JUTAL

巨濤海洋石油服務有限公司

Jutal Offshore Oil Services Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 03303

ANNUAL REPORT 2020

CONTENTS

Corporate Information	2
Financial Highlights	4
Chairman's Statement	5
Management Discussion and Analysis	8
Directors and Senior Management	14
Directors' Report	17
Corporate Governance Report	35
Independent Auditor's Report	42
Consolidated Statement of Profit or Loss	47
Consolidated Statement of Profit or Loss and Other Comprehensive Income	48
Consolidated Statement of Financial Position	49
Consolidated Statement of Changes in Equity	51
Consolidated Statement of Cash Flows	52
Notes to the Consolidated Financial Statements	54
Financial Summary	120

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. Wang Lishan (Chairman)
Mr. Liu Lei (Deputy Chairman)
Mr. Cao Yunsheng (appointed on 22 January 2021)
Mr. Li Lin (resigned on 22 January 2021)
Mr. Gao Zhiqiang
Mr. Wang Ningsheng (President)
Mr. Liu Yunian

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

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No. 9 Queen's Road Central,
Hong Kong

HEADQUARTERS IN THE PRC

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As to Cayman Islands law:

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KY1-1111, Cayman Islands

AUDITOR AND REPORTING ACCOUNTANT

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Certified Public Accountants
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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Suite 3204, Unit 2A, Block 3,
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BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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Level 54, Hopewell Centre,
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INVESTOR ENQUIRY

Investor Relations

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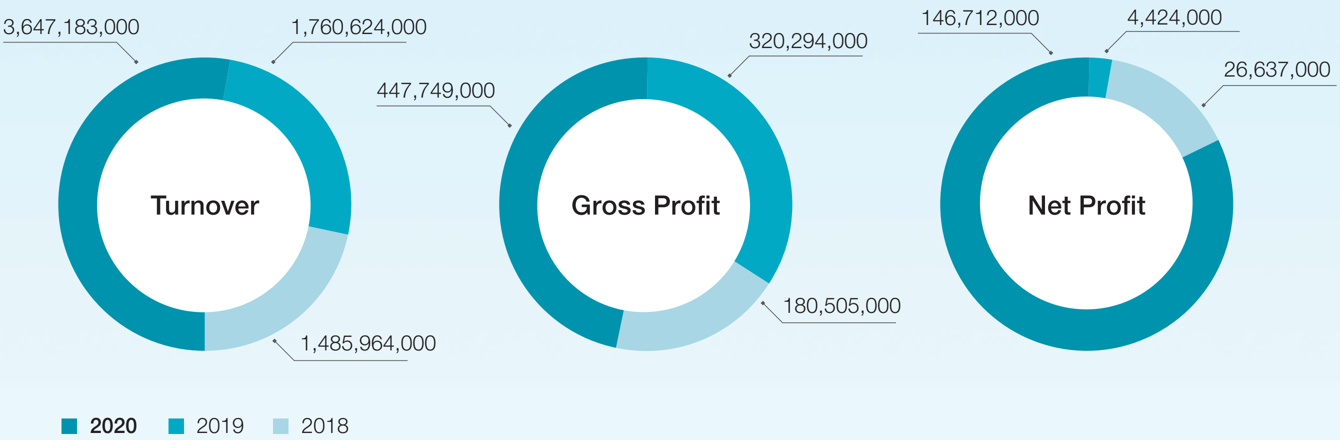
FINANCIAL HIGHLIGHTS

1. RESULTS (RMB)



2. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share were RMB0.0898 and RMB0.0898 respectively in 2020.

3. DIVIDEND

The Board recommend payment of a final dividend for the year ended 31 December 2020 of HK$0.22 per share.

CHAIRMAN'S 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 2020 to the shareholders.

BUSINESS REVIEW

Based on the oil and natural gas as well as wind power energy industries, the Group provides customers with integrated services including high-end equipment fabrication and engineering services, and gains well-developed construction experience and excellent performance in module construction. In the past year, the Group hit a record high in terms of overall workload. In addition to the offshore technical services business, the Group operates a total of 22 projects in Penglai site and Zhuhai site, of which 17 projects have been completed and successfully delivered, with an on-time delivery rate of 100%.

Following the global low-carbon development strategy and initiative, by virtue of years of its business advantages and engineering experience in the field of ocean engineering, the Group has always been actively pushing forward business transformation and strategic placement into clear energy and refinery and other areas. Zhuhai site successfully acquired a large-scale project order of supplying an European offshore wind farm project with 50 sets of offshore wind power equipment in June 2020. In addition, the Group also signed new contracts in relation to the fabrication of modules for offshore floating production storage and offloading facility (FPSO). The aggregate contract amount of these projects exceeds RMB2 billion.

Within the year, the Group efficiently performed the core process module construction for the GCGV natural gas chemical plant in North America, as well as other large-scale projects such as the core module construction for the production line of Arctic LNG 2 project in the Arctic region. As the large-scale core module construction projects are second to none in the industry in terms of scale and complexity, module design and construction are challenging. In fact, the construction of modules with large and complex process involves multiple task sequences and multi-specialties. In the context of parallel construction and intensive delivery of modules, an extremely tough test is faced in terms of processing design, material supply, project management, construction management, human resources and site resources. Therefore, site project personnel have to clarify and discuss with customers in a deep-going way, analyze a number of key and difficult points in design, material supply and professional construction in an all-round way, and optimise building and construction schemes in order to spare no effort to guarantee the smooth progress of the project in every aspect.

By the end of December 2020, the Group has completed a total of over 97% of the GCGV large-scale natural gas chemical plant module construction project, and completed the delivery of nine-ship products on time or ahead of schedule during the year. The Group commenced the final module assembly for the Arctic LNG 2 project in the second half of the year, and over 20% of the overall progress has been completed throughout the year, while the Group was also preparing for delivery batch by batch for the European Offshore Wind Farm Equipment Project as planned. As at the end of 2020, the total backlog value of the Group was about RMB4 billion.

CHAIRMAN'S STATEMENT

The Group implements an innovative model of health, safety and environmental project management, shortens management process, lowers management cost and improves the efficiency and quality of project health, safety and environmental protection management through resources integration. The construction sites of the Group achieved over 28 million safety man hours in 2020 and the total recordable incident rate and total recordable incident severity level per 200,000 man-hours are both equal to zero, hitting the highest level in history, and these sites were awarded as best safety construction sites by a number of customers.

During the year, as its own staff team remained stable, the Group further enriched and cultivated personnel for key business management posts, optimised employees' age and knowledge structure, and at the same time, reinforced collaborative labor service, made full use of social labor resources to provide a manpower guarantee for project construction and delivery on time; while for some business posts, the Group implemented incentives for employee performance assessment and adjusted the distribution policy to stimulate employees' responsibility and enthusiasm. In fact, Penglai site and Zhuhai site sought joint business development and further deepened cooperation on human resources sharing.

The Group continues to push forward the construction of caring culture. Specifically, the Group has organised a series of activities through Caring Leadership, Caring Ambassador and Caring Committee to promote caring culture. In addition, the Group has built a communication platform for basic staff, families and senior staff through Caring Lunch Committee, established a safety consensus and promoted the development of caring culture.

In face of COVID-19 in early 2020, the Group's affiliates in various places quickly set up a leading group against COVID-19 in accordance with the state and local requirements for COVID-19 prevention, control and management, and spend effort to push the projects forward while refining the planning of measures against COVID-19. In view of the fact that project progress was delayed by COVID-19, all sites and business units organised employees, owners and subcontracted labors to return to work as a whole according to project plan and manpower demand, and guaranteed the orderly progress of all works and schedules for project completion. In general, COVID-19 produced no significant impact on the Group's operation within 2020.

PROSPECTS

Since 2021, global crude oil prices have shown a stable and upward trend, and the industry outlook is expected to be better. According to relevant reports on the World Energy Outlook, as emerging economies achieve continuous prosperity and improvement in their living standard, global energy demand will continue to grow, while the low-carbon transformation of energy system will bring about a more diversified energy structure, so that the renewable energy will increase accordingly in terms of usage and proportion. Based on a wide range of needs and ever-growing global supply, the demand for natural gas will be more resilient. With the help of technological progress, economies of scale and other factors, the cost of clean energy is falling, and the renewable energy led by wind and solar energy is expected to achieve rapid growth in the next three decades.

At present, the Group focuses its primary business on module and equipment fabrication in the energy and refining and chemical industry, and the industrial macro-environment is expected to see a greater improvement. The Group will keep a close eye on key LNG and chemical module projects in the market, especially modules of large-scale and complex process, win over high-end customers, establish a long-term partnership with the world-class partners, and strive to extend to the upper and lower industry value chains based on construction business. While offshore wind power and other businesses see a period of rapid development, the equipment fabrication of foreign wind power projects is expected to accelerate the transition to construction sites in China, the Group will actively explore new energy project markets and improve allocation of relevant resources, hoping to gain good new business placement.

The Group will continue to enhance its core competences through various measures. The Group will maintain the adequacy, suitability and effectiveness of system files by reorganize quality, health, safety and environmental management system, so as to ensure that system files will be fully implemented and the system will be continuously improved; the Group will improve the project quality control system by developing the quality information collection system, so as to provide data support and efficient management for the analysis of follow-up quality issues; the Group will strengthen the selection, cultivation and training of talent teams by intensifying the system construction of the core control ability for project management, so as to further improve the management competence of international and large complex projects in an all-round way; the Group will also improve the revenue rate by innovating construction methods and vigorously enhancing the degree of automatic welding, so as to gain competitive advantage.

By Order of the Board

WANG Lishan

Chairman

Hong Kong, 30 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL AND BUSINESS REVIEW

Revenue

In year 2020, the Group recorded a revenue of approximately RMB3,647,183,000, representing an increase of 107.15% or RMB1,886,559,000 as compared with year 2019. Among others, revenue from the fabrication of facilities and provision of integrated services for oil and natural gas industries increased by 75.99% or RMB1,228,267,000 as compared with that of year 2019, which was mainly due to the natural gas petrochemical module construction project undertaken by Penglai site in 2019 began to enter the peak period during the year, and the workload had a great increase over the corresponding period of last year; the revenue from the fabrication of facilities and provision of integrated services for new energy and refining and chemical industries increased by 516.00% or RMB652,640,000 as compared with that of year 2019, mainly due to the project of 50 sets of offshore wind power equipment undertaken and built by Zhuhai site in 2020 for European Offshore Wind Power Farm Project; other businesses mainly represents provision of technical support services for the shipbuilding industry, and the revenue increased by 31.85% or RMB5,652,000 as compared to last year, but the shipbuilding market remained depressed, and the workload of such business remained at a lower level.

The table below sets out the analysis of revenue by business segments for the years 2020, 2019 and 2018 respectively:

	For the financial year ended 31 December					
	2020		2019		2018	
Business Segments	**RMB'000**	**Percentage to total revenue (%)**	RMB'000	Percentage to total revenue (%)	RMB'000	Percentage to total revenue (%)
1 Fabrication of facilities and provision of integrated services for oil and gas industries	**2,844,666**	**78**	1,616,399	92	983,112	66
2 Fabrication of facilities and provision of integrated services for new energy and refining and chemical industries	**779,120**	**21**	126,480	7	485,334	33
3. Others	**23,397**	**1**	17,745	1	17,518	1
Total	**3,647,183**	**100**	1,760,624	100	1,485,964	100

Cost of sales and services

Cost of sales and services of the Group amounted to approximately RMB3,199,434,000 in year 2020, representing an increase of 122.13% or RMB1,759,104,000 as compared with that of year 2019. Cost of sales and services comprised direct costs and manufacturing overheads. Direct costs in the current year amounted to approximately RMB2,932,991,000, representing 91.67% of the total cost of sales and services, and an increase of RMB1,725,022,000 or 142.80% from RMB1,207,969,000 of the corresponding period of 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 RMB34,082,000 or 14.67% from RMB232,361,000 of the corresponding period of last year to approximately RMB266,443,000 in current reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit

The total gross profit of the Group for the year 2020 amounted to approximately RMB447,749,000, representing an increase of 39.79% or RMB127,455,000 as compared with RMB320,294,000 in year 2019. The overall gross profit margin dropped to 12.28% from 18.19% of the corresponding period of last year. The gross profit margin of the fabrication of facilities and provision of integrated services for oil and natural gas industries dropped from 20.35% in year 2019 to 13.20%; the gross profit margin of the fabrication of facilities and provision of integrated services for new energy and refining and chemical industries rose from negative 6.05% in year 2019 to 9.27%, which was mainly contributed by the new energy projects newly undertaken by Zhuhai site; the gross profit margin of other businesses rose from negative 5.89% in year 2019 to 0.51%. The changes in business structure resulted in varying changes in the gross profit margin of different business segments during the current period. The decrease in the overall gross profit margin was mainly due to lower gross profit recorded by certain projects of the current year, so that the gross profit margin dropped as compared with the corresponding period of last year.

