai Jutal has met all required conditions and is therefore entitled to enjoy a reduced income tax rate of 15%.

(ii) Penglai Jutal Offshore Engineering Heavy Industries Company Limited ("Penglai Jutal")

Penglai Jutal was approved to recognise as a new and high technology enterprise since 15 December 2016 to 14 December 2019 and therefore entitled to a preferential income tax rate of 15% if all the required conditions have been met in the respective year. During the year ended 31 December 2018, Penglai Jutal has met all required conditions and is therefore entitled to enjoy a reduced income tax rate of 15%.

(iii) Chengdu Jutal Oil and Gas Engineering Co. Ltd ("Chengdu Jutal")

Chengdu Jutal was approved to recognise as a new and high technology enterprise since 29 August 2017 to 28 August 2020 and therefore entitled to a preferential income tax rate of 15% if all the required conditions have been met in the respective year. During the year ended 31 December 2018, Chengdu Jutal has met all required conditions and is therefore entitled to enjoy a reduced income tax rate of 15%.

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

(c) Tax charge on profits assessable elsewhere has 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.

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12. INCOME TAX EXPENSE (CONT'D)

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

	2018 RMB'000	2017 RMB'000
Profit before tax (excluding share of profit of an associate)	30,605	18,050
Tax at the PRC enterprise income tax rate of 25% (2017: 25%)	7,651	4,513
Tax effect of income that is not taxable	(1,674)	(12,567)
Tax effect of expenses that are not deductible	21,225	10,544
Tax effect of tax losses not recognised	3,168	–
Tax effect of utilisation of tax losses not previously recognised	–	(3,311)
Deferred tax on undistributed earnings of the PRC subsidiaries	1,809	1,986
Tax benefit for qualifying research and development expenses	(2,694)	(1,440)
(Over)/Under-provision in prior years	(20,572)	218
Effect of different tax rates of subsidiaries	(4,945)	457
Income tax expense	3,968	400

13. PROFIT FOR THE YEAR

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

		2018 RMB'000	2017 RMB'000
(a)	Staff costs (including directors' emoluments):		
	Salaries, wages and other benefits	339,948	161,736
	Retirement scheme contributions	31,369	10,114
	Share-based payments	35,743	3,359
		407,060	175,209
(b)	Others items:		
	Amortisation of intangible assets	780	1,302
	Amortisation of prepaid land lease payments	65	65
	Depreciation	121,848	31,105
	Net loss on disposals of fixed assets*	657	184
	Net foreign exchange losses/(gains)	49,289	(14,693)
	Gain on deemed as disposal of an associate	–	(28,266)
	Operating lease charges		
	– Plant and equipment	1,971	561
	– Land and buildings	6,221	2,458
	Research and development expenditure	55,570	24,440
	Auditor's remuneration	1,223	1,238
	Cost of inventories utilised in construction contracts and sold	622,462	323,711
	Reversal of allowance for inventories	(6,588)	–
	Allowance for inventories*	–	1,480
	Impairment losses on trade and bills receivables	18,939	2,756
	Reversal of impairment losses on trade receivables	–	(2,051)
	Impairment losses on other receivables	8,756	673
	Impairment losses on contract assets/gross amount due from customers for contract work	1,416	3,110
	Fair value changes on derivative financial instruments	(4,904)	(62)

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

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments of every director are 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	–	2,025	–	1,913	56	3,994
Mr. Cao Yunsheng	–	1,123	–	5,230	60	6,413
Mr. Tang Hui *(note a)*	–	428	–	753	33	1,214
Mr. Liu Lei	–	2,834	–	–	–	2,834
Mr. Lin Ke	–	1,215	–	–	–	1,215
Mr. Liu Yunian *(note b)*	–	407	–	425	33	865
Mr. Cao Huafeng *(note c)*	–	45	–	–	–	45
Mr. Sergey Alexandrovich Borovskiy *(note c)*	–	44	–	215	–	259
	–	8,121	–	8,536	182	16,839
Independent non-executive directors						
Mr. Su Yang	120	–	–	753	–	873
Mr. Qi Daqing	120	–	–	753	–	873
Mr. Zheng Yimin	120	–	–	753	–	873
	360	–	–	2,259	–	2,619
Total for 2018	360	8,121	–	10,795	182	19,458
Executive directors						
Mr. Wang Lishan	–	1,705	–	1,292	80	3,077
Mr. Cao Yunsheng	–	851	–	2,067	55	2,973
Mr. Tang Hui *(note a)*	–	628	–	–	54	682
Mr. Li Jing *(note d)*	–	564	–	–	54	618
Mr. Liu Lei	–	1,630	–	–	–	1,630
Mr. Lin Ke	–	698	–	–	–	698
Mr. Cao Huafeng *(note c)*	–	35	–	–	–	35
Mr. Sergey Alexandrovich Borovskiy *(note c)*	–	35	–	–	–	35
	–	6,146	–	3,359	243	9,748
Independent non-executive directors						
Mr. Su Yang	120	–	–	–	–	120
Mr. Xiang Qiang *(note e)*	80	–	–	–	–	80
Mr. Qi Daqing	120	–	–	–	–	120
Mr. Zheng Yimin	67	–	–	–	–	67
	387	–	–	–	–	387
Total for 2017	387	6,146	–	3,359	243	10,135

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

(a) Directors' emoluments (Cont'd)

Notes:

(a) Mr. Tang Hui was resigned as an executive director on 25 August 2017 and re-appointed on 8 June 2018.

(b) Mr. Liu Yunian was appointed as an executive director on 8 June 2018.

(c) Mr. Cao Huafeng and Mr. Sergey Alexandrovich Borovskiy were appointed as executive directors on 25 August 2017 and resigned on 8 June 2018.

(d) Mr. Li Jing was resigned as an executive director on 25 August 2017.

(e) Mr. Xiang Qiang was resigned as independent executive director on 25 August 2017.

