

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 2021



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CORPORATE INFORMATION

SHARE INFORMATION

Listing place : Main Board of the Stock Exchange of
Hong Kong Limited

Stock code : 03303

Listing date : 21 September 2006

Stock name : Jutal Oil Ser

Issued shares : 1,681,306,389 ordinary shares

Website : <http://www.jutal.com>

BOARD OF DIRECTORS

Executive directors

Mr. Wang Lishan (Chairman)

Mr. Liu Lei (Deputy Chairman)

Mr. Cao Yunsheng (CEO and President)

Mr. Gao Zhiqiang

Mr. Wang Ningsheng

Mr. Liu Yunian

Non-executive director

Mr. Han Guimao

Independent non-executive directors

Mr. Su Yang

Mr. Qi Daqing

Mr. Zheng Yimin

Mr. Tam Kin Yip

AUDIT COMMITTEE

Mr. Su Yang (Chairman)

Mr. Qi Daqing

Mr. Zheng Yimin

Mr. Tam Kin Yip

REMUNERATION COMMITTEE

Mr. Zheng Yimin (Chairman)

Mr. Su Yang

Mr. Qi Daqing

Mr. Tam Kin Yip

NOMINATION COMMITTEE

Mr. Qi Daqing (Chairman)

Mr. Su Yang

Mr. Zheng Yimin

Mr. Tam Kin Yip

COMPANY REPRESENTATIVE AND COMPANY SECRETARY

Ms. Leung Fung Yee Alice

REGISTERED OFFICE

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AUDITOR AND REPORTING ACCOUNTANT

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Certified Public Accountants

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FINANCIAL HIGHLIGHTS

1. RESULTS (RMB)



2. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share were RMB0.0066 and RMB0.0065 respectively in 2021.

3. DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2021.



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 2021 to the shareholders.

BUSINESS REVIEW

The Group is principally engaged in the provision of integrated services including high-end equipment fabrication and engineering services to customers in the energy, refinery and chemical industries. We have two large-scale equipment fabrication bases in Penglai site and Zhuhai site and provide the construction of large-scale module, offshore engineering and new energy equipment. During the reporting year, the Group continued to optimise our management structure, strengthened our monitoring on management, concentrated our resources on the construction of projects in hand and completed the delivery of several large-scale projects.

The core module construction project of the North American GCGV natural gas chemical plant was undertaken by the Penglai site of the Group in 2018. We commenced site construction in early 2019 and successfully completed and finally delivered in March 2021. The GCGV project is a chemical plant with an annual output of 1.8 million tonnes of ethylene. It is also the first time in the industry that the entire chemical plant has been designed and constructed in a modular manner. The Penglai site undertook the construction of a total of 40 core modules, including the four largest cracking furnace modules in the world. During the construction period of more than two years, faced with various challenges such as huge workload, tight schedule, concentrated delivery, design adjustments, and the impact of the epidemic, the project team planned closely, overcame difficulties, organised a team of more than 5,000 construction personnel, and successfully realised the project quality target. All ship deliveries were on time or ahead of schedule, achieving a total of 22.3 million safe working hours. The Penglai site has been highly recognised by the customer, and was thus awarded the “Best Site”, “Best Team” and “Excellent Completion” by the customer.

The core module construction for the production line of Arctic LNG 2, another large-scale project implemented by the Penglai site of the Group, completed the delivery of three 10,000-tonne modules under the first train in end November 2021. Arctic LNG 2 is the second Arctic LNG production project having a total of three LNG production lines with an annual production capacity of 6.60 million tonnes. In July 2019, the Penglai site undertook the construction of the most important and complicated compressor and generator modules of two trains, including the world's most advanced and largest turbine compressors and generators by far and also the first ever installation and application equipment globally. A single module weighs approximately 10,000 tonnes and the construction faces tremendous difficulties and a tight schedule. From the official start of site construction in December 2019, thousands of constructors from various countries overcame the impacts of the epidemic reoccurrence, meticulously organised the design, procurement of materials, construction and other aspects of the work, overcame difficulties, promoted innovation and improved work efficiency, achieving the upgrading of the construction capability and efficiency improvement on various aspects. As at the end of 2021, the construction of this project has achieved over 20 million safe working hours.