The following shows the breakdown of gross profit/(loss) by business segments for the years 2020, 2019 and 2018 respectively:

	For the financial year ended 31 December								
	2020			2019			2018		
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	375,425	13	84	328,989	20	103	105,830	11	59
2 Fabrication of facilities and provision of integrated services for new energy and refining and chemical industries	72,204	9	15	(7,649)	(6)	(2)	78,343	16	43
3 Others	120	1	1	(1,046)	(6)	(1)	(3,668)	(21)	(2)
Total	447,749		100	320,294		100	180,505		100

Other income

Other income of the Group in year 2020 amounted to approximately RMB68,520,000, mainly comprising interest income, net foreign exchange gains and income from government grants.

Administrative and other operating expenses

Administrative and other operating expenses in aggregate increased by 1.29% or RMB3,359,000 as compared with that of year 2019 to approximately RMB263,211,000, primarily resulting from the net effect of increase in staff compensation and decrease in share based payment and decrease in net foreign exchange losses compared to that of last year.

Finance costs

Finance costs in aggregate amounted to approximately RMB34,122,000 in year 2020, which was mainly comprised of interests on bank borrowings of approximately RMB27,031,000 and bank charges and other finance costs of approximately RMB7,091,000.

Profit attributable to owners of the Company and earnings per share

In summary, in year 2020, profit attributable to owners of the Company amounted to approximately RMB146,712,000, which represented an increase of 3,216.27% or RMB142,288,000 as compared to that of RMB4,424,000 in year 2019. Basic and diluted earnings per share attributable to owners of the Company for year 2020 were RMB0.0898 and RMB0.0898 respectively.

2. LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the working funds (cash and cash equivalent) of the Group amounted to approximately RMB1,191,173,000 (2019: RMB808,766,000). During the year, net cash inflow from operating activities amounted to approximately RMB798,332,000, net cash outflow from investing activities amounted to approximately RMB185,468,000, and net cash outflow from financing activities amounted to approximately RMB177,070,000.

As at 31 December 2020, the Group had approximately RMB570,620,000 (2019: RMB570,323,000) of available undrawn banking facilities. Available undrawn banking facilities include bank borrowings, letters of credit, bank guarantees, etc.

As at 31 December 2020, the Group had obtained bank guarantees under performance bonds for construction contracts of approximately RMB1,048,565,000 (2019: RMB497,632,000).

3. CAPITAL STRUCTURE

As of 31 December 2020, the share capital of the Company comprises 1,634,016,389 ordinary shares (2019: 1,634,016,389 ordinary shares). As at 31 December 2020, net assets of the Group amounted to approximately RMB2,249,345,000 (2019: RMB2,150,993,000), comprising non-current assets of approximately RMB1,787,180,000 (2019: RMB1,716,353,000), net current assets of approximately RMB1,057,220,000 (2019: RMB962,943,000) and non-current liabilities of approximately RMB595,055,000 (2019: RMB528,303,000).

4. SIGNIFICANT INVESTMENT

During the Year, according to the market situation and future development plan, the Company further improved the equipment and facilities of the Penglai site, and focused on increasing investment in Zhuhai site to improve the equipment and facilities conditions, these two sites have been approved to implement the investment of nearly RMB170 million.

Apart from the above, the Group had no other significant investment during the year ended 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

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$). During the years ended 31 December 2020 and 2019, the Group has entered into foreign exchange forward contracts to hedge the foreign currency risk arising from certain of its contract revenue and trade receivables denominated in Euro and US$. The Group currently does not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities.

6. ASSETS PLEDGED BY THE GROUP

As at 31 December 2020, approximately RMB136,073,000 of the bank deposits of the Group were pledged as security deposits for bank borrowings, the issuance of performance bonds, letter of credits and bank acceptance.

As at 31 December 2019, approximately RMB56,813,000 of the bank deposits, RMB9,507,000 of other receivables and property, plant and equipment with carrying amount of RMB105,686,000 were pledged as security for the Group's bank and other borrowings, the issuance of performance bonds, letter of credits and bank acceptance.

7. CONTINGENT LIABILITIES

The Group is a defendant in a lawsuit brought during the year ended 31 December 2018 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, the directors, based on the legal advice obtained, determined 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 2020 and 31 December 2019, the Group did not have other significant contingent liabilities.

8. CAPITAL MANAGEMENT

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

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

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 2020 and at 31 December 2019 were as follows:

	2020 RMB'000	2019 RMB'000
Bank and other borrowings	519,700	682,042
Total equity	2,249,345	2,150,993
Gearing ratio	23.10%	31.71%

The decrease in the gearing ratio in 2020 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 2020, the Group had total 3,568 employees (31 December 2019: 3,172 employees), of which 1,625 (31 December 2019: 1,428) were management and technical staff, and 1,943 (31 December 2019: 1,641) were technicians.

The Group encourages staff to long-term service, and strives to create a fair and open competition environment, committed to develop talents with management experience, professional skills and dedication. The Group determines the remuneration and incentives of employees with reference to the prevailing industry practice, and based on their position, duties and performance. The Group contributes to social security funds 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. Wang Lishan (王立山), aged 61, is an executive director and chairman 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. Liu Lei (劉雷), aged 53, is an executive director and deputy 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. Cao Yunsheng (曹雲生), aged 57, is an executive director of the Company. 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 and had served as the deputy general manager and CEO, and had been an executive director of the Company from November 2005 to April 2020. 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 January 2021.

Mr. Li Lin (李林), aged 59, senior engineer, is an executive director of the Company. He obtained a bachelor's degree of engineering in organic chemical engineering from Zhengzhou University (鄭州大學) in 1982, Mr. Li had successively held the positions of vice chief engineer of SINOPEC Luoyang Company (中國石化洛陽分公司), vice president and chief engineer of Beijing Petrochemical Engineering Company (北京石油化工工程有限公司) and has rich experience in catalyst design and development, chemical process analogy, new technology development and engineering construction. He served currently as a director and general manager of Sanju. Mr. Li was appointed as an executive director in April 2020 and resigned in January 2021.

Mr. Gao Zhiqiang (高志強), aged 45, is an executive director of the Company. He obtained a master's degree of business administration from Renmin University of China (中國人民大學) in 2004. He joined Beijing Haidian State-owned Properties Investment & Management Co. Ltd. (北京市海淀區國有資產投資經營有限公司) in 2004 and successively held positions of department manager and board secretary. He served currently as a director and deputy general manager of Sanju as well as director of Beijing Haidian Technology Development Co., Ltd. (北京海淀科技發展有限公司) and several other companies. Mr. Gao was appointed as an executive director in April 2020.

Mr. Wang Ningsheng (王寧生), aged 50, is an executive director and president of the Company. He obtained a masters' degree in engineering management from Xi'an Jiaotong University (西安交通大學) in 2006. Mr. Wang joined Sanju in 2012 and had served as a director and executive deputy general manager of Sanju. As advised by Mr. Wang, prior to joining Sanju, he has held management positions at Catalyst Plant of CNPC Lanzhou Petrochemial Corporation* (中國石油石化催化劑廠) and Lanzhou Sanye Company of CNPC Lanzhou Petrochemical Corporation* (中國石油蘭州石油化工公司蘭州三葉公司). Mr. Wang was appointed as an executive director in January 2020.

Mr. Liu Yunian (劉玉年), aged 58, is an executive director and the executive vice president of the Group. 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 Offshore Engineering Heavy Industries Co., Ltd. (蓬萊巨濤海洋工程重工有公司) ("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.

Independent non-executive Directors

Mr. Su Yang (蘇洋), aged 52, 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) and Shenzhen Edan Instruments Co., Ltd. (深圳市理邦精密儀器股份有限公司) (Shenzhen Stock Code 300206). Mr. Su was appointed as an independent non-executive director in August 2006.

Mr. Zheng Yimin (鄭益民), aged 59, 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 57, 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.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Zhao Wuhui (趙武會), aged 46, 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. Shi Fei (石飛), aged 51, is the vice president of the Company. 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. Tang Hui (唐暉), aged 48, is the vice president of the Company. 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, and 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. Liu Dongtao (劉東濤), aged 46, is the executive deputy general manager of Penglai Jutal. 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 Sambawang Engineering Co., Ltd. (深圳赤灣勝寶旺工程有限公司).

Mr. Chen Xinzhou (陳新周), aged 41, is the deputy general manager of Penglai Jutal. 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 52, is the deputy general manager of Penglai Jutal. 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 (陳壵), aged 50, is the deputy general manager of Penglai Jutal. 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 2020.

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, new 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 "Chairman's Statement" 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 22 to the consolidated financial statements.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group values the efforts and contributions of employees, 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, committed to establishing an employment system that protects the employees' rights and interests, and a healthy and safe working environment for them. The Group supports employees' long-term development, organised different training plans according to the needs of different sites and departments and provided various trainings and development opportunities for employees, 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 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 emphasise on maintaining the relationships with our customers, the Group also dedicate to explore new customers.

To maintain customers satisfactory towards the Group's products and services, the Group had formulated the *After-sales Service Management Procedures and After-sales Service Management Procedures Flowcharts*. If the customers have encountered any technical problems, the Group will arrange relevant department to research on the problem and formulate the solutions. Technicians would be arranged for on-site maintenance if needed. If the customers have any opinions, suggestions and complaints, the Group's Project Department will analyse and improve the situation and modify the product quality management system.

The Group's suppliers include raw materials suppliers, equipment suppliers as well as labour and other services suppliers. In order to ensure that suppliers provide high-quality and stable raw materials, the Group selects suitable suppliers based on the supplier's background, history, and importance of products or services in accordance with the *Supplier Management Procedures* and the principles of "fairness, fairness and openness".

The Group also pays attention to health, safety and environment related factors when selecting suppliers. With *the Procurement Department HSE Management Procedures*, the Group requires suppliers to include the Group's occupational health and safety management system. The Group's inspection team would conduct on-site supplier assessment according to *the Supplier On-Site Assessment Form and Supplier Questionnaire* to confirm if the suppliers fulfil the requirements on materials, equipment, logistics, health and safety and environmental management. If problems are found during the assessment, it would communicate with the suppliers and formulate the quality management upgrading measures.

DIRECTORS' REPORT

Suppliers met the requirements of the Group would be added to *the Qualified Supplier Directory* and received *the Notes to Qualified Suppliers* to further explain the requirements and expectations of the Group. The Group also conducted performance evaluations to suppliers periodically. If deficiencies are found, the Group would require suppliers to formulate measures to improve within a time limit, or they would be disqualified and removed from the *Qualified Supplier Directory*.

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 has already established the Production Safety Committee in the main sites to manage its environmental and social performances. The Board attaches great importance to its role in sustainable development issues, supervises the work of the safety production committee, and continuously improves the health and safety management system.

The Group values the occupational health and safety of its employees by putting safety on the first place in its business operations and strives to build a safe production environment. The Group has implemented the OHSAS18001:2007 certified occupational health and safety management system, and established *the Occupational Health, Safety, and Environmental Protection Policy and Management Manual*, as well as relevant safety production regulations and operating procedures based on this management system.

For employees' safety, the Group implements specific measures related to occupational safety in accordance with *the Employees Safety Manual* and *Occupational Health and Workplace Health Management Procedures*, providing guidance in various aspects including personal protective equipment, occupational health and hygiene, safe operating procedures, and occupational hazards. The Group has also formulated occupational safety trainings, such as providing new employees, employees of special types of work, and management personnel with various safety training and seminars to ensure that they have sufficient safety awareness and skills.

As the Group attaches great importance to the personal health of employees, it conducts annual checkups for employees to ensure that they are in good health.

To ensure the effective operation of the occupational health and safety management system, the Group ensured the working environment and employee safety complied with the system's requirement through tasks such as internal controls and compliance. The Group also regularly conducted safety inspections and safety risk assessments, and communicated with employees on occupational safety issues to evaluate the safety measures' effectiveness and formulate the corrective measures to reduce industrial accident casualties and safety accidents.

The Group understands that the emissions from business operation and the potential risks of environmental incidents have significant impacts on itself. It established an environmental management system applicable to Jutal's business operations and formulated the relevant handbooks based on international environmental management system standard ISO14001. Relevant policies of emissions management, resources utilization and environmental impact reduction were set, regarding to the procedures of management, operation and construction site operations.

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. The Group attaches importance to the effective consumption of resources in the operation process. To ensure the effective use of resources and avoid waste, the Group has established resource management measures according to the occupational health, safety, and environmental policies to make management regulations for the use of energy, water, and raw materials.

The Group paid attention to emissions from business operations and strived to reduce the impact of emissions on the surrounding environment. The Group implemented various measures to reduce emissions in accordance with the environmental management system. To ensure that the garbage and waste generated during the operation were handled properly, the Group formulated *the Waste Safety Management Regulations*, which stated that the wastes were recycled, sorted, stored or handled by certified contractors according to the wastes' categories.

the Group will continue to increase the communication channels of different stakeholders to better understand their expectations and opinions of stakeholders on the operation of the Group, and to respond to potential environmental and social risks as early as possible, so as to create long-term value for shareholders and society.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group conducts its business mainly through the subsidiaries in mainland China as well as that in 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 2020, 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 accumulated profits approximately RMB7,103,000 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 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.