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 2018 and 2017.

(b) Employees' emoluments

The five highest paid individuals in the Group during the year included four (2017: four) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining one individual (2017: one individual) is set out below:

	2018 RMB'000	2017 RMB'000
Basic salaries and allowances	1,082	1,241
Discretionary bonus	–	–
Share-based payments	753	–
Retirement benefits scheme contributions	40	–
	1,875	1,241

The emoluments of this remaining one individual (2017: one individual) fell within the following bands:

	Number of individuals	
	2018	2017
HK$1,000,001 to HK$1,500,000 (approximately RMB870,001 to RMB1,305,000)	–	1
HK$1,500,001 to HK$2,000,000 (approximately RMB1,305,001 to RMB1,740,000)	–	–
HK$2,000,001 to HK$2,500,000 (approximately RMB1,740,001 to RMB2,175,001)	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.

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 RMB14,550,000 for the year ended 31 December 2018 (2017: RMB25,015,000). 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.

Pursuant to a master agreement dated 19 September 2017 (the "Master Agreement") with Sanju (a connected person of the Company by virtue of its being an associate (as defined under the Listing Rules) of Sanju Environmental Protection (Hong Kong) Limited, a controlling shareholder (as defined under the Listing Rules) of the Company), Sanju, for itself and also as agent of its wholly owned subsidiaries and Controlling companies, agrees to engage the Group to provide: (i) purifying and refining device project contracting* (淨化及煉化相關的工程承包); (ii) special equipment/facilities manufacturing* (專用設備或裝置製造); and (iii) project management and labour oursourcing services* (項目管理或提供勞務派遣等服務) for a term of 13 months from 1 December 2017 to 31 December 2018 (both days inclusive), and the Company also agrees to engage Sanju to provide products such as catalyst* (催化劑等物品的供貨) for a term of 12 months from 1 January 2018 to 31 December 2018 (both days inclusive). Contract revenue and other sales income received/receivable from Sanju and its wholly owned subsidiaries was amounted to approximately RMB123,046,000 for the year ended 31 December 2018 (2017: RMB1,302,000). Mr. Liu Lei, Mr. Lin Ke and Mr. Cao Haufeng are regarded as having a material interest in the Master Agreement.

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

	2018 RMB'000	2017 RMB'000
2017 final dividend of HK$0.03 per ordinary share	40,687	–

Subsequent to the end of the reporting period, financial dividend in respect of the year ended 31 December 2018 of HK$0.02 per share has been proposed by the directors and is subject to approval by the shareholders at the forthcoming general meeting.

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16. EARNINGS PER SHARE

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

	2018 RMB'000	2017 RMB'000
Earnings		
Earnings for the purpose of calculating basic and diluted earnings per share	26,637	55,581

	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,633,649,266	1,285,799,017
Effect of dilutive potential ordinary shares arising from share options	13,689,823	17,322,823
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,647,339,089	1,303,121,840

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. FIXED ASSETS

	Property, plant and equipment							
	Buildings, pier and other infrastructure RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Leasehold land RMB'000	Total RMB'000
Cost								
At 1 January 2017	295,528	114,190	26,914	18,663	1,023	456,318	231,182	687,500
Additions	–	7,600	687	–	1,311	9,598	–	9,598
Additions upon acquisition of a subsidiary *(note 21(b))*	674,622	186,540	35,362	2,304	601	899,429	222,100	1,121,529
Reclassification	2,126	–	–	–	(2,126)	–	–	–
Write off/disposals	–	(13,592)	(1,417)	(337)	(80)	(15,426)	–	(15,426)
Exchange realignment	–	(8)	(5)	(14)	–	(27)	–	(27)
At 31 December 2017 and 1 January 2018	972,276	294,730	61,541	20,616	729	1,349,892	453,282	1,803,174
Additions	95	1,656	7,909	747	41,378	51,785	24	51,809
Reclassification	875	130	–	–	(1,005)	–	–	–
Write off/disposals	(3,409)	(870)	(1,320)	(785)	–	(6,384)	–	(6,384)
Exchange realignment	–	3	(2)	9	–	10	–	10
At 31 December 2018	969,837	295,649	68,128	20,587	41,102	1,395,303	453,306	1,848,609
Accumulated depreciation								
At 1 January 2017	48,665	49,613	19,309	15,882	–	133,469	25,061	158,530
Charge for the year	11,692	10,322	2,744	1,295	–	26,053	5,052	31,105
Write off/disposals	(66)	(6,350)	(1,396)	(337)	–	(8,149)	–	(8,149)
Exchange realignment	–	(8)	(5)	(9)	–	(22)	–	(22)
At 31 December 2017 and 1 January 2018	60,291	53,577	20,652	16,831	–	151,351	30,113	181,464
Charge for the year	48,520	47,954	13,246	1,728	–	111,448	10,400	121,848
Write off/disposals	(537)	(733)	(1,308)	(785)	–	(3,363)	–	(3,363)
Exchange realignment	–	2	(2)	5	–	5	–	5
At 31 December 2018	108,274	100,800	32,588	17,779	–	259,441	40,513	299,954
Carrying amount								
At 31 December 2018	861,563	194,849	35,540	2,808	41,102	1,135,862	412,793	1,548,655
At 31 December 2017	911,985	241,153	40,889	3,785	729	1,198,541	423,169	1,621,710

At 31 December 2018 the carrying amount of fixed assets pledged as security for the Group's bank and other borrowings amounted to approximately RMB124,423,000 (2017: RMB10,331,000).

At 31 December 2018, the Group is still in the process of obtaining the land use rights certificates of certain leasehold lands with the carrying amounts of approximately RMB30,785,000 (2017: RMB32,100,000).