CHAIRMAN'S STATEMENT

The Group's Zhuhai site undertook the manufacturing of 50 sets of offshore wind power equipment for an European offshore wind farms in the middle of 2020 as well as the fabrication of topside modules for FPSO and other projects. Owing to the fact that the progress is behind schedule and the significant increase in costs, some on-going projects recorded significant losses during the reporting year, thereby affecting the annual performance of the Group. Based on relevant conditions, the Group adopted various measures to actively respond to and solve the issues in the second half year. For example, the Group transferred some construction works to the Penglai site to accelerate the work progress, adjusted and optimised the management structure and procedures and implemented innovative construction technologies to improve the efficiency, quality and effectiveness of the construction.

The Group implements comprehensive risk identification based on the project construction plan and detail-oriented on-site change management. Teams that are responsible for health, environmental protection and safety of all projects conduct careful risk identification and take advance move in updating with reference to the construction plans. They conduct meticulous planning based on experience and lessons learned and further formulate response measures on possible abnormal conditions in reacting to emergency and particular conditions on site in a timely manner.

The Group proactively improves the professional quality of employees through trainings on job skills, safety and quality activities, on-the-job trainings, skill contests and other forms of activities. We organise diversified staff activities to stimulate employees, convey corporate caring concept, strengthen communications and coordinate in solving problems to promote the improvement of management.

During the year, the Group constantly enhanced measures on COVID-19 prevention and control, conducted strict personnel management and ensured regulated, normalised and all-dimensional prevention and control with no careless omissions. We actively arranged vaccination for all employees to ensure the stable and parallel progress in COVID-19 prevention and control and the production and operation of the enterprise.

In order to strengthen the future capacities of the Zhuhai site of the Group for undertaking business and product shipment, in the first half of 2021, the Group initiated the project of No. 2 pier construction for Zhuhai Site and completed the preliminary feasibility report as well as the preparation of investment budget and construction plan which were subject to further approval by the government. Meanwhile, we also built, reconstructed and upgraded certain other plants and production facilities.



PROSPECTS

The global economy recorded substantial recovery growth and the crude oil prices kept surging in 2021. It is expected that the world economy will continue its orderly recovery path in 2022. However, the reoccurrence of the global COVID-19 epidemic and international geopolitical conflicts brought about a complicated and changing external environment. As a result of the increasing emphasis on energy security and the expected intensifying fluctuations of crude oil prices in the future, energy and chemical industries will also face various challenges, in which they will bring uncertainties to some projects that are tracking by the Group.

Some large projects of the Group in hand will be completed successively in 2022 and undertaking subsequent orders are the paramount tasks that need to be practically faced and solved by the Group. The Group will invest more resources in consolidating and enhancing market organisation, improve marketing capability, boost efforts in market development, strengthen and improve decision-making mechanisms, seize significant bidding opportunities, study, formulate and implement effective market strategies and incentive measures, enhance communications with customers and actively seek market orders.

In order to closely follow the development trend of all projects in future and seize market development opportunities, the Group will pay close attention to the layout of the energy market and keep an eye on the module and ocean engineering market with the focus on core markets and advantageous products. We will vigorously cultivate and improve offshore wind power equipment and other new energy products, so as to develop the comprehensive service capability on various energy systems and fields.

The continuous enhancement of the core competitiveness is the long-term impetus to the sustainable development of the Group. The Group will continue to invest in the transformation of site facilities in due time to improve construction efficiency, reduce construction cost and increase manufacturing capability on complicated process modules. Meanwhile, it will improve the design and procurement capabilities on process modules to enhance market competitiveness.

The Group will conduct an in-depth analysis on all links of the current operation of the Company, including production, projects, quality and sub-contracting management, conduct in-depth study and formulate various improvement strategies, adjust organisational structure, enhance management and control, specify responsibility and evaluation mechanisms and implement quality standards stringently. All business units have adopted various measures to control costs and fees and improve efficiency.

The Group will also actively seek and study new business opportunities and expand new business market through acquisitions, cooperation and other methods to promote business transformation.

By Order of the Board

WANG Lishan

Chairman

Hong Kong, 31 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS



1. FINANCIAL AND BUSINESS REVIEW

Revenue