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.

DIRECTORS' REPORT

RESULTS AND DIVIDENDS

Details of the Group's result for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss on page 47. The Board recommends the payment of a final dividend of HK$0.22 per share for the year ended 31 December 2020, which is subject to the shareholders' approval in the coming annual general meeting of the Company.

SHARE CAPITAL AND TRANSACTIONS INVOLVING SHARES OF THE COMPANY

In 2020, the authorised share capital of the Company is HK$40,000,000 (comprising 4,000,000,000 ordinary shares).

As at 31 December 2020, the share capital of the Company comprised of 1,634,016,389 ordinary shares (2019: 1,634,016,389 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 2020 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 2020, 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 2020	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	All has been used as planned	–
(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$96 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$154 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	All has been used as planned	–

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 120 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 and conditions under applicable award documents 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 2011 to 31 December 2020, 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 on 23 May 2011

Name of grantee	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 2020	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 2020	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Director:										
Cao Yunsheng (resigned on 10 April 2020 and was re-appointed on 22 January 2021)	23/05/2013 to 22/05/2021	1.06	1.04	1,000,000	–	–	–	–	1,000,000	0.06%
1 employee	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%

(ii) Options granted on 29 July 2015

Name of grantee	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 2020	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 2020	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Directors:										
Wang Lishan	29/07/2017 to 28/07/2025	0.86	0.83	5,000,000	–	–	–	–	5,000,000	0.31%
Cao Yunsheng (resigned on 10 April 2020 and was re-appointed on 22 January 2021)	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

(iii) Options granted on 14 October 2016

Name of grantee	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 2020	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 2020	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Directors:										
Wang Lishan	14/10/2018 to 13/10/2026	0.68	0.63	5,000,000	–	–	–	–	5,000,000	0.31%
Cao Yunsheng (resigned on 10 April 2020 and was re-appointed on 22 January 2021)	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%

(iv) Options granted on 9 January 2018

Name of grantee	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 2020	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 2020	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Directors:										
Wang Lishan	09/01/2019 to 08/01/2028	2.14	2.11	2,300,000	–	–	–	–	2,300,000	0.14%
Liu Yunian	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	–	–	–	–	1,500,000	0.09%
Su Yang	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	–	–	–	–	1,500,000	0.09%
Zheng Yimin	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	–	–	–	–	1,500,000	0.09%
Qi Daqing	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	–	–	–	–	1,500,000	0.09%
Cao Yunsheng (resigned on 10 April 2020 and was re-appointed on 22 January 2021)	09/01/2019 to 08/01/2028	2.14	2.11	8,000,000	–	–	–	–	8,000,000	0.49%
Tang Hui (resigned on 10 April 2020)	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	–	–	–	–	1,500,000	0.09%
39 employees	09/01/2019 to 08/01/2028	2.14	2.11	47,600,000	–	–	–	26,500,000	21,100,000	1.29%
Total				65,400,000	–		–	26,500,000	38,900,000	2.37%

DIRECTORS' REPORT

(v) Options granted on 29 May 2019

Name of grantee	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 2020	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 2020	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
A service supplier:										
Hong Kong Zhixin Financial News Agency Limited	29/08/2019 to 28/05/2022	1.04	0.75	15,000,000	–	–	–	–	15,000,000	0.92%
Total				15,000,000	–		–	–	15,000,000	0.92%

(iv) Options granted on 24 April 2020

Name of grantee	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 2020	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Directors:										
Cao Yunsheng (resigned on 10 April 2020 and was re-appointed on 22 January 2021)	04/01/2021 to 23/04/2026	0.48	0.465	2,000,000	–	–	–	–	2,000,000	0.12%
Li lin (resigned on 22 January 2021)	04/01/2021 to 23/04/2026	0.48	0.465	4,000,000	–	–	–	–	4,000,000	0.24%
Gao Zhiqiang	04/01/2021 to 23/04/2026	0.48	0.465	4,000,000					4,000,000	0.24%
Wang Ningsheng	04/01/2021 to 23/04/2026	0.48	0.465	5,000,000					5,000,000	0.31%
Liu Yunian	04/01/2021 to 23/04/2026	0.48	0.465	5,000,000	–	–	–	–	5,000,000	0.31%
Su Yang	04/01/2021 to 23/04/2026	0.48	0.465	2,000,000	–	–	–	–	2,000,000	0.12%
Zheng Yimin	04/01/2021 to 23/04/2026	0.48	0.465	2,000,000	–	–	–	–	2,000,000	0.12%
Qi Daqing	04/01/2021 to 23/04/2026	0.48	0.465	2,000,000	–	–	–	–	2,000,000	0.12%
7 employees	04/01/2021 to 23/04/2026	0.48	0.465	22,000,000	–	–	–	–	22,000,000	1.35%
Total				48,000,000	–		–	–	48,000,000	2.93%

The estimated fair value of the options on the date of grant is approximately HK$9,023,000 (equivalent to RMB8,250,000). This estimated fair value was calculated using the Binomial Option-pricing model. The inputs into the model are as follows:

	2020
Number of share options granted	48,000,000
Grant date share price	HK$0.45
Expected volatility	59.59%
Expected life	6 years
Risk free rate	0.40%
Expected dividend yield	1.39%

DIRECTORS' REPORT

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 behavioral considerations.

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

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

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

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACT

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

Executive Directors	Date of appointment	Date of resignation	Reason of resignation
Mr. Wang Lishan	24 November 2005	–	–
Mr. Liu Lei	10 June 2017	–	–
Mr. Lin Ke	10 June 2017	8 January 2020	Other job assignment
Mr. Cao Yunsheng	24 November 2005	10 April 2020	Other job assignment
	22 January 2021	–	
Mr. Li Lin	10 April 2020	22 January 2021	Other job assignment
Mr. Gao Zhiqiang	10 April 2020	–	–
Mr. Wang Ningsheng	8 January 2020	–	–
Mr. Liu Yunian	8 June 2018	–	–
Mr. Tang Hui	8 June 2018	10 April 2020	Other job assignment

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.

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 15 and note 47 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 15 to the consolidated financial statements, respectively.

DIRECTORS' REPORT

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

At 31 December 2020, 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	7,628,000 (L)	0.47%
	Share options	12,300,000 (L)	0.75%
Li Lin	Share options	4,000,000 (L)	0.24%
Gao Zhiqiang	Share options	4,000,000 (L)	0.24%
Wang Ningsheng	Share options	5,000,000 (L)	0.31%
Liu Yunian	Share options	6,500,000 (L)	0.40%
Qi Daqing	Beneficial owner	1,550,000 (L)	0.09%
	Share options	3,500,000 (L)	0.21%
Su Yang	Share options	3,500,000 (L)	0.21%
Zheng Yimin	Share options	3,500,000 (L)	0.21%

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.

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

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

At 31 December 2020, 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	7,628,000 (L)	0.47%
	Share Options	12,300,000 (L)	0.75%
Capital Pilot Limited	Person having a security interest in shares *(Note 4)*	161,995,555 (L)	9.91%
Shiu Shu Ming	Interest of a controlled corporation *(Note 4)*	161,995,555 (L)	9.91%
Hong Man Chu	Interest of spouse *(Note 5)*	161,995,555 (S)	9.91%
Lo Chun Yim	Interest of a controlled corporation *(Note 6)*	161,995,555 (S)	9.91%
Golden Talent (HK) Technology Co., Limited	Beneficial owner *(Note 6)*	161,995,555 (S)	9.91%

Notes:

(1) The letters "L" denotes a long position and the letters "S" denotes a short position in the Shares respectively.

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

(4) The Shares are held by Capital Pilot Limited, which is wholly-owned by Mr. Shiu Shu Ming.

(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.

DIRECTORS' REPORT

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 85.76% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 38.75% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 53.29% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 34.94% 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 2020 set out in note 47 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.

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

On 14 November 2018, 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"), 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 36 months from 1 January 2019 to 31 December 2021 (both days inclusive) (the "Master Agreement Period").

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 transaction ("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 during the Master Agreement Period 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 Master Agreement Period at the extraordinary general meeting held on 18 January 2019.

According to the Rule 14A.55 of the Listing Rules, the independent non-executive Directors had reviewed annually 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.

DIRECTORS' REPORT

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 2020.

PERMITTED INDEMNITY PROVISIONS

A permitted indemnity provision for the benefit of the Directors is currently in force throughout the year ended 31 December 2020. 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

WANG Lishan
CHAIRMAN

Hong Kong

30 March 2021

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 standard 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 2020, save and except the Company provides the two board members, namely Mr. Wang Ningsheng and Mr. Liu Yunian, 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 as at the date of this report comprises six executive Directors and three independent non-executive Directors.

Executive Directors

Mr. Wang Lishan (Chairman), Mr. Liu Lei (Deputy Chairman), Mr. Cao Yunsheng, Mr. Gao Zhiqiang, Mr. Wang Ningsheng (President), Mr. Liu Yunian

Independent Non-executive Directors

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

In year 2020, Mr. Wang Lishan and Mr. Wang Ningsheng were the chairman and the president of the Company respectively and the roles of chairman and the president 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 president. 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.

CORPORATE GOVERNANCE REPORT

The Board confirmed that the Company has received, from each of the independent non-executive Directors, an annual confirmation of their 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 2020, the Board performed following corporate governance duties in accordance with the terms of reference on the corporate governance duties:

- Review the Company's policies and practices on corporate governance;
- Review and monitor the training and continuous professional development of directors and senior management;
- Review and implement an effective governance structure to assess and manage risks;
- Review and monitor the code of conduct applicable to directors and employees; and
- 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 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 42.

RSM Hong Kong has been re-appointed as the Company's external auditor at the annual general meeting of 2020 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 2020 are as below:

	Fee paid/payable HK$
Audit services	1,580,000
Review of the interim report	350,000

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.

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 Corporate Governance Code, 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.

CORPORATE GOVERNANCE REPORT

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 Group's financial information, oversee the Group's reporting system, risk management and internal control systems, and to make proposals to the Board as to appointment, renewal and resignation of the Company's external auditor and related remuneration and appointment terms.

During the year, two audit committee meetings were held to review and discuss the Company's consolidated financial statements, discussed the risk management and internal control systems with the management of the Company, review the effectiveness of these systems and propose to renew the external auditor. The audit committee had meetings with the external auditor, learned about their report on the audit or review work, and adopted the auditor's suggestion and comments for improvement and so as to urge the management to implement it.

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 2020. 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 2020. The audit committee also reviewed and recommended to the Board approval of the unaudited financial statements for the first six months of 2020, prior to public announcement.

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 2021.

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, three remuneration committee meetings were held in the year to discuss and suggest:

(1) recommendations on the remuneration of new Directors;

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

(3) the remuneration policy.

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. In considering the candidates, the nomination committee will take into account his past performance and experience, academic and working qualifications, general market conditions, and 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, three nomination committee meetings were held in the year to:

(1) nomination of new Directors;

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

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

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.

CORPORATE GOVERNANCE REPORT

THE DIRECTORS' ATTENDANCE AT THE MEETINGS

During the year 2020, the Board held 12 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 2020 is set out in the table below:

	Attendance/Number of meetings				
Name of Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Mr. Wang Lishan	12/12	–	–	–	0/1
Mr. Liu Lei	12/12	–	–	–	0/1
Mr. Lin Ke (resigned on 8 January 2020)	2/12	–	–	–	0/1
Mr. Li Lin (appointed on 10 April 2020)	9/12	–	–	–	0/1
Mr. Gao Zhiqiang (appointed on 10 April 2020)	9/12	–	–	–	0/1
Mr. Wang Ningsheng (appointed on 8 January 2020)	10/12	–	–	–	0/1
Mr. Cao Yunsheng (resigned on 10 April 2020)	3/12	–	–	–	0/1
Mr. Liu Yunian	12/12	–	–	–	1/1
Mr. Tang Hui (resigned on 10 April 2020)	1/12	–	–	–	0/1
Mr. Su Yang	11/12	2/2	3/3	3/3	0/1
Mr. Zheng Yimin	10/12	2/2	3/3	3/3	0/1
Mr. Qi Daqing	11/12	2/2	3/3	3/3	0/1

Under provision A.6.7 of the Corporate Governance Code, 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 meetings 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 2020, 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 2020, 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 47 to 119, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of 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 2020, 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

3. Expected loss allowance on trade and bills receivables

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 20 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(j) and 4(u) 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 RMB3,528,916,000 and represents approximately 97% of the Group's turnover for the year ended 31 December 2020. For the revenue from construction contracts and other service contracts recognised over time, the Group recognises 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

KEY AUDIT MATTERS (CONT'D)

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected loss allowance on trade and bills receivables Refer to note 24 to the consolidated financial statements and the accounting policies on note 4(cc) and note 5(e) to the consolidated financial statements. As at 31 December 2020, the Group recorded gross trade and bill receivables of RMB876,692,000 and loss allowance of RMB153,854,000, which were significant to the financial statements of the Group. The Group measures loss allowance on trade and bills receivables at amounts equal to lifetime expected credit losses. Expected credit losses ("ECL") on these financial assets are estimated using a provision matrix which involves significant management judgement in estimating the expected loss rate based on historical credit loss experience, adjusting factors that are specific to the debtors and assessment of both current and forecast general economic conditions. We identified the estimation of expected loss allowance of trade and bills receivables as a key audit matter because of the significance of the Group's trade and bills receivables balance to the consolidated financial statements, together with the significant degree of estimations made by the management in estimating ECL of trade and bills receivables which may affect their carrying values at the end of the reporting period.	Our procedures in relation to management's estimation of expected loss allowance of trade receivables: – Obtained an understanding of how the management assesses the ECL of trade receivables; – Tested the mathematical accuracy of the ECL model on trade receivables prepared by the management; – Tested whether items in the ageing report were categorised appropriately on a sample basis; and – Assessed the reasonableness of the ECL by testing the accuracy of the historical default rate and examining the reasonableness of the forward looking information used by the management.