At 31 December 2018, the Group has certain building structures with carrying amounts of approximately RMB60,440,000 (2017: RMB63,690,000) erected on certain leasehold lands which the Group is still in the process obtaining the respective land use right certificates. Accordingly, the Group has not obtained the relevant ownership certificates for these building structures. In additions, at 31 December 2018, the Group is still in the process of obtaining the ownership certificates of other building structures with carrying amounts of approximately RMB40,688,000 (2017: RMB44,565,000).

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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:

	2018 RMB'000	2017 RMB'000
At 1 January	352	417
Amortisation of prepaid land lease payments	(65)	(65)
At 31 December	287	352

19. GOODWILL

	RMB'000
Cost and carrying amount	
At 1 January 2017	202,327
Exchange difference	(13,491)
Deemed disposal	(186,632)
Arising on acquisition of a subsidiary *(note 21(b))*	52,444
At 31 December 2017, 1 January 2018 and 31 December 2018	54,648

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:

	2018 RMB'000	2017 RMB'000
Offshore oil and natural gas exploration facilities fabrication business	52,444	52,444
Undersea maintenance services	2,204	2,204
At 31 December	54,648	54,648

As at 31 December 2018 and 31 December 2017, 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 3% (2017: 3%) and 3% (2017: 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 18.73% (2017: 17.44%) and 20.40% (2017: 19.70%) respectively.

20. INTANGIBLE ASSETS

	Patents and computer software RMB'000
Cost	
At 1 January 2017	10,288
Additions	1,171
Arising on acquisition of a subsidiary *(note 21(b)(iii))*	99
At 31 December 2017 and 1 January 2018	11,558
Additions	3,596
At 31 December 2018	15,154
Accumulated depreciation	
At 1 January 2017	7,314
Amortisation for the year	1,302
At 31 December 2017 and 1 January 2018	8,616
Amortisation for the year	780
At 31 December 2018	9,396
Carrying amount	
At 31 December 2018	5,758
At 31 December 2017	2,942

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 8.1 years (2017: 7.2 years).

21. SUBSIDIARIES

(a) List of subsidiaries

Particulars of the Group's major subsidiaries as at 31 December 2018 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 integrated services for oil and gas industries
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
Sanju Biofuel International Limited	Hong Kong	1,000,000 ordinary shares	–	100%	Trading of biofuel products
Stand Success Resources Limited	British Virgin Islands	1 ordinary share of US$1	–	100%	Investment holding

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21. SUBSIDIARIES (CONT'D)

(a) List of 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)					
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 integrated services for oil and gas industries and other energy and refining and chemical industries
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%	Provision of integrated services for oil and gas industries and other energy and refining and chemical industries
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 RMB500,000,000	–	100%	Provision of integrated services for oil and gas industries and other energy and refining and chemical industries
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%	Provision of integrated services for oil and gas industries and other energy and refining and chemical industries
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
蓬萊巨濤海洋工程重工有限公司# (Penglai Jutal)	PRC	Registered capital of US$43,500,000	–	100%	Sales and construction of offshore oil and natural gas exploration facilities; quayside machineries and chemical engineering facilities; design, fabrication, installation and repair of steel formation structures; and provision of other quayside and warehouse services
蓬萊巨濤商貿有限公司 (Penglai Jutal Shangmao Co.Ltd)	PRC	Registered capital of RMB30,000,000	–	100%	Trading of biofuel products

* *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.

21. SUBSIDIARIES (CONT'D)

(b) Acquisition of Penglai Jutal

As at 31 December 2016, the Group held a 30% equity interests in Penglai Jutal and Penglai Jutal was accounted for as an associate of the Group. On 29 December 2017, the Group completed its acquisition of the further 70% equity interests (the "Completion Date") in Penglai Jutal for a consideration of RMB571,868,000 (the "Acquisition"). The Acquisition have been accounted for as a step acquisition under HKFRS 3 (Revised) – Business Combination, where the fair value of any non-controlling interests in the acquiree that was held immediately before obtaining control has been used in the determination of the total consideration of the step acquisition. Acquisition-related costs of RMB2,501,000 have been charged to administrative expenses in the consolidated statement of profit or loss for the year ended 31 December 2017.

Penglai Jutal is principally engaged in (a) Sales and construction of offshore oil and natural gas exploration facilities; quayside machineries and chemical engineering facilities; (b) Design, fabrication, installation and repair of steel formation structures; and (c) Provision of other quayside and warehouse services.

The Acquisition enables the Group to carry on the above mentioned principal business which Penglai Jutal is skilled at and provide a fuller spectrum of services to the customers.

(i) Information relating to the investment in an associate – Penglai Jutal

	2017 RMB'000
Unlisted investments:	
Share of net assets	–

Penglai Jutal before the completion of the Acquisition is accounted for in the consolidated financial statements as an associate using the equity method.

The summarised financial information presented in below is based on the HKFRS financial statements of Penglai Jutal. The financial information of Penglai Jutal for the year ended 31 December 2017 includes the results of Penglai Jutal only for the period from 1 January 2017 to the Completion Date.

	2017 RMB'000
At 31 December	
Non-current assets	–
Current assets	–
Non-current liabilities	–
Current liabilities	–
Net assets	–
Group's share of net assets	–

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21. SUBSIDIARIES (CONT'D)

(b) Acquisition of Penglai Jutal (Cont'd)

(i) *Information relating to the investment in an associate – Penglai Jutal (cont'd)*

	2017 RMB'000
Profit for the period/year	
Turnover	1,484,504
Profit from continuing operations	126,437
Other comprehensive income	–
Total comprehensive income	126,437
Share of profit of an associate	37,931
Dividends received from an associate	120,000

The following table summarises the information relating to the carrying amount of investment in Penglai Jutal immediately before completion of the Acquisition:

	2017 RMB'000
As at 1 January	337,794
Share of profit of an associate	37,931
Dividend received from an associate	(120,000)
Deemed disposal	(255,725)
As at 31 December	–

(ii) *Gain on deemed disposal of an associate*

The Group recognised a gain of RMB28,266,000 as a result of measuring at fair value of its 30% equity interest in Penglai Jutal held before the Acquisition. The gain is included in other income (note 9).