OTHER INFORMATION

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

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

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

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

* 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.

INDEPENDENT AUDITOR'S REPORT

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

* 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, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Tak Man, Stephen.

RSM Hong Kong
Certified Public Accountants
29th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong
30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
Revenue	*8*	**3,647,183**	1,760,624
Cost of sales and services		**(3,199,434)**	(1,440,330)
Gross profit		**447,749**	320,294
Other income	*9*	**68,520**	58,353
Impairment losses on trade and bills receivables		**(55,463)**	(70,912)
Reversal of impairment losses on other receivables		**11,591**	–
Reversal of impairment losses on contract assets		**53**	707
Administrative expenses		**(256,465)**	(220,684)
Other operating expenses	*11*	**(6,746)**	(39,168)
Profit from operations		**209,239**	48,590
Finance costs	*12*	**(34,122)**	(39,452)
Profit before tax		**175,117**	9,138
Income tax expense	*13*	**(28,405)**	(4,714)
Profit for the year	*14*	**146,712**	4,424
Attributable to:			
Owners of the Company		**146,712**	4,424
Earnings per share	*17*		
		RMB	RMB
Basic		**8.98 cents**	0.27 cents
Diluted		**8.98 cents**	0.27 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Profit for the year	146,712	4,424
Other comprehensive income:		
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	(53,384)	24,084
Other comprehensive income for the year, net of tax	(53,384)	24,084
Total comprehensive income for the year	93,328	28,508
Attributable to:		
Owners of the Company	93,328	28,508

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	*18*	1,246,905	1,172,874
Right-of-use assets	*19*	444,561	452,461
Goodwill	*20*	52,444	54,648
Intangible assets	*21*	12,226	6,509
Trade receivables, non-current	*24*	1,592	538
Deferred tax assets	*38*	29,452	29,323
		1,787,180	1,716,353
Current assets			
Inventories	*23*	127,343	194,251
Trade and bills receivables	*24*	721,246	932,012
Contract cost assets	*25*	6,150	69,654
Contract assets	*26*	455,282	161,777
Prepayments, deposits and other receivables	*27*	181,474	262,057
Derivative financial instruments	*28*	2,182	3,160
Due from directors	*29*	–	833
Current tax assets		–	751
Pledged bank deposits	*30*	136,073	56,813
Bank and cash balances	*30*	1,188,255	808,330
		2,818,005	2,489,638
Current liabilities			
Trade and bills payables	*31*	1,056,120	748,993
Contract liabilities	*26*	430,267	299,110
Accruals and other payables	*32*	133,667	108,731
Derivative financial instruments	*28*	–	769
Provisions	*34*	68,541	58,117
Bank and other borrowings	*35*	37,500	289,342
Deferred income	*37*	8,398	8,942
Lease liabilities	*33*	9,118	12,691
Current tax liabilities		17,174	–
		1,760,785	1,526,695
Net current assets		1,057,220	962,943
Total assets less current liabilities		2,844,400	2,679,296

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
Non-current liabilities			
Deferred income	*37*	28,563	34,824
Lease liabilities	*33*	45,868	37,474
Bank borrowings	*35*	482,200	392,700
Deferred tax liabilities	*38*	38,424	63,305
		595,055	528,303
NET ASSETS		2,249,345	2,150,993
Capital and reserves			
Share capital	*39*	14,755	14,755
Reserves	*42(a)*	2,234,590	2,136,238
TOTAL EQUITY		2,249,345	2,150,993

Approved by the Board of Directors on 30 March 2021 and are signed on its behalf by:

Wang Lishan
Chairman

Wang Ningsheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to owners of the Company								
	Share capital *(Note 39)* RMB'000	Share premium account *(Note 42(c)(i))* RMB'000	Special reserve *(Note 42(c)(iii))* RMB'000	Convertible loan notes equity reserve *(Note 42(c)(vi))* RMB'000	Foreign currency translation reserve *(Note 42(c)(v))* RMB'000	Share-based payment reserve *(Note 42(c)(ii))* RMB'000	Statutory reserves *(Note 42(c)(iv))* RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2019	14,755	1,733,618	(52,040)	2,951	(43,122)	43,247	40,275	393,332	2,133,016
Total comprehensive income for the year	–	–	–	–	24,084	–	–	4,424	28,508
Share-based payments	–	–	–	–	–	18,104	–	–	18,104
Share options forfeited	–	–	–	–	–	(359)	–	359	–
Dividend paid *(note 16)*	–	–	–	–	–	–	–	(28,635)	(28,635)
Changes in equity for the year	–	–	–	–	24,084	17,745	–	(23,852)	17,977
At 31 December 2019 and 1 January 2020	14,755	1,733,618	(52,040)	2,951	(19,038)	60,992	40,275	369,480	2,150,993
Total comprehensive income for the year	–	–	–	–	(53,384)	–	–	146,712	93,328
Share-based payments	–	–	–	–	–	5,024	–	–	5,024
Share options forfeited	–	–	–	–	–	(19,203)	–	19,203	–
Changes in equity for the year	–	–	–	–	(53,384)	(14,179)	–	165,915	98,352
At 31 December 2020	14,755	1,733,618	(52,040)	2,951	(72,422)	46,813	40,275	535,395	2,249,345

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	175,117	9,138
Adjustments for:		
Finance costs	34,122	39,452
Equity settled share-based payments	5,024	18,104
Interest income	(11,296)	(6,333)
Depreciation of property, plant and equipment	128,645	103,322
Depreciation of right-of-use assets	27,389	23,478
Amortisation of intangible assets	1,345	1,079
Net loss on disposals of property, plant and equipment	1,934	499
Written off of right-of-use assets	154	186
Reversal of allowances for inventories	(3,878)	(1,698)
Impairment losses on trade and bills receivables, net	55,463	70,912
Impairment losses on goodwill	2,204	–
Reversal of impairment losses on other receivables	(11,591)	–
Reversal of impairment losses on contract assets	(53)	(707)
Provisions of warranty, net	(11,611)	(24,547)
Provision of onerous contract	22,035	–
Fair value changes on derivative financial instruments	(13,179)	(3,287)
Government grants income	(19,338)	(16,484)
Operating profit before working capital changes	382,486	213,114
Decrease/(increase) in inventories	24,910	(111,884)
Decrease/(increase) in trade and bills receivables	154,249	(413,621)
Decrease/(increase) in contract cost assets	63,504	(13,338)
(Increase)/decrease in contract assets	(293,452)	245,312
Decrease/(increase) in prepayments, deposits and other receivables	85,168	(18,594)
Decrease/(increase) in amounts due from directors	833	(99)
Increase in trade and bills payables	307,127	89,298
Increase in contract liabilities	131,157	245,408
Increase/(decrease) in accruals and other payables	11,962	(4,032)
Cash generated from operations	867,944	231,564
Income taxes paid	(35,490)	(43,358)
Interest paid	(27,031)	(32,795)
Interest on lease liabilities	(2,776)	(1,510)
Other finance costs	(4,315)	(5,147)
Net cash generated from operating activities	798,332	148,754
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	11,296	6,333
Purchases of property, plant and equipment	(146,902)	(141,428)
Proceeds from disposals of property, plant and equipment	8,144	598
Purchase of intangible assets	(7,062)	(1,830)
Payments for right-of-use assets	(87)	(1,765)
(Increase)/decrease in pledged bank deposits	(76,778)	10,813
Government grants received	12,533	23,179
Net receipt from settlement of derivative financial instruments	13,388	1,176
Net cash used in investing activities	(185,468)	(102,924)

	Note	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank borrowings raised	*43(b)*	202,500	196,500
Repayment of bank borrowings	*43(b)*	(364,842)	(320,457)
Dividend paid		–	(28,635)
Principal elements of lease payment	*43(b)/(c)*	(14,728)	(10,944)
Net cash used in financing activities		(177,070)	(163,536)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		435,794	(117,706)
Effect of foreign exchange rate changes		(53,387)	23,910
CASH AND CASH EQUIVALENTS AT 1 JANUARY		808,766	902,562
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		1,191,173	808,766
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		1,188,255	808,330
Pledged bank deposits		2,918	436
		1,191,173	808,766

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

	2020 RMB'000	2019 RMB'000
Pledged bank deposits (mature in three months or less)	2,918	436
Pledged bank deposits (mature after three months)	133,155	56,377
	136,073	56,813

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 22 to the consolidated financial statements.

In the opinion of the directors of the Company, as at 31 December 2020, 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 ("Beijing 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

The Group has applied the Amendments to Reference to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKAS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments had no impact on the consolidated financial statements.

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

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

Amendments to HKFRS 3 Definition of a Business

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The Group has applied the amendments prospectively to transactions for which the acquisition date is on or after 1 January 2020. The application of the amendments had no impact on the consolidated financial statements as similar conclusion would have been reached without applying the optional concentration test.

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

The Group has not applied any new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2020. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to HKFRS 3 Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16 Property, plant and equipment: proceeds before intended use	1 January 2022
Amendments to HKAS 37 Onerous contracts – cost of fulfilling a contract	1 January 2022
Annual Improvements to HKFRSs 2018 – 2020 Cycle	1 January 2022
Amendments to HKAS 1 Classification of liabilities as current or non-current	1 January 2023

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 it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

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, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

(c) 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 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) 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.

(d) Property, plant and equipment

Property, plant and equipment are held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below). Property, plant and equipment 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, with the effect of any changes in estimate accounted for on a prospective basis.

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)

(e) 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 2 to 16 years.

(f) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group as lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Leases (Cont'd)

The Group as lessee (Cont'd)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

(g) 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.

(h) 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, property, plant and equipment or intangible 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, property, plant and equipment or intangible asset, 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) 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(cc) 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.

(j) 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 new 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. There is not considered to be a significant financing component in construction contract with customers as the period between the recognition of revenue and the milestone payment is always less than one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) 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.

(k) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) 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.

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.

(m) 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.

(n) 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.

(o) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) 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.

(q) 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.

(r) 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.

(s) Equity instruments

An equity instrument is any contract that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(t) Derivate 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(u) Revenue and other income

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 new 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(j) 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.

(v) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(w) Share-based payments

The Group issues equity-settled share-based payments to certain directors, employees and consultants.

Equity-settled share-based payments to directors and employees 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.

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or, if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

(x) 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. Effective at 1 January 2020, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings.

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

(y) 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 income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(z) 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.

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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

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.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(aa) Research and development expenditure

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

(bb) 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 CGUs 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 CGUs.

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

Impairment losses for CGUs are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the CGUs. 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.

(cc) 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

Significant increase in credit risk (Cont'd)

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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

Definition of default (Cont'd)

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;

– the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider; or

– 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(dd) 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.

(ee) 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.

(ff) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 18 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 RMB10,338,000 (2019: RMB10,338,000) 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 RMB43,678,000 (2019: RMB55,981,000).

In addition, Penglai Jutal is in the process of obtaining the ownership certificates of other building structures with carrying amounts of RMB74,212,000 (2019: RMB20,820,000). 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 properties and right-of-use assets respectively 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 4(cc), 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.

(c) *Other contract costs*

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

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

Key sources of estimation uncertainty

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

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

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

The carrying amount of property, plant and equipment as at 31 December 2020 was approximately RMB1,246,905,000 (2019: RMB1,172,874,000).

(b) *Recognition of revenue and profit from construction contracts and other services contracts over time*

As explained in policy notes 4(j) and 4(u), 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 or to the percentage of certified work performed. 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 RMB1,151,364,000 (2019: RMB514,181,000) of revenue from these contracts (contracts which the percentage of completion is measured by reference to the actual costs incurred relative to the estimate total cost) 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 RMB28,405,000 (2019: RMB4,714,000) of income tax 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 CGUs 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 CGUs 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 RMB52,444,000 after an impairment loss of approximately RMB2,204,000 as recognised during the year. (2019: carrying amount of goodwill of RMB54,648,000). Details of the impairment loss calculation are provided in note 20 to the consolidated financial statements.

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

The management of the Group estimates the amount of impairment loss 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 2020, the carrying amount of trade and bills receivables and contract assets is RMB1,178,120,000 (net of allowance for doubtful debts of RMB155,070,000) (2019: RMB1,094,327,000 (net of allowance for doubtful debts of RMB99,660,000)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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$"). During the years ended 31 December 2020 and 2019, the Group entered into foreign exchange forward contracts to hedge the foreign currency risk arising from certain of its contract revenue and trade receivables denominated in Euro and US$. The Group currently does not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities.

At 31 December 2020, 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 RMB5,275,000 (2019: RMB14,383,000) 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 RMB5,275,000 (2019: RMB14,383,000) 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 28 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 2020 and 2019, 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 years ended 31 December 2020 and 2019 is insignificant to the Group and therefore no sensitivity analysis is presented thereon.

(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 and bills 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 generally due within 30 to 90 days from the date of billing. The Group obtained collaterals from certain of its contract customers.

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.

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

Trade and bills receivables and contract assets (Cont'd)

The Group assessed that trade receivables arising from entering business with Small and medium-sized enterprises (Group 2) and with those larger size enterprises (Group 1) (e.g. state-owned enterprises; well-established or listed companies) are subject to different loss patterns and therefore determined to segment those trade receivables into two different groups which would better reflect the shared credit risk characteristics of the customers in each grouping.

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

As at 31 December 2020

	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							
– Collectively assessed							
• Group 1	0.19%	0.94%	2.40%	3.68%	5.07%	100%	
• Group 2	2.36%	3.70%	8.84%	N/A	12.59%	100%	
Gross carrying amount							
– Collectively assessed							
• Group 1 (RMB'000)	523,119	2,465	20,680	20,386	32,168	8,201	607,019
• Group 2 (RMB'000)	14,164	3,760	1,615	–	1,919	274	21,732
– Specifically assessed (RMB'000)	30,029	–	–	50,296	80,981	86,635	247,941
Total	567,312	6,225	22,295	70,682	115,068	95,110	876,692
Loss allowance							
– Collectively assessed							
• Group 1 (RMB'000)	971	23	497	750	1,631	8,201	12,073
• Group 2 (RMB'000)	334	139	143	–	242	274	1,132
– Specifically assessed (RMB'000)	1,436	–	–	21,020	32,514	85,679	140,649
Total	2,741	162	640	21,770	34,387	94,154	153,854

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

Trade and bills receivables and contract assets (Cont'd)

As at 31 December 2019

	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							
– Collectively assessed							
• Group 1	0.11%	0.66%	3.47%	5.13%	8.01%	100%	
• Group 2	1.39%	2.23%	11.73%	16.31%	16.72%	100%	
Gross carrying amount (RMB'000)							
– Collectively assessed							
• Group 1 (RMB'000)	726,309	45,401	3,537	45,826	59,035	7,336	887,444
• Group 2 (RMB'000)	10,701	2,503	4,043	6,408	2,792	–	26,447
– Specifically assessed (RMB'000)	32,134	1,306	12,030	9,180	53,342	9,058	117,050
Total	769,144	49,210	19,610	61,414	115,169	16,394	1,030,941
Loss allowance							
– Collectively assessed							
• Group 1 (RMB'000)	774	300	123	2,353	4,731	7,336	15,617
• Group 2 (RMB'000)	149	56	474	1,045	467	–	2,191
– Specifically assessed (RMB'000)	14,042	815	7,504	6,077	44,189	7,956	80,583
Total	14,965	1,171	8,101	9,475	49,387	15,292	98,391

For the purpose to measure the loss allowances for the unbilled trade receivables balance, the Group determine if these unbilled receivables are past due by reference to the stipulated payment terms of the respective contracts.

Expected loss rate of contract assets for Group 1 and Group 2 customers are assessed to be 0.19% and 2.36% respectively (2019: 0.11% and 1.39% respectively). As at 31 December 2020, the loss allowance provision for contract assets amounted to RMB1,216,000 (2019: RMB1,269,000).

Expected loss rates are based on actual loss experience over the past 2 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.

Certain individual customers (where there is objective evidence of credit impairment) have been identified as having a significantly elevated credit risk and have been provided for on a specific basis of which the expected credit loss rate was adjusted for factors that were specific to these customers.

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

Trade and bills receivables and contract assets (Cont'd)

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

	Trade and bills receivables RMB'000	Contract assets RMB'000	Total RMB'000
At 1 January 2019	27,479	1,976	29,455
Impairment losses/(reversal of impairment losses) recognised for the year	70,912	(707)	70,205
At 31 December 2019	98,391	1,269	99,660
Impairment losses/(reversal of impairment losses) recognised for the year	55,463	(53)	55,410
At 31 December 2020	**153,854**	**1,216**	**155,070**

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 2020:

– origination of new trade receivables net of those settled resulted in an increase in loss allowance of RMB798,000; and

– increase in days past due over 90 days resulted in an increase in loss allowance of RMB54,612,000.

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.

Movement in the loss allowance account in respect of other receivables during the year is as follows:

	Other receivables RMB'000
At 1 January 2019, 31 December 2019 and 1 January 2020	11,602
Reversal of impairment losses recognised for the year *(note)*	(11,591)
At 31 December 2020	**11**

Note:

Reversal of impairment losses of approximately RMB11,591,000 was recognised for the year as the related other receivables were settled during the year.

The Group has assessed that the loss allowance of amount due from directors as at 31 December 2019 are not material, and no loss allowance was recognised for amount due from directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 2020					
Trade and bills payables	**1,056,120**	**–**	**–**	**–**	**1,056,120**
Accruals and other payables	**133,667**	**–**	**–**	**–**	**133,667**
Lease liabilities	**11,527**	**8,666**	**28,783**	**18,966**	**67,942**
Bank borrowings *(note)*	**60,148**	**322,618**	**183,098**	**–**	**565,864**
At 31 December 2019					
Trade and bills payables	748,993	–	–	–	748,993
Accruals and other payables	108,731	–	–	–	108,731
Lease liabilities	14,960	8,570	15,395	23,678	62,603
Bank and other borrowings *(note)*	318,752	77,752	346,683	–	743,187

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 2020, no bank borrowings contain a repayment on demand clause (2019: the undiscounted aggregate principal amounts of these bank borrowings amounted to approximately RMB99,800,000. 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 in two years after the end of the reporting period in accordance with the scheduled repayment dates or conditions set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to approximately RMB105,249,000).

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 2020					
Derivative – gross settlement					
Foreign exchange forward contracts					
– Inflow	**56,695**	**114,755**	**–**	**–**	**171,450**
– Outflow	**(53,772)**	**(114,600)**	**–**	**–**	**(168,372)**
	2,923	**155**	**–**	**–**	**3,078**
At 31 December 2019					
Derivative – gross settlement					
Foreign exchange forward contracts					
– Inflow	91,610	29,612	–	–	121,222
– Outflow	(90,223)	(28,565)	–	–	(118,788)
	1,387	1,047	–	–	2,434

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(d) Interest rate risk

The Group's exposure to interest rate risk arises from its bank deposit, 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 2020, 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 RMB7,711,000 (2019: RMB3,727,000) lower, arising mainly as net result of lower interest income on bank deposits and lower bank loans interest expenses. 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 RMB7,711,000 (2019: RMB3,727,000) higher, arising mainly as a net result of higher interest income on bank deposits and higher bank loans interest expenses.

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

(e) Categories of financial instruments at 31 December

	2020 RMB'000	2019 RMB'000
Financial assets:		
Financial assets measured at amortised cost	2,681,574	1,950,446
Derivative financial instruments – held for trading	2,182	3,160
Financial liabilities:		
Financial liabilities at amortised cost	1,709,487	1,539,766
Derivative financial instruments – held for trading	–	769

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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:

Description	Fair value measurements as at 31 December 2020 using level 2 RMB'000	Fair value measurements as at 31 December 2019 using level 2 RMB'000
Recurring fair value measurements:		
Financial assets		
Derivatives		
Foreign currency forward	2,182	3,160
Financial liabilities		
Derivatives		
Foreign currency forward	–	769

(b) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2020:

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 2020.

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

Level 2 fair value measurements

Description	Valuation technique	Key inputs	Fair value 2020 RMB'000 Assets	Fair value 2020 RMB'000 Liabilities	Fair value 2019 RMB$'000 Assets	Fair value 2019 RMB$'000 Liabilities
Derivatives – foreign currency forward	Discounted cash flows	Forward exchange rate; Contract forward rates; and Discount rate	2,182	–	3,160	(769)

There were no changes in the valuation techniques used for the years ended 31 December 2020 and 2019.

8. REVENUE

(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	2020 RMB'000	2019 RMB'000
Disaggregated by type of contract		
– Revenue from construction contracts	3,516,273	1,536,767
– Trading of oil and gas, chemical and new energy products	9,043	52,628
– Technical support services	121,867	171,229
	3,647,183	1,760,624

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 new energy products		Technical support services		Total	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Timing of revenue recognition								
Goods and services transferred at a point in time	108,105	34,716	9,043	52,628	1,119	–	118,267	87,344
Goods and services transferred over time	3,408,168	1,502,051	–	–	120,748	171,229	3,528,916	1,673,280
Total	3,516,273	1,536,767	9,043	52,628	121,867	171,229	3,647,183	1,760,624

(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 2020 and the expected timing of recognising revenue as follows:

	Construction contracts		Trading of oil and gas, chemical and new energy products		Technical support services	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Within one year	3,715,111	2,625,506	3,804	–	53,648	42,620
More than one year but not more than two years	221,985	2,236,205	–	–	–	–
More than two years	–	148,016	–	–	–	–
	3,937,096	5,009,727	3,804	–	53,648	42,620

The above amount 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

9. OTHER INCOME

	2020 RMB'000	2019 RMB'000
Net foreign exchange gains	17,977	–
Compensation income	–	9,017
Reversal of allowance for inventories	3,878	1,698
Government grants recognised (note a)	19,338	16,484
Interest income on bank deposits	11,296	6,333
Fair value gains on derivative financial instruments	13,179	3,287
Reversal of other receivable previously written off	–	5,000
Interest income from contracts with financing component	–	9,746
Others	2,852	6,788
	68,520	58,353

Note

(a): For the year ended 31 December 2020, government grants of approximately RMB10,999,000 (2019: RMB3,179,000) 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 RMB8,339,000 (2019: RMB13,305,000) are recognised in relation to certain research and development activities.

10. SEGMENT INFORMATION

For the year ended 31 December 2020, the Group has two 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 new energy and refining and chemical industries

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 and technical support services for industries other than oil and gas, new energy and refinery and chemical sectors. These segments do not meet any of the quantitative thresholds for determining reportable segments. The information of these segments are 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, impairment loss on trade and bills receivables, reversal of impairment loss on other receivables, reversal of impairment loss on contract assets 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 income and other corporate liabilities.

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 new energy and refining and chemical industries RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2020				
Revenue from external customers	**2,844,666**	**779,120**	**23,397**	**3,647,183**
Segment profit	**375,425**	**72,204**	**120**	**447,749**
Depreciation and amortisation	**140,151**	**16,788**	**440**	**157,379**
Other material non-cash items:				
(Reversal of impairment losses)/impairment losses on trade and bills and other receivables, net	**(17,463)**	**61,778**	**(443)**	**43,872**
(Reversal of impairment loss)/impairment losses on contract assets	**(89)**	**26**	**10**	**(53)**
Additions to segment non-current assets	**184,242**	**54,442**	**783**	**239,467**
As at 31 December 2020				
Segment assets	**2,441,754**	**729,139**	**13,660**	**3,184,553**
Segment liabilities	**1,510,170**	**227,848**	**5,563**	**1,743,581**
Year ended 31 December 2019				
Revenue from external customers	1,616,399	126,480	17,745	1,760,624
Segment profit/(loss)	328,989	(7,649)	(1,046)	320,294
Depreciation and amortization	127,743	106	30	127,879
Other material non-cash items:				
Impairment losses on trade and bills and other receivables, net	24,735	45,789	388	70,912
Reversal of impairment loss on contract assets	(166)	(523)	(18)	(707)
Additions to segment non-current assets	168,341	69	76	168,486
As at 31 December 2019				
Segment assets	2,938,814	270,657	17,149	3,226,620
Segment liabilities	1,122,920	129,071	6,969	1,258,960

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. SEGMENT INFORMATION (CONT'D)

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

	2020 RMB'000	2019 RMB'000
Profit or loss		
Total profit of reportable segments	447,749	320,294
Unallocated amounts:		
Finance costs	(34,122)	(39,452)
Impairment losses on trade and bills receivables	(55,463)	(70,912)
Reversal of impairment losses on other receivables	11,591	–
Reversal of impairment losses on contract assets	53	707
Other income	68,520	58,353
Other corporate expenses	(263,211)	(259,852)
Consolidated profit before tax for the year	175,117	9,138
Assets		
Total assets of reportable segments	3,184,553	3,226,620
Unallocated amounts:		
Bank and cash balances	1,188,255	808,330
Pledged bank deposits	136,073	56,813
Derivative financial instruments	2,182	3,160
Current tax assets	–	751
Deferred tax assets	29,452	29,323
Goodwill	52,444	54,648
Other corporate assets	12,226	26,346
Consolidated total assets	4,605,185	4,205,991
Liabilities		
Total liabilities of reportable segments	1,743,581	1,258,960
Unallocated amounts:		
Bank and other borrowings	519,700	682,042
Derivative financial instruments	–	769
Current tax liabilities	17,174	–
Deferred income	36,961	43,766
Deferred tax liabilities	38,424	63,305
Other corporate liabilities	–	6,156
Consolidated total liabilities	2,355,840	2,054,998