21. SUBSIDIARIES (CONT'D)

(b) Acquisition of Penglai Jutal (Cont'd)

(iii) *The following summarised the nature of consideration transferred, and recognised amounts of assets acquired and liabilities assumed as the Completion Date:*

	Fair values on acquisition RMB'000
Net assets acquired:	
Fixed assets	1,121,529
Intangible assets	99
Inventories	22,859
Trade and bill receivables	37,252
Gross amount due from customers for contract work	143,863
Prepayments, deposits and other receivables	19,793
Derivative financial assets	4,865
Pledged bank deposits	5,040
Pledged bank deposits with maturity less than three months	135
Bank and cash balances	1,017,931
Trade and bill payables	(592,753)
Accruals and other payables	(94,748)
Provisions	(219,962)
Bank borrowings	(379,700)
Current tax liabilities	(39,303)
Deferred revenue	(4,562)
Deferred tax liabilities	(52,291)
Net identifiable assets	990,047
Consideration for 70% equity interests in Penglai Jutal	571,868
Fair value of 30% equity interest in Penglai Jutal held immediately before obtaining control	470,623
Total consideration	1,042,491
Goodwill	52,444
Satisfied by:	
Cash	571,868
Net cash inflow arising on acquisition:	
Cash consideration paid	(571,868)
Cash and cash equivalents acquired	1,018,066
	446,198

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21. SUBSIDIARIES (CONT'D)

(b) Acquisition of Penglai Jutal (Cont'd)

(iii) *The following summarised the nature of consideration transferred, and recognised amounts of assets acquired and liabilities assumed as the Completion Date: (cont'd)*

The goodwill arising on the acquisition of Penglai Jutal is attributable to the future economic benefits that are expected to accrue to the Group from operating synergies from the combination.

No revenue was contributed by Penglai Jutal to the Group for the year ended 31 December 2017. Penglai Jutal contributed RMB37,931,000 to the Group's profit for the year through equity accounting for the Group's share of the profit.

If the acquisition had been completed on 1 January 2017, total Group revenue for the year would have been RMB2,208,973,000, and profit for the year would have been RMB144,087,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is intended to be a projection of future results.

22. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	80,669	57,268

23. TRADE AND BILLS RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	521,135	421,874
Allowance for doubtful debts	(27,479)	(8,215)
	493,656	413,659
Bills receivables	96,185	11,140
	589,841	424,799

	2018 RMB'000	2017 RMB'000
Classified as:		
Trade receivables, non-current	46,129	–
Trade and bills receivables, current	543,712	424,799
	589,841	424,799

The Group's trading terms with 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 respective construction contracts. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

23. TRADE AND BILLS RECEIVABLES (CONT'D)

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

	2018 RMB'000	2017 RMB'000
Billed		
0 to 30 days	50,318	107,482
31 to 90 days	76,619	61,505
91 to 365 days	78,036	53,812
Over 365 days	36,162	23,902
	241,135	246,701
Unbilled *(note a)*	280,000	175,173
	521,135	421,874

Note:

(a) The unbilled balance was mainly attributable to sales of goods which will be billed in accordance with the payment terms stipulated in the relevant contracts entered into between the Group and the contract customers. These receivables were not past due and relate to a number of customers for whom there was no recent history of default. As at 31 December 2018, unbilled balance of approximately RMB46,129,000 (2017: Nil) will be billed after one year from the end of the reporting date.

As at 31 December 2018, trade receivables aged over 90 days includes retentions receivables amounted to approximately RMB12,727,000 (2017: RMB13,550,000).

As at 31 December 2018, collateral which represents fixed assets, equity interests and personal guarantee are obtained by the Group against certain trade receivables balance of approximately RMB157,355,000 (2017: RMB145,581,000).

At 31 December 2018, trade and bills receivables of approximately RMB34,642,000 (2017: Nil) were pledged to banks to secure banking facilities granted to two subsidiaries of the Group.

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

	2018 RMB'000	2017 RMB'000
RMB	473,447	315,742
US$	83,286	105,691
Euro	1,510	–
HK$	31,598	3,366
Total	589,841	424,799

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24. CONTRACT COST ASSETS

	2018 RMB'000	2017 RMB'000
Contract cost assets	56,316	–

The amount represents the costs incurred relate directly to an existing contract or to specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. The movement of the contract cost assets is as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	–	–
Additions	56,316	–
Amortisation for the year	–	–
Impairment loss on contract cost assets	–	–
At 31 December	56,316	–

25. CONTRACT ASSETS/CONTRACT LIABILITIES (2017: GROSS AMOUNT DUE FROM/TO CUSTOMERS FOR CONTRACT WORK)

	2017 RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	5,263,235
Less: Progress billings	(4,880,166)
Exchange differences	(9,711)
	373,358
Gross amount due from customers for contract work	410,882
Gross amount due to customers for contract work	(37,524)
	373,358

Upon the adoption of HKFRS 15, amounts previously included as "Gross amount due from customers for contract work" and "Gross amount due to customers for contract work" were reclassified to contract assets and contract liabilities respectively.

Contract assets	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Arising from performance under construction contracts	398,249	408,700	–
Arising from performance under technical support services	8,133	–	–
	406,382	408,700	–
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables"	589,841	420,842	

Amounts relating to contract assets are balances due from customers under construction contracts that arise when the Group receives payments from customers in line with a series of performance related milestones. Payment for technical support services are not due from the customer until the related services are complete and therefore a contract asset is recognised over the period in which the technical support services are performed to represent the entity's right to consideration for the services performed to date.

25. CONTRACT ASSETS/CONTRACT LIABILITIES (2017: GROSS AMOUNT DUE FROM/TO CUSTOMERS FOR CONTRACT WORK) (CONT'D)

There were no significant changes in the contract assets balances during the reporting period.

The amount of revenue recognised during the year from performance obligations satisfied (or partially satisfied) in previous period is RMB172,000, mainly due to the changes in the final transaction price of certain construction and service contracts.

Contract liabilities	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Billings in advance of performance obligation			
– Construction contracts	49,633	39,485	–
– Technical support service	–	444	–
– Trading of oil and gas, chemical and other energy products	4,069	–	–
	53,702	39,929	–

Contract liabilities relating to construction contracts/technical support services are balances due to customers under construction contracts/technical support services. These arise if a particular milestone payment exceeds the revenue recognised to date under the percentage of completion method. Contract liabilities relating to trading of oil and gas, chemical and other energy products are recognised when the customer pays consideration before the Group recognises the related income.

There were no significant changes in the contract liabilities balances during the reporting period.

Movements in contract liabilities:

	2018 RMB'000
Balance at 1 January	39,929
Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the period	(22,016)
Increase in contract liabilities as a result of billing in advance of construction activities/technical support services/trading of oil and gas, chemical and other energy products	35,789
Increase in contract liabilities as a result of accruing interest expenses on advances	–
Balance at 31 December	53,702

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26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Prepayments	101,277	113,154
Deposits	23,142	1,973
Other receivables	130,647	46,102
	255,066	161,229
Less: Allowance for other receivables	(11,602)	(2,664)
	243,464	158,565

	2018 RMB'000	2017 RMB'000
Classified as:		
Non-current	8,846	–
Current	234,618	158,565
	243,464	158,565

At 31 December 2018 deposit of RMB8,846,000 classified as non-current assets were pledged as security for the Group's bank and other borrowings.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2018 RMB'000	2017 RMB'000
Financial assets		
Derivatives not under hedge accounting:		
Foreign currency forward	670	4,865
Financial liabilities		
Derivatives not under hedge accounting:		
Foreign currency forward	390	–

At 31 December 2018, 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 and US$ (2017: US$). The maximum notional principal amounts of these outstanding foreign currency forward contracts at 31 December 2018 were as follows:

	2018 RMB'000	2017 RMB'000
Sell US$ for RMB	24,761	253,890
Sell Euro for RMB	98,534	–

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.

27. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

The Group did not fulfill the conditions of hedging relationship under the stringent and comprehensive documentation requirements as defined in HKFRS 9 "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 RMB4,904,000 was credited to the profit or loss for the year ended 31 December 2018 (2017: RMB62,000 was charged to the profit or loss).

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 2018 RMB'000	Balance at 1 January 2018 RMB'000	Maximum amount outstanding during the year RMB'000
Mr. Cao Yunsheng	Unsecured, interest-free and no fixed repayment terms	583	411	3,357
Mr. Tang Hui	Unsecured, interest-free and no fixed repayment terms	150	–	150
		733	411	

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

29. LOAN FROM ULTIMATE HOLDING COMPANY

The Group repaid the loan to ultimate holding company in January 2018. At 31 December 2017, loan from ultimate holding company is unsecured, interest bearing at 6% per annum 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 notes 34 and 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:

	2018 RMB'000	2017 RMB'000
RMB	726,193	717,372
HK$	18,107	29,811
US$	216,161	994,579
Euro	9,218	23
Others	73	71
	969,752	1,741,856

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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31. TRADE AND BILLS PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	606,042	821,750
Bills payables	53,653	133,685
	659,695	955,435

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

	2018 RMB'000	2017 RMB'000
0 to 30 days	348,720	609,354
31 to 90 days	20,257	81,379
91 to 365 days	84,819	74,950
Over 365 days	152,246	56,067
	606,042	821,750

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

	2018 RMB'000	2017 RMB'000
RMB	612,232	950,038
US$	46,892	5,377
HK$	571	–
EUR	–	20
Total	659,695	955,435

32. ACCRUALS AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Accrued staff salaries	49,631	73,124
Receipt in advances	–	2,405
Other payables	27,999	21,663
Payables for purchases of fixed assets	26,218	18,288
Others	8,915	11,235
	112,763	126,715

33. PROVISIONS

	Provision for claim on construction contract *(note (i))* RMB'000	Warranty provision *(note (ii))* RMB'000	Total RMB'000
At 1 January	158,996	62,832	221,828
Additional provisions	–	35,689	35,689
Provisions used	(978)	(287)	(1,265)
Unused provisions reversed	(158,018)	(15,570)	(173,588)
At 31 December	–	82,664	82,664

Notes:

(i) At 31 December 2017, the management estimates the Group's liability and amount of provision for claim on construction contract made by reference to the terms of the subcontracting agreement, supporting evidence of work done and the basis of charge for the rectification of the related works. The provision is made based on management's best estimates and judgements of the circumstance at that time.

During the year ended 31 December 2018, the negotiation with the customer in relation to the final claim amount of certain contract works was completed. The final claim amount of approximately RMB978,000 was paid and the unused provision for claim on these contract works was reversed.

(ii) 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 construction contracts under which defective works are rectified or replaced.

The amount of the warranty provision is estimated based on past experience and current expectation of the level of defective works and the estimation basis is reviewed on an ongoing basis and revised where appropriate.

34. BANK AND OTHER BORROWINGS

	2018 RMB'000	2017 RMB'000
Bank borrowings	740,632	845,772
Borrowing from a financial institution	65,367	–
	805,999	845,772

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34. BANK AND OTHER BORROWINGS (CONT'D)

The bank and other borrowings are repayable as follows:

	2018 RMB'000	2017 RMB'000
Within one year	**319,168**	562,662
More than one year, but not exceeding two years	**138,468**	64,500
More than two years, but not more than five years	**197,200**	213,500
	654,836	840,662
Portion of bank and other borrowings that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	**151,163**	5,110
	805,999	845,772
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(470,331)**	(567,772)
Amount due for settlement after 12 months	**335,668**	278,000

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

The average interest rate of the Group's bank and other borrowings at 31 December 2018 was 5.07% (2017: 4.90%) per annum.