10. SEGMENT INFORMATION (CONT'D)

Geographical information:

The Group's revenue 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:

	Revenue		Non-current assets	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
PRC except Hong Kong	470,578	586,442	1,757,728	1,687,030
United States	1,708,780	1,029,943	–	–
Switzerland	44,993	45,713	–	–
Norway	36,057	–	–	–
Singapore	41,320	41,891	–	–
Japan	21,520	–	–	–
France	535,600	28,115	–	–
United Kingdom	674,930	3,325	–	–
Netherlands	112,365	22,001	–	–
Others	1,040	3,194	–	–
Consolidated total	3,647,183	1,706,624	1,757,728	1,687,030

Revenue 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 new energy and refining and chemical industries RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2020				
Customer A	1,413,133	–	–	1,413,133
Customer B	491	674,439	–	674,930
Customer C	535,600	–	–	535,600
Year ended 31 December 2019				
Customer A	927,043	–	–	927,043
Customer B	–	–	–	–
Customer C	23,041	–	–	23,041

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

11. OTHER OPERATING EXPENSES

	2020 RMB'000	2019 RMB'000
Net loss on disposal of property, plant and equipment	1,934	210
Impairment losses on goodwill	2,204	–
Loss on disposal of other assets and liabilities	–	8,190
Net foreign exchange losses	–	26,702
Others	2,608	4,066
	6,746	39,168

12. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on bank borrowings	27,031	32,795
Interest on lease liabilities	2,776	1,510
Others	4,315	5,147
	34,122	39,452

13. INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
Current tax – PRC Enterprise Income Tax		
Provision for the year	54,642	24,992
(Over)/under-provision in prior years	(1,227)	7,375
	53,415	32,367
Deferred tax *(note 38)*	(25,010)	(27,653)
	28,405	4,714

13. INCOME TAX EXPENSE (CONT'D)

(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 2020 and 2019.

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

Penglai Jutal was approved to recognise as a new and high technology enterprise since 28 November 2019 to 27 November 2022 (the "Period").

During the year ended 31 December 2020, Penglai Jutal has met all required conditions and is therefore entitled to enjoy a reduced income tax rate of 15%.

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

Chengdu Jutal was previously approved to recognise as a new and high technology enterprise since 29 August 2018 to 28 August 2020. During the year, Chengdu Jutal has applied and being approved to continue recognise as a new and high technology enterprise for other three years until 2 December 2023.

During the year ended 31 December 2020, Chengdu Jutal has met all required conditions and is therefore entitled to enjoy a reduced income tax rate of 15%.

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

During the year, Zhuhai Jutal has applied and being approved to recognise as a new and high technology enterprise starting from 9 December 2020 to 8 December 2023 (the "Period").

During the year ended 31 December 2020, Zhuhai Jutal has met all required conditions and is therefore entitled to enjoy a reduced income tax rate of 15% throughout the Period.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

13. 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:

	2020 RMB'000	2019 RMB'000
Profit before tax	175,117	9,138
Tax at the PRC enterprise income tax rate of 25% (2019: 25%)	43,779	2,285
Tax effect of income that is not taxable	(2,434)	(2,656)
Tax effect of expenses that are not deductible	10,709	13,577
Tax effect of tax losses not recognised	–	1,204
Deferred tax on undistributed earnings of the PRC subsidiaries	4,080	3,262
Tax benefit for qualifying research and development expenses	(5,455)	(3,825)
(Over)/under-provision in prior years	(1,227)	7,375
Effect of different tax rates of subsidiaries	(21,047)	(16,508)
Income tax expense	28,405	4,714

14. PROFIT FOR THE YEAR

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

		2020 RMB'000	2019 RMB'000
(a)	Staff costs (including directors' emoluments):		
	Salaries, wages and other benefits	476,719	356,027
	Retirement scheme contributions	25,131	33,393
	Share-based payments	3,760	17,352
		505,610	406,772
(b)	Others items:		
	Amortisation of intangible assets	1,345	1,079
	Depreciation on property, plant and equipment	128,645	103,322
	Depreciation on right-of-use assets	27,389	23,478
	Net loss on disposals of property, plant and equipment*	1,934	499
	Written off of right-of-use assets*	154	186
	Net foreign exchange (gains)/losses*	(17,977)	26,702
	Research and development expenditure	119,063	61,456
	Auditor's remuneration	1,720	1,629
	Share-based payments paid to a consultant	1,264	752
	Cost of inventories utilised in construction contracts and sold	1,000,734	443,295
	Reversal of allowance for inventories	(3,878)	(1,698)
	Impairment losses on trade and bills receivables	55,463	70,912
	Reversal of impairment losses on other receivables	(11,591)	–
	Reversal of impairment losses on contract assets	(53)	(707)
	Impairment losses on goodwill*	2,204	–
	Fair value changes on derivative financial instruments	(13,179)	(3,287)

* *This amount is included in "Other income"/"Other operating expenses"*

15. 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	–	2,133	–	11	–	2,144
Mr. Cao Yunsheng *(note c)*	–	480	167	14	–	661
Mr. Tang Hui *(note e)*	–	253	200	3	–	456
Mr. Liu Lei	–	2,986	–	–	–	2,986
Mr. Lin Ke *(note a)*	–	–	–	–	–	–
Mr. Liu Yunian	–	721	960	366	21	2,068
Mr. Wang Ningsheng *(note b)*	–	815	500	359	22	1,696
Mr. Li Lin *(note f)*	–	–	–	287	–	287
Mr. Gao Zhiqiang *(note d)*	–	–	–	287	–	287
	–	7,388	1,827	1,327	43	10,585
Independent non-executive directors						
Mr. Su Yang	120	–	–	151	–	271
Mr. Qi Daqing	120	–	–	151	–	271
Mr. Zheng Yimin	120	–	–	151	–	271
	360	–	–	453	–	813
Total for 2020	360	7,388	1,827	1,780	43	11,398
Executive directors						
Mr. Wang Lishan	–	2,113	–	797	26	2,936
Mr. Cao Yunsheng *(note c)*	–	1,427	–	2,357	53	3,837
Mr. Tang Hui *(note e)*	–	745	–	376	53	1,174
Mr. Liu Lei	–	2,958	–	–	–	2,958
Mr. Lin Ke *(note a)*	–	1,268	–	–	–	1,268
Mr. Liu Yunian	–	722	–	376	59	1,157
	–	9,233	–	3,906	191	13,330
Independent non-executive directors						
Mr. Su Yang	120	–	–	376	–	496
Mr. Qi Daqing	120	–	–	376	–	496
Mr. Zheng Yimin	120	–	–	376	–	496
	360	–	–	1,128	–	1,488
Total for 2019	360	9,233	–	5,034	191	14,818

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

(a) Directors' emoluments (Cont'd)

Notes:

(a) Mr. Lin Ke resigned as an executive director on 8 January 2020.

(b) Mr. Wang Ningsheng was appointed as an executive director on 8 January 2020.

(c) Mr. Cao Yunsheng resigned as executive director on 10 April 2020 and was subsequently reappointed on 22 January 2021.

(d) Mr. Gao Zhiqiang were appointed as executive directors on 10 April 2020.

(e) Mr. Tang Hui resigned as executive director on 10 April 2020.

(f) Mr. Li Lin was appointed as executive director on 10 April 2020 and subsequently resigned on 22 January 2021.

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 2020 and 2019.

(b) Employees' emoluments

The five highest paid individuals in the Group during the year included one (2019: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining four individual (2019: two individual) is set out below:

	2020 RMB'000	2019 RMB'000
Basic salaries and allowances	11,972	7,510
Discretionary bonus	–	–
Share-based payments	–	–
Retirement benefits scheme contributions	40	24
	12,012	7,534

The emoluments of this remaining four individual (2019: two individual) fell within the following bands:

	Number of individuals	
	2020	2019
HK$2,000,001 to HK$2,500,000 (approximately RMB1,740,001 to RMB2,175,000)	–	–
HK$2,500,001 to HK$3,000,000 (approximately RMB2,175,001 to RMB2,610,000)	1	–
HK$3,000,001 to HK$3,500,000 (approximately RMB2,610,001 to RMB3,045,000)	1	–
HK$3,500,001 to HK$4,000,000 (approximately RMB3,045,001 to RMB3,480,000)	1	1
HK$4,000,001 to HK$4,500,000 (approximately RMB3,480,001 to RMB3,915,000)	1	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.

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

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

Pursuant to a master agreement dated 14 November 2018 made between the Company and Beijing Sanju, Beijing 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* (專案管理或提供勞務派遣等服務) for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive), and the Company also agrees to engage Beijing Sanju to provide products such as catalyst* (催化劑等物品的供貨) for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive). Contract revenue and other sales income received/receivable from Beijing Sanju and its wholly owned subsidiaries was amounted to approximately RMB70,610,000 for the year ended 31 December 2020 (2019: RMB67,534,000). Mr. Liu Lei is 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.

16. DIVIDENDS

	2020 RMB'000	2019 RMB'000
2018 final dividend of HK$0.02 per ordinary share	–	28,635

In February 2021, the Company paid an interim special dividend of approximately RMB206,278,000 (HK$0.15 per ordinary share) to the shareholders.

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2020 of HK$0.22 per share has been proposed by the directors and is subject to approval by the shareholders at the forthcoming general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

17. EARNINGS PER SHARE

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

	2020 RMB'000	2019 RMB'000
Earnings		
Earnings for the purpose of calculating basic and diluted earnings per share	146,712	4,424

	2020	2019
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,634,016,389	1,634,016,389
Effect of dilutive potential ordinary shares arising from share options	–	1,162,978
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,634,016,389	1,635,179,367

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.

At 31 December 2020, the Company's outstanding share options had no dilutive effect as the exercise prices of those share options were higher than the average market price per share.

18. 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	Total RMB'000
Cost						
At 1 January 2019	969,837	295,649	68,128	20,587	41,102	1,395,303
Additions	12,760	16,321	12,272	–	100,075	141,428
Reclassification	113,192	–	4,839	–	(118,031)	–
Write off/disposals	(200)	(3,375)	(2,055)	(1,258)	–	(6,888)
Exchange realignment	–	10	4	15	–	29
At 31 December 2019 and 1 January 2020	1,095,589	308,605	83,188	19,344	23,146	1,529,872
Additions	8,485	93,804	34,808	976	74,685	212,758
Reclassification	37,461	26,903	636	–	(65,000)	–
Write off/disposals	(3,502)	(19,257)	(5,528)	(1,367)	–	(29,654)
Exchange realignment	–	–	(36)	(38)	–	(74)
At 31 December 2020	1,138,033	410,055	113,068	18,915	32,831	1,712,902
Accumulated depreciation						
At 1 January 2019	108,274	100,800	32,588	17,779	–	259,441
Charge for the year	49,037	39,423	13,733	1,129	–	103,322
Write off/disposals	(94)	(2,652)	(1,787)	(1,258)	–	(5,791)
Exchange realignment	–	9	5	12	–	26
At 31 December 2019 and 1 January 2020	157,217	137,580	44,539	17,662	–	356,998
Charge for the year	58,447	47,258	22,422	518	–	128,645
Write off/disposals	(1,294)	(12,047)	(5,226)	(1,009)	–	(19,576)
Exchange realignment	–	–	(36)	(34)	–	(70)
At 31 December 2020	214,370	172,791	61,699	17,137	–	465,997
Carrying amount						
At 31 December 2020	923,663	237,264	51,369	1,778	32,831	1,246,905
At 31 December 2019	938,372	171,025	38,649	1,682	23,146	1,172,874

At 31 December 2019, the carrying amount of property, plant and equipment pledged as security for the Group's bank and other borrowings amounted to approximately RMB105,686,000. There is no property, plant and equipment was pledged as security at 31 December 2020.

At 31 December 2020, the Group is still in the process of obtaining the land use rights certificates of certain leasehold lands with the carrying amounts of approximately RMB10,338,000 (2019: RMB10,338,000).

At 31 December 2020, the Group has certain building structures with carrying amounts of approximately RMB43,678,000 (2019: RMB55,981,000) 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 2020, the Group is still in the process of obtaining the ownership certificates of other building structures with carrying amounts of approximately RMB74,212,000 (2019: RMB20,820,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

19. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Leased properties RMB'000	Total RMB'000
At 1 January 2019	413,080	37,801	450,881
Additions	1,765	23,463	25,228
Depreciation	(12,046)	(11,432)	(23,478)
Termination of contracts	–	(186)	(186)
Exchange differences	–	16	16
At 31 December 2019 and 1 January 2020	402,799	49,662	452,461
Additions	87	19,560	19,647
Depreciation	(12,046)	(15,343)	(27,389)
Termination of contracts	–	(154)	(154)
Exchange differences	–	(4)	(4)
At 31 December 2020	390,840	53,721	444,561

Lease liabilities of RMB54,986,000 (2019: RMB50,165,000) are recognised with related right-of-use assets of RMB53,721,000 (2019: RMB49,662,000) as at 31 December 2020. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

	2020 RMB'000	2019 RMB'000
Depreciation expenses on right-of-use assets	27,389	23,478
Interest expense on lease liabilities (included in finance cost)	2,776	1,510
Expenses relating to short-term lease (included in cost of sales and services and administrative expenses)	7,648	5,602
Expenses relating to leases of low value assets (included in administrative expenses)	32	86

Details of total cash outflow for leases is set out in note 43(c).

For both years, the Group leases various offices, warehouses, and staff quarters for its operations. Lease contracts are entered into for fixed term of 17 months to 15.5 years, but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its construction facilities and office buildings are primarily located. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

19. RIGHT-OF-USE ASSETS (CONT'D)

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. The potential exposure to these future lease payments is summarised below:

	Lease liabilities recognised as at 31 December 2020 (discounted) RMB'000	Potential future lease payments under extension options not included in lease liabilities (undiscounted) RMB'000
Fabrication site – PRC	28,777	13,222

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2020, there has been no such triggering event.

20. GOODWILL

	RMB'000
Cost	
At 31 December 2019, 1 January 2020 and 31 December 2020	54,648
Accumulated impairment losses	
At 31 December 2019 and 1 January 2020	–
Impairment losses recognised in the current year	(2,204)
At 31 December 2020	(2,204)
Carrying amount	
At 31 December 2020	52,444
At 31 December 2019	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:

	2020 RMB'000	2019 RMB'000
Offshore oil and natural gas exploration facilities fabrication business	52,444	52,444
Undersea maintenance services	–	2,204
At 31 December	52,444	54,648

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

20. GOODWILL (CONT'D)

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 2.6% (2019: 3%) for the Group's offshore oil and natural gas exploration facilities fabrication business. 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 is 15.25% (2019: 18.49%).

At 31 December 2020, before impairment testing, goodwill of RMB2,204,000 was allocated to the Group's undersea maintenance services. Due to a slow-down in the undersea maintenance business with fewer projects, the Group has revised its cash flow forecasts for this CGU. The CGU has been reduced to its recoverable amount of approximately RMB9,700,000 and an impairment loss on the related goodwill of RMB2,204,000 was recognised.

21. INTANGIBLE ASSETS

	Patents and computer software (purchased) RMB'000
Cost	
At 1 January 2019	15,154
Additions	1,830
At 31 December 2019 and 1 January 2020	16,984
Additions	7,062
At 31 December 2020	24,046
Accumulated depreciation	
At 1 January 2019	9,396
Amortisation for the year	1,079
At 31 December 2019 and 1 January 2020	10,475
Amortisation for the year	1,345
At 31 December 2020	11,820
Carrying amount	
At 31 December 2020	12,226
At 31 December 2019	6,509

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 5.4 years (2019: 6.2 years).

22. SUBSIDIARIES

List of subsidiaries

Particulars of the Group's major subsidiaries as at 31 December 2020 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
			Direct	Indirect	
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
巨濤油田服務(天津)有限公司* (Jutal Oilfield Services (Tianjin) Company Limited)	PRC	Paid up capital and registered capital of HK$10,000,000	–	100%	Provision of integrated services for oil and gas industries and new 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	Paid up capital of RMB200,000,000 Registered capital of RMB700,000,000	–	100%	Provision of integrated services for oil and gas industries and new 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	Paid up capital and registered capital of RMB500,000,000	–	100%	Provision of integrated services for oil and gas industries and new energy and refining and chemical industries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

22. SUBSIDIARIES (CONT'D)

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
巨濤海洋船舶工程服務(大連)有限公司# (Jutal Offshore Shipbuilding Services (Dalian) Company Limited)	PRC	Paid up capital and 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	Paid up capital of RMB3,000,000 Registered capital of RMB10,000,000	–	100%	Provision of integrated services for oil and gas industries and new 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	Paid up capital and 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 Offshore Engineering Heavy Industries Co., Ltd.)	PRC	Paid up capital and registered capital of US$94,500,000	–	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

* *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.

23. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	127,343	194,251

24. TRADE AND BILLS RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	857,630	1,009,021
Allowance for doubtful debts	(153,854)	(98,391)
	703,776	910,630
Bills receivables	19,062	21,920
	722,838	932,550

	2020 RMB'000	2019 RMB'000
Classified as:		
Trade receivables, non-current	1,592	538
Trade and bills receivables, current	721,246	932,012
	722,838	932,550

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 and other services contracts. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

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

	2020 RMB'000	2019 RMB'000
Billed		
0 to 30 days	399,622	367,948
31 to 90 days	23,548	63,156
91 to 365 days	59,730	77,880
Over 365 days	184,123	134,464
	667,023	643,448
Unbilled *(note a)*	190,607	365,573
	857,630	1,009,021

Note a: The unbilled balance mainly in relation to provision of construction and other services which will be billed in accordance with the payment terms stipulated in the relevant contracts entered into between the Group and the contract customers. As at 31 December 2020, unbilled balance of RMB1,592,000 (2019: RMB538,000) will be billed after one year from the end of the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

24. TRADE AND BILLS RECEIVABLES (CONT'D)

As at 31 December 2020, trade receivables aged over 90 days includes retentions receivables amounted to approximately RMB8,313,000 (2019: RMB24,664,000).

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

	2020 RMB'000	2019 RMB'000
RMB	575,426	795,288
US$	144,273	89,463
Euro	3,139	1,509
HK$	–	46,290
Total	722,838	932,550

25. CONTRACT COST ASSETS

	2020 RMB'000	2019 RMB'000
Contract cost assets	6,150	69,654

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:

	2020 RMB'000	2019 RMB'000
At 1 January	69,654	56,316
Additions	27,147	24,545
Amortisation for the year	(90,651)	(11,207)
Impairment loss on contract cost assets	–	–
At 31 December	6,150	69,654

26. CONTRACT ASSETS/CONTRACT LIABILITIES

Contract assets

	2020 RMB'000	2019 RMB'000
Arising from performance under construction contracts	411,806	105,578
Arising from performance under technical support services	43,476	56,199
	455,282	161,777
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables"	722,838	932,550

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.

During the reporting period, significant increase in the contract assets balance mainly because revenue from construction contracts increased significantly from last year and the right to consideration of certain contracts can only become unconditional when reach the corresponding performance related milestones.

The amount of revenue recognised during the year from performance obligations satisfied (or partially satisfied) in previous period is RMB608,000 (2019: RMB28,000), mainly due to the changes in the final transaction price of certain construction and service contracts.

The amount of contract assets that is expected to be recovered after more than one year is RMB170,000 (2019: RMB881,000).

Contract liabilities

	2020 RMB'000	2019 RMB'000
Billings in advance of performance obligation		
– Construction contracts	428,399	290,057
– Technical support services	1,868	9,053
– Trading of oil and gas, chemical and new energy products	–	–
	430,267	299,110

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.

During the reporting period, significant increase in the contract liabilities balance mainly because of increase in advance payments received from contract customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

26. CONTRACT ASSETS/CONTRACT LIABILITIES (CONT'D)

Contract liabilities (Cont'd)

Movements in contract liabilities:

	2020 RMB'000	2019 RMB'000
Balance at 1 January	299,110	53,702
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	(280,200)	(28,162)
Increase in contract liabilities as a result of billing in advance of construction activities	411,357	273,570
Balance at 31 December	430,267	299,110

No billings in advance are expected to be recognised as income after more than one year for the years ended 31 December 2020 and 2019.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Prepayments	2,348	107,134
Deposits	82,017	22,928
Other receivables	97,120	143,597
	181,485	273,659
Less: Allowance for other receivables	(11)	(11,602)
	181,474	262,057

At 31 December 2019, deposit of RMB9,507,000 were pledged as security for the Group's bank and other borrowings. There is no deposit pledged as security at 31 December 2020.

28. DERIVATIVE FINANCIAL INSTRUMENTS

	2020 RMB'000	2019 RMB'000
Financial assets		
Derivatives not under hedge accounting:		
Foreign currency forward	2,182	3,160
Financial liabilities		
Derivatives not under hedge accounting		
Foreign currency forward	–	769

At 31 December 2020 and 2019, 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$. The maximum notional principal amounts of these outstanding foreign currency forward contracts at the end of the reporting period were as follows:

	2020 RMB'000	2019 RMB'000
Sell US$ for RMB	76,065	51,367
Sell Euro for RMB	95,386	69,856

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

The Group did not fulfill the conditions of hedging relationship under the stringent and comprehensive documentation requirements as defined in 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 RMB13,179,000 was credited to the profit or loss for the year ended 31 December 2020 (2019: RMB3,287,000).

29. DUE FROM DIRECTORS

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

Name	Terms	Balance at 31 December 2020 RMB'000	Balance at 1 January 2020 RMB'000	Maximum amount outstanding during the year RMB'000
Mr. Cao Yunsheng	Unsecured, interest-free and no fixed repayment terms	–	633	633
Mr. Tang Hui	Unsecured, interest-free and no fixed repayment terms	–	200	200
		–	833	

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 35 and 36 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:

	2020 RMB'000	2019 RMB'000
RMB	887,218	574,507
HK$	3,592	5,205
US$	431,554	283,207
Euro	1,894	1,557
Others	70	667
	1,324,328	865,143

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

31. TRADE AND BILLS PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	980,751	718,583
Bills payables	75,369	30,410
	1,056,120	748,993

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

	2020 RMB'000	2019 RMB'000
0 to 30 days	816,354	514,017
31 to 90 days	54,711	26,727
91 to 365 days	15,376	77,058
Over 365 days	94,310	100,781
	980,751	718,583

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

	2020 RMB'000	2019 RMB'000
RMB	1,040,115	740,200
US$	15,899	8,622
HK$	106	150
EUR	–	21
Total	1,056,120	748,993

32. ACCRUALS AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Accrued staff salaries	71,001	43,271
Payables for purchases of property, plant and equipment, construction fees and other expenses	49,082	50,535
Others	13,584	14,925
	133,667	108,731

33. LEASE LIABILITIES

	Minimum lease payments		Present value of minimum lease payments	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Within one year	11,527	14,960	9,118	12,691
In the second to fifth years, inclusive	37,449	23,965	30,210	18,676
After five years	18,966	23,678	15,658	18,798
	67,942	62,603	54,986	50,165
Less: Future finance charges	(12,956)	(12,438)	N/A	N/A
Present value of lease obligations	54,986	50,165	54,986	50,165
Less: Amount due for settlement within 12 months (shown under current liabilities)			(9,118)	(12,691)
Amount due for settlement after 12 months			45,868	37,474

The weighted average incremental borrowing rates applied to lease liabilities is 4.8% (2019: 4.9%).

The lease liabilities are denominated in Renminbi.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

34. PROVISIONS

	Warranty provision *(note (i))*		Provision for onerous contract *(note (ii))*		Total	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
At 1 January	58,117	82,664	–	–	58,117	82,664
Additional provisions	26,068	11,292	22,035	–	48,103	11,292
Provisions used	–	(2,177)	–	–	–	(2,177)
Unused provisions reversed	(37,679)	(33,662)	–	–	(37,679)	(33,662)
At 31 December	46,506	58,117	22,035	–	68,541	58,117

Note:

(i) *The warranty provision represents the Group's best estimate of the Group's liability under 18-120 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.

(ii) *The provision for onerous contracts relates to the Group's exposure to the unavoidable cost of meeting its obligations under the contract, which exceeds the expected benefits to be received by the Group. The provision is measure at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.*

35. BANK AND OTHER BORROWINGS

	2020 RMB'000	2019 RMB'000
Bank borrowings	519,700	659,600
Borrowing from a financial institution	–	22,442
	519,700	682,042

The bank and other borrowings are repayable as follows:

	2020 RMB'000	2019 RMB'000
Within one year	37,500	189,542
More than one year, but not exceeding two years	306,000	60,500
More than two years, but not more than five years	176,200	332,200
	519,700	582,242
Portion of bank borrowings that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	–	99,800
	519,700	682,042
Less: Amount due for settlement within 12 months (shown under current liabilities)	(37,500)	(289,342)
Amount due for settlement after 12 months	482,200	392,700

35. BANK AND OTHER BORROWINGS (CONT'D)

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 2020 was 4.75% (2019: 5.16%) per annum.

Bank and other borrowings of approximately RMB266,000,000 (2019: RMB310,000,000) 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 2020, bank borrowings of approximately RMB454,200,000 are secured by the followings:

i. corporate guarantee executed by ultimate holding company and three subsidiaries of the Company;

ii. legal charge over equity interests of a subsidiary of the Company; and

iii. corporate guarantee executed by a financial institution.

As at 31 December 2019, bank and other borrowings of approximately RMB634,041,000 are secured by the followings:

i. a charge over the Group's property, plant and equipment (note 18), pledged bank deposits (note 30) and other receivables (note 27);

ii. corporate guarantee executed by ultimate holding company and three subsidiaries of the Company; and

iii. legal charge over equity interests of a subsidiary of the Company.