Bank and other borrowings of approximately RMB208,000,000 (2017: RMB470,730,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Other bank and other borrowings were arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

As at 31 December 2018, bank and other borrowings of approximately RMB475,699,000 (2017: RMB640,841,000) are secured by the following:

(i) a charge over the Group's fixed assets (note 17), pledged bank deposits (note 30) and other receivables (note 26) (2017: fixed assets and pledged bank deposits); and

(ii) corporate guarantee executed by ultimate holding company, the Company and four (2017: three) subsidiaries of the Group.

35. BANKING FACILITIES

At 31 December 2018, the Group had approximately RMB630,523,000 (2017: RMB228,723,000) 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 fixed assets (note 17), bills receivables and bank deposits (note 30) (2017: fixed assets and bank deposits); and

(b) Corporate guarantees executed by the Company and five (2017: three) subsidiaries of the Group.

As at 31 December 2018, the Group had obtained bank guarantees under performance bonds for construction contracts of approximately RMB171,699,000 (2017: RMB321,803,000).

36. DEFERRED REVENUE

	Note	2018 RMB'000	2017 RMB'000
At 1 January		39,870	24,629
Addition during the year		2,013	15,931
Arising on acquisition of a subsidiary *(note 21(b)(iii))*		–	4,562
Recognised as income and included in the Group's other income		(4,812)	(5,252)
At 31 December		37,071	39,870
Represented by:			
Government grant A	*(i)*	10,396	11,046
Government grant B	*(ii)*	26,675	28,824
At 31 December		37,071	39,870
Analysed as:			
Non-current liabilities		37,071	39,870

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 RMB650,000 was transferred to profit or loss for the year ended 31 December 2018 (2017: RMB650,000).

(ii) *During the year, the Group received approximately RMB2,013,000 (2017: RMB15,931,000) 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 RMB4,162,000 was transferred to profit or loss for the year ended 31 December 2018 (2017: RMB4,602,000).

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37. DEFERRED TAX

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

	Accelerated tax depreciation	Investment in an associate	Recognition of contracting income	Undistributed earnings of the PRC subsidiaries	Provisions	Tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	4,235	20,671	15,933	1,751	–	–	(7,450)	35,140
Reallocation	–	(10,467)	–	10,467	–	–	–	–
Arising on acquisition of a subsidiary *(note 21(b)(iii))*	71,794	–	528	–	(10,040)	–	(9,991)	52,291
Charge to profit or loss for the year *(note 12)*								
– Changes in temporary differences	4,615	(10,204)	(8,289)	189	–	(2,337)	(2,739)	(18,765)
At 31 December 2017 and 1 January 2018	80,644	–	8,172	12,407	(10,040)	(2,337)	(20,180)	68,666
Adjustment on initial application of								
– HKFRS 9 *(note 3(a))*	–	–	–	–	–	–	(240)	(240)
– HKFRS 15 *(note 3(a))*	–	–	(942)	–	–	–	–	(942)
Restated balance at 1 January 2018	80,644	–	7,230	12,407	(10,040)	(2,337)	(20,420)	67,484
Charge to profit or loss for the year *(note 12)*								
– Changes in temporary differences	573	–	1,248	1,809	5,041	(11,541)	(2,979)	(5,849)
At 31 December 2018	81,217	–	8,478	14,216	(4,999)	(13,878)	(23,399)	61,635

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

	2018 RMB'000	2017 RMB'000
Deferred tax liabilities	65,649	70,934
Deferred tax assets	(4,014)	(2,268)
	61,635	68,666

At the end of reporting period the Group has unused tax losses of approximately RMB137,067,000 (2017: RMB22,886,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB85,024,000 (2017: RMB9,336,000). No deferred tax asset has been recognised in respect of the remaining approximately of RMB52,043,000 (2017: RMB13,550,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB37,739,000 that can be carried forward by five years. Other tax losses may be carried forward indefinitely (2017: All unrecognised 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 RMB3,750,000 (2017: RMB1,940,000). 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.

38. SHARE CAPITAL

	Note	Number of Shares	Amount HK$'000
Authorised:			
Ordinary shares of HK$0.01 (2017: HK$0.01) each			
At 1 January 2017		1,500,000,000	15,000
Creation of addition ordinary shares	(a)	2,500,000,000	25,000
At 31 December 2017, 1 January 2018 and 31 December 2018		**4,000,000,000**	**40,000**

	Note	Number of Shares	Amount RMB'000	Equivalent to Amount RMB'000
Issued and fully paid:				
Ordinary shares of HK$0.01 (2017: HK$0.01) each				
At 1 January 2017		800,354,278	8,004	7,506
Exercise of share options	(b)	8,100,000	81	70
Issue of shares on subscription	(c)	803,562,111	8,036	6,990
Exercise of warrants	(d)	20,000,000	200	173
At 31 December 2017		1,632,016,389	16,321	14,739
Exercise of share options	(e)	2,000,000	20	16
At 31 December 2018		**1,634,016,389**	**16,341**	**14,755**

Note:

(a) *By an ordinary resolution passed at an extraordinary general meeting held on 26 May 2017, the authorised ordinary share capital of the Company was increased from HK$15,000,000 to HK$40,000,000 by the creation of 2,500,000,000 ordinary shares of HK$0.01 each in the share capital of the Company, such new shares ranking pari passu in all respects with the existing shares of the Company.*

(b) *Share options were exercised by option holders during the year ended 31 December 2017 to subscribe for a total of 8,100,000 ordinary shares in the Company at total consideration of approximately HK$10,131,640 equivalent to approximately RMB9,464,000 of which approximately RMB70,000 was credited to share capital and the balance of approximately RMB9,394,000 was credited to the share premium account. Approximately RMB2,577,000 has been transferred from the share-based payment reserve to the share premium account.*

(c) *On 15 March 2017, Sanju Environmental Protection (Hong Kong) Limited and Golden Talent (HK) Technology Co., Limited (together refer to as the "Subscribers") and the Company 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").*

The Subscription was completed on 2 June 2017 and the premium on the issue of shares, amounting to approximately RMB830,669,000, net of share issue expenses, was credited to the Company's share premium account.

(d) *20,000,000 warrants were exercised by the warrant holders during the year ended 31 December 2017 to subscribe for a total of 20,000,000 ordinary shares in the Company at total consideration of approximately HK$42,000,000, equivalent to approximately RMB36,456,000 of which approximately RMB173,000 was credited to share capital and the balance of approximately RMB36,283,000 was credited to the share premium account. Approximately RMB160,000 has been transferred from the warrants reserve to the share premium account.*

(e) *Share options were exercised by option holders during the year ended 31 December 2018 to subscribe for a total of 2,000,000 ordinary shares in the Company at total consideration of approximately HK$3,240,000 equivalent to approximately RMB2,593,000 of which approximately RMB16,000 was credited to share capital and the balance of approximately RMB2,577,000 was credited to the share premium account. Approximately RMB695,000 has been transferred from the share-based payment reserve to the share premium account.*

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38. SHARE CAPITAL (CONT'D)

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 total borrowings divided by total equity of the Group. The Group's policy is to keep the gearing ratio at a reasonable level.

The gearing ratio as at the 31 December 2018 is as follows:

	2018 RMB'000	2017 RMB'000
Bank and other borrowings	805,999	845,772
Loan from ultimate holding company	–	80,000
Total borrowings	805,999	925,772
Total equity	2,133,016	2,058,934
Gearing ratio	37.79 %	44.96%

The decreases in gearing ratio from year 2018 resulted primarily from decrease in bank and other borrowings and loan from ultimate holding company. The Group adjusts the amount of bank and other borrowings from time to time to meet the Group's working capital needs.

The externally imposed capital requirement for the Group is that 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 monthly 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 2018, 35.34% (2017: 35.65%) 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, services 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.

39. SHARE-BASED PAYMENTS (CONT'D)

Equity-settled share option scheme (Cont'd)

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 and 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.

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
2018A	9 January 2018	9 January 2018 to 8 January 2019	9 January 2019 to 8 January 2028	2.14
2018B	9 January 2018	9 January 2018 to 8 January 2020	9 January 2020 to 8 January 2028	2.14

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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:

	2018		2017	
	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	30,350,000	0.84	40,450,000	0.99
Granted during the year	67,000,000	2.14	–	–
Forfeited during the year	–	–	(2,000,000)	1.68
Exercised during the year	(2,000,000)	1.62	(8,100,000)	1.36
Outstanding at the end of the year	95,350,000	1.74	30,350,000	0.84
Exercisable at the end of the year	21,850,000	0.82	4,350,000	1.29

The weighted average share price at the date of exercise for share options exercised during the year was HK$1.62. The options outstanding at the end of the year have a weighted average remaining contractual life of 8.3 years (2017: 3.9 years) and the exercise price ranges from HK$0.68 to HK$2.14 (2017: HK$0.68 to HK$1.62).

In 2018, options were granted on 9 January 2018. The estimated fair value of the options on this date is approximately HK$64,733,000 (equivalent to RMB53,812,000). This estimated fair value was calculated using the Binomial Option-pricing model. The inputs into the model are as follows:

	2018
Number of share options granted	67,000,000
Grant date share price	HK$2.11
Expected volatility	61.48%
Expected life	10 years
Risk free rate	1.92%
Expected dividend yield	1.04%

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.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Investments in a subsidiary		515,714	478,198
Current assets			
Prepayments, deposits and other receivables		1,082	1,781
Due from subsidiaries		1,361,188	1,341,098
Due from a director		2,772	2,626
Bank and cash balances		2,268	11,382
		1,367,310	1,356,887
Current liabilities			
Accruals and other payables		2,434	2,281
Due to subsidiaries		39,756	38,793
Financial guarantee contract liability		3,278	22,742
		45,468	63,816
Net current assets		1,321,842	1,293,071
NET ASSETS		1,837,556	1,771,269
Capital and reserves			
Share capital		14,755	14,739
Reserves	*41(b)*	1,822,801	1,756,530
TOTAL EQUITY		1,837,556	1,771,269

The Company's statement of financial position was approved by the Board of Directors on 29 March 2019 and signed on its behalf by:

Liu Lei
Chairman

Cao Yunsheng
Director

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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 2017	851,263	2,951	(2,418)	7,859	160	82,807	–	942,622
Issue of shares on subscription	830,669	–	–	–	–	–	–	830,669
Issue of shares on exercise of share options	11,971	–	–	(2,577)	–	–	–	9,394
Issue of shares on exercise of warrants	36,443	–	–	–	(160)	–	–	36,283
Share-based payments	–	–	–	3,359	–	–	–	3,359
Share options forfeited	–	–	–	(442)	–	442	–	–
Total comprehensive income for the year	–	–	(106,520)	–	–	40,723	–	(65,797)
Proposed final dividend	–	–	–	–	–	(40,637)	40,637	–
At 31 December 2017 and 1 January 2018	1,730,346	2,951	(108,938)	8,199	–	83,335	40,637	1,756,530
Adjustment on initial application of HKFRS 9	–	–	–	–	–	(3,186)	–	(3,186)
Restated balance at 1 January 2018	1,730,346	2,951	(108,938)	8,199	–	80,149	40,637	1,753,344
Issue of shares on exercise of share options	3,272	–	–	(695)	–	–	–	2,577
Share-based payments	–	–	–	35,743	–	–	–	35,743
Total comprehensive income for the year	–	–	96,833	–	–	(25,009)	–	71,824
2017 Final dividend paid	–	–	–	–	–	(50)	(40,637)	(40,687)
Proposed final dividend	–	–	–	–	–	(28,635)	28,635	–
At 31 December 2018	1,733,618	2,951	(12,105)	43,247	–	26,455	28,635	1,822,801

(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(x) to the consolidated financial statements.