36. BANKING FACILITIES

At 31 December 2020, the Group had approximately RMB570,620,000 (2019: RMB570,323,000) 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 the followings:

i. a charge over the Group's pledged bank deposit (note 30) (2019: property, plant and equipment, pledged bank deposits and other receivables);

ii. corporate guarantees executed by ultimate holding company, the Company and three (2019: four) subsidiaries of the Company;

iii. legal charge over equity interests of a subsidiary of the Company; and

iv. corporate guarantee executed by a financial institution.

As at 31 December 2020, the Group had obtained bank guarantees under performance bonds for construction contracts of approximately RMB1,048,565,000 (2019: RMB497,632,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

37. DEFERRED INCOME

	Note	2020 RMB'000	2019 RMB'000
At 1 January		43,766	37,071
Addition during the year		1,534	20,000
Recognised as income and included in the Group's other income		(8,339)	(13,305)
At 31 December		36,961	43,766
Represented by:			
Government grant A	*(i)*	8,883	9,746
Government grant B	*(ii)*	28,078	34,020
At 31 December		36,961	43,766
Classified as:			
Current liabilities		8,398	8,942
Non-current liabilities		28,563	34,824
		36,961	43,766

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 purchase 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 income and a portion of the deferred income 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 of the grant will be credited to profit or loss when the related research and development activities are successfully completed. Deferred income of approximately RMB867,000 was transferred to profit or loss for the year ended 31 December 2020 (2019: RMB650,000).

(ii) These represents numerous of different government grants in relation to certain development projects, including construction of certain production premises and purchase of certain plant and machineries.

These grants are recognised as deferred income and the deferred income 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 income of approximately RMB7,472,000 was transferred to profit or loss for the year ended 31 December 2020 (2019: RMB12,655,000).

38. DEFERRED TAX

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

	Accelerated tax depreciation RMB'000	Recognition of contracting income RMB'000	Undistributed earnings of the PRC subsidiaries RMB'000	Provisions RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019	81,217	8,478	14,216	(4,999)	(13,878)	(23,399)	61,635
Charge to profit or loss for the year *(note 13)*							
– Changes in temporary differences	(4,234)	9,992	3,262	4,999	(20,423)	(21,249)	(27,653)
At 31 December 2019 and 1 January 2020	76,983	18,470	17,478	–	(34,301)	(44,648)	33,982
Charge to profit or loss for the year *(note 13)*							
– Changes in temporary differences	6,016	(22,509)	4,080	–	(3,851)	(8,746)	(25,010)
At 31 December 2020	82,999	(4,039)	21,558	–	(38,152)	(53,394)	8,972

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

	2020 RMB'000	2019 RMB'000
Deferred tax liabilities	38,424	63,305
Deferred tax assets	(29,452)	(29,323)
	8,972	33,982

At the end of reporting period the Group has unused tax losses of approximately RMB268,917,000 (2019: RMB237,750,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB255,367,000 (2019: RMB224,200,000). No deferred tax asset has been recognised in respect of the remaining of approximately RMB13,550,000 (2019: RMB13,550,000) due to the unpredictability of future profit streams. These 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 RMB17,391,000 (2019: RMB13,552,000). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

39. SHARE CAPITAL

	Number of Shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.01 (2019: HK$0.01) each		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	4,000,000,000	40,000

	Number of Shares	Amount HK$'000	Equivalent to Amount RMB'000
Issued and fully paid:			
Ordinary shares of HK$0.01 (2019: HK$0.01) each			
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	1,634,016,389	16,341	14,755

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 2020 is as follows:

	2020 RMB'000	2019 RMB'000
Bank and other borrowings	519,700	682,042
Total equity	2,249,345	2,150,993
Gearing ratio	23.10%	31.71%

The decrease in gearing ratio from year 2020 resulted primarily from decrease in bank and other borrowings. 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 in order to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares.

The Group receives a report from the share registrars weekly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2020, 35.88% (2019: 35.34%) of the shares were in public hands.

40. SHARE-BASED PAYMENTS

Equity-settled share option scheme

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

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

The General Scheme Limit has been refreshed and approved by shareholder's resolution at the Company's Annual General Meeting on 8 June 2018. 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 on the date of the said Annual General Meeting. 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 on the date of the said Annual General Meeting. Any further grant of shares options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

40. SHARE-BASED PAYMENTS (CONT'D)

Equity-settled share option scheme (Cont'd)

Details of the specific categories of options are as follows:

	Date of grant	Vesting period	Exercise period	Exercise price HK$
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
2019A	29 May 2019	29 May 2019 to 28 August 2019	29 August 2019 to 28 May 2022	1.04
2019B	29 May 2019	29 May 2019 to 28 November 2019	29 November 2019 to 28 May 2022	1.04
2019C	29 May 2019	29 May 2019 to 28 May 2020	29 May 2020 to 28 May 2022	1.04
2019D	29 May 2019	29 May 2019 to 28 November 2020	29 November 2020 to 28 May 2022	1.04
2020A	24 April 2020	24 April 2020 to 31 March 2021	1 April 2021 to 23 April 2026	0.48
2020B	24 April 2020	24 April 2020 to 31 March 2022	1 April 2022 to 23 April 2026	0.48

40. SHARE-BASED PAYMENTS (CONT'D)

Equity-settled share option scheme (Cont'd)

For share options granted in 2020, if the options remain unexercised after a period of 6 years from the date of grant, the options expire. For other share options granted, 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.

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

	2020		2019	
	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	107,950,000	1.64	95,350,000	1.74
Granted during the year	48,000,000	0.48	15,000,000	1.04
Forfeited during the year	(26,500,000)	2.14	(2,400,000)	1.43
Outstanding at the end of the year	129,450,000	1.13	107,950,000	1.64
Exercisable at the end of the year	66,450,000	1.60	60,250,000	1.52

The options outstanding at the end of the year have a weighted average remaining contractual life of 5.3 years (2019: 7.5 years) and the exercise price ranges from HK$0.48 to HK$2.14 (2019: HK$0.68 to HK$2.14).

In 2020, 48,000,000 options were granted on 24 April 2020. The estimated fair value of the options on this date is approximately HK$9,023,000 (equivalent to RMB8,250,000). This estimated fair value was calculated using the Binomial Option-pricing model. The inputs into the model are as follows:

	2020
Number of share options granted	48,000,000
Grant date share price	HK$0.45
Expected volatility	59.59%
Expected life	6 years
Risk free rate	0.40%
Expected dividend yield	1.39%

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 behavioral considerations.

Share options granted to a consultant was incentives for helping the Group to promote and enhance investor and media relationship. The fair value of such benefit could not be estimated reliably and as a result, the fair value is measured by reference to the fair value of share options granted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2020 RMB'000	2019 RMB'000
Non-current assets			
Investments in a subsidiary		505,786	536,840
Current assets			
Prepayments, deposits and other receivables		3,138	1,070
Due from subsidiaries		1,257,454	1,342,242
Due from a director		–	2,834
Bank and cash balances		2,108	3,609
		1,262,700	1,349,755
Current liabilities			
Accruals and other payables		2,680	2,500
Due to subsidiaries		38,924	40,582
Financial guarantee contract liability		4,387	8,440
		45,991	51,522
Net current assets		1,216,709	1,298,233
NET ASSETS		1,722,495	1,835,073
Capital and reserves			
Share capital		14,755	14,755
Reserves	*42(b)*	1,707,740	1,820,318
TOTAL EQUITY		1,722,495	1,835,073

The Company's statement of financial position was approved by the Board of Directors on 30 March 2021 and signed on its behalf by:

Wang Lishan *Chairman*	**Wang Ningsheng** *Director*

42. 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	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2019	1,733,618	2,951	(12,105)	43,247	55,090	1,822,801
Share options forfeited	–	–	–	(359)	359	–
Share-based payments	–	–	–	18,104	–	18,104
Total comprehensive income for the year	–	–	40,226	–	(32,178)	8,048
Dividend paid	–	–	–	–	(28,635)	(28,635)
At 31 December 2019 and 1 January 2020	1,733,618	2,951	28,121	60,992	(5,364)	1,820,318
Share options forfeited	–	–	–	(19,203)	19,203	–
Share-based payments	–	–	–	5,024	–	5,024
Total comprehensive income for the year	–	–	(110,866)	–	(6,736)	(117,602)
At 31 December 2020	1,733,618	2,951	(82,745)	46,813	7,103	1,707,740

(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 and a consultant of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 4(w) to the consolidated financial statements.

(iii) *Special reserve*

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

(iv) *Statutory reserves*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

42. RESERVES (CONT'D)

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

(v) Foreign currency translation reserve

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

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction

Additions to right-of-use assets during the year of RMB19,560,000 (2019: RMB23,463,000) were financed by leases liabilities.

(b) 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 2020	Addition	Cash flows	Interest expenses	Effect of foreign exchange rate changes	31 December 2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Lease liabilities *(note 33)*	**50,165**	**19,560**	**(17,504)**	**2,776**	**(11)**	**54,986**
Bank borrowings *(note 35)*	**682,042**	**–**	**(162,342)**	**–**	**–**	**519,700**

	1 January 2019	Addition	Cash flows	Interest expenses	Effect of foreign exchange rate changes	31 December 2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Lease liabilities *(note 33)*	37,801	23,463	(12,454)	1,510	(155)	50,165
Bank and other borrowings *(note 35)*	805,999	–	(123,957)	–	–	682,042

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

(c) Total cash outflow for leases

Amounts included in the cash flow statements for leases comprise the following:

	2020 RMB'000	2019 RMB'000
Within operating cash flows	10,456	7,198
Within investing cash flows	87	1,765
Within financing cash flows	14,728	10,944
	25,271	19,907

These amounts relate to the following:

	2020 RMB'000	2019 RMB'000
Lease rental paid	25,184	18,142
Payments for right-of-use assets	87	1,765
	25,271	19,907

44. CONTINGENT LIABILITIES

The Group is a defendant in a lawsuit brought during the year ended 2018 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, the directors based on the legal advice obtained and determined 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 2020 and 2019, the Group did not have other significant contingent liabilities.

45. CAPITAL COMMITMENTS

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

	2020 RMB'000	2019 RMB'000
Property, plant and equipment	19,636	35,771

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

46. OPERATING LEASE ARRANGEMENTS

The Group regularly entered into short-term leases for office equipment and certain staff quarters. As at 31 December 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in note 19.

47. 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	2020 RMB'000	2019 RMB'000
Revenue received/receivable from the ultimate holding company	*(a)*	239	45,291
Revenue received/receivable from fellow subsidiaries	*(b)*	70,371	22,243
Payment on lease liabilities to a related company	*(c)*	1,882	–
Expense related to short – term lease to the ultimate holding company		296	–

Notes:

(a) 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 30 to 31.

(b) These fellow subsidiaries are wholly-owned by Beijing 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 30 to 31.

(c) The related company is a wholly-owned subsidiary of Mr. Wang Lishan, an executive director of the Group.

47. RELATED PARTY TRANSACTIONS (CONT'D)

(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:

	2020 RMB'000	2019 RMB'000
Trade receivables due from the ultimate holding company	3,508	16,688
Contract assets from the ultimate holding company	16,506	20,995
Contract liabilities to the ultimate holding company	876	50
Trade receivables due from fellow subsidiaries	35,083	21,980
Contract assets from fellow subsidiaries	–	6,679
Trade payables due to a fellow subsidiary	152	5,052
Contract liabilities to a fellow subsidiary	8,522	46,682
Other receivables due from fellow subsidiaries	250	390

48. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 March 2021.

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				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020** **RMB'000**
Turnover	721,614	724,469	1,485,964	1,760,624	**3,647,183**
Profit for the year attributable to owners of the Company	11,586	55,581	26,637	4,424	**146,712**

ASSETS AND LIABILITIES

	As at 31 December				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020** **RMB'000**
Total assets	1,696,204	4,481,179	3,963,474	4,205,991	**4,605,185**
Total liabilities	(515,662)	(2,422,245)	(1,830,458)	(2,054,998)	**(2,355,840)**
Total equity	1,180,542	2,058,934	2,133,016	2,150,993	**2,249,345**

LIQUIDITY AND GEARING RATIO

	As at 31 December				
	2016	2017	2018	2019	**2020**
Current Ratio(1)	1.37	1.38	1.65	1.63	**1.60**
Quick Ratio(2)	1.31	1.35	1.59	1.50	**1.53**
Gearing Ratio(3)	18.10%	44.96%	37.79%	31.71%	**23.10%**

Notes:

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

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

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

(4) Current ratio as at 31 December 2020 decreased compared to that as at 31 December 2019, which is mainly attribute to a increase of current liability.

(5) Quick ratio as at 31 December 2020 increased compared to that as at 31 December 2019, which is mainly attribute to a decrease of Inventories.

(6) Gearing ratio as at 31 December 2020 decreased compared to that as at 31 December 2019, which is mainly attribute to a decline of total borrowings.