41. RESERVES (CONT'D)

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

(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.

(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. It is transferred to share premium account when the warrant is exercised or released directly to retained profits when the warrant is expired.

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2018 RMB'000	Drawdown RMB'000	Repayment RMB'000	31 December 2018 RMB'000
Loan from ultimate holding company *(note 29)*	80,000	–	(80,000)	–
Bank and other borrowings *(note 34)*	845,772	559,500	(599,273)	805,999

	1 January 2017 RMB'000	Drawdown RMB'000	Repayment RMB'000	Arising on acquisition of a subsidiary RMB'000	31 December 2017 RMB'000
Loan from ultimate holding company *(note 29)*	–	80,000	–	–	80,000
Bank borrowings *(note 34)*	213,628	460,972	(208,528)	379,700	845,772

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

43. CONTINGENT LIABILITIES

The Group is a defendant in a lawsuit brought during the year claiming approximately RMB8.2 million together with interest relating to subcontracting services rendered by a subcontractor (the "Plaintiff"). The Group has filed a counterclaim against the Plaintiff for approximately RMB3.7 million. The lawsuit is now being proceeded and has not been completed up to the date of this report.

Because the final outcome of the proceedings is uncertain, it is the directors' opinion that and that the ultimate liability, if any, will not have a material impact on the Group's financial position.

Save as disclosed above, as at 31 December 2018, the Group did not have other significant contingent liabilities (2017: Nil).

44. CAPITAL COMMITMENTS

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

	2018 RMB'000	2017 RMB'000
Property, plant and equipment	67,677	496

45. LEASE COMMITMENTS

At 31 December 2018 the total future minimum lease payments under non-cancellable operating leases of which the Group as lessee are payable as follows:

	2018 RMB'000	2017 RMB'000
Within one year	5,069	2,140
In the second to fifth years, inclusive	2,795	3,660
After five years	516	9,604
	8,380	15,404

Operating lease payments represent rentals payable by the Group for certain of its office, staff quarters, warehouses and machineries. Leases are negotiated for an average term of 3 (2017: 3) years and rentals are fixed over the lease terms and do not include contingent rentals.

46. RELATED PARTY TRANSACTIONS

(A) Transaction

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

	Note	2018 RMB'000	2017 RMB'000
Contract revenue received/receivable from an associate, Penglai Jutal		–	200
Purchase from an associate, Penglai Jutal		–	145
Revenue received/receivable from a related company, Dalian Shipbuilding Offshore	*(a)*	14,550	25,015
Revenue received/receivable from the ultimate holding company	*(b)*	52,341	–
Revenue received/receivable from fellow subsidiaries	*(c)*	70,705	1,302
Interest expenses payable/paid to the ultimate holding company		130	80

46. RELATED PARTY TRANSACTIONS (CONT'D)

(A) Transaction (Cont'd)

Notes:

(a) *Dalian Shipbuilding Offshore is an associate of Prospering Investments Limited, a Company beneficially wholly-owned by Mr. Wang Lishan, an executive director and a substantial shareholder of the Company.*

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

(b) *The related party transactions with the ultimate holding company 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 28 to 29.*

(c) *These fellow subsidiaries are wholly-owned by Sanju, the ultimate holding company.*

The related party transactions with these fellow subsidiaries 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 28 to 29.

(B) Balance

In addition to those related party balances disclosed elsewhere in the consolidated financial statements, the Group had the following balance with its related parties at the end of reporting period:

	2018 RMB'000	2017 RMB'000
Contract assets/gross amount due from customers for contract work		
– from a related party, Dalian Shipbuilding Offshore	157	7,395
Trade receivables due from a related party,		
Dalian Shipbuilding Offshore	9,459	–
Trade receivables due from the ultimate holding company	1,246	–
Contract assets from the ultimate holding company	8,165	–
Trade receivables due from fellow subsidiaries	55,353	–
Contract assets/gross amount due from customers for contract work		
– from fellow subsidiaries	5,287	1,302
Contract liability to a fellow subsidiary	4,401	–
Interest payable to the ultimate holding company	130	–

47. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 29 March 2019.

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				
	2014	2015	2016	2017	2018
Turnover	950,881	658,566	721,614	724,469	**1,485,964**
Profit for the year attributable to owners of the Company	28,456	26,174	11,586	55,581	**26,637**

ASSETS AND LIABILITIES

	As at 31 December				
	2014	2015	2016	2017	2018
Total assets	1,728,262	1,582,694	1,696,204	4,481,179	**3,963,474**
Total liabilities	(601,893)	(425,199)	(515,662)	(2,422,245)	**(1,830,458)**
Total equity	1,126,369	1,157,495	1,180,542	2,058,934	**2,133,016**

LIQUIDITY AND GEARING RATIO

	As at 31 December				
	2014	2015	2016	2017	2018
Current Ratio(1)	1.27	1.45	1.37	1.38	**1.65**
Quick Ratio(2)	1.24	1.38	1.31	1.35	**1.59**
Gearing Ratio(3)	20.44%	11.36%	18.10%	44.96%	**37.79%**

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) *Gearing ratio is calculated as total borrowing divided by total equity and multiplied by 100%.*

(4) *Current ratio and Quick ratio as at 31 December 2018 increased compared to that as at 31 December 2017, which is mainly attribute to a decrease of current liability.*

(5) *Gearing ratio as at 31 December 2018 decreased compared to that as at 31 December 2017, which is mainly attribute to a decline of total borrowings.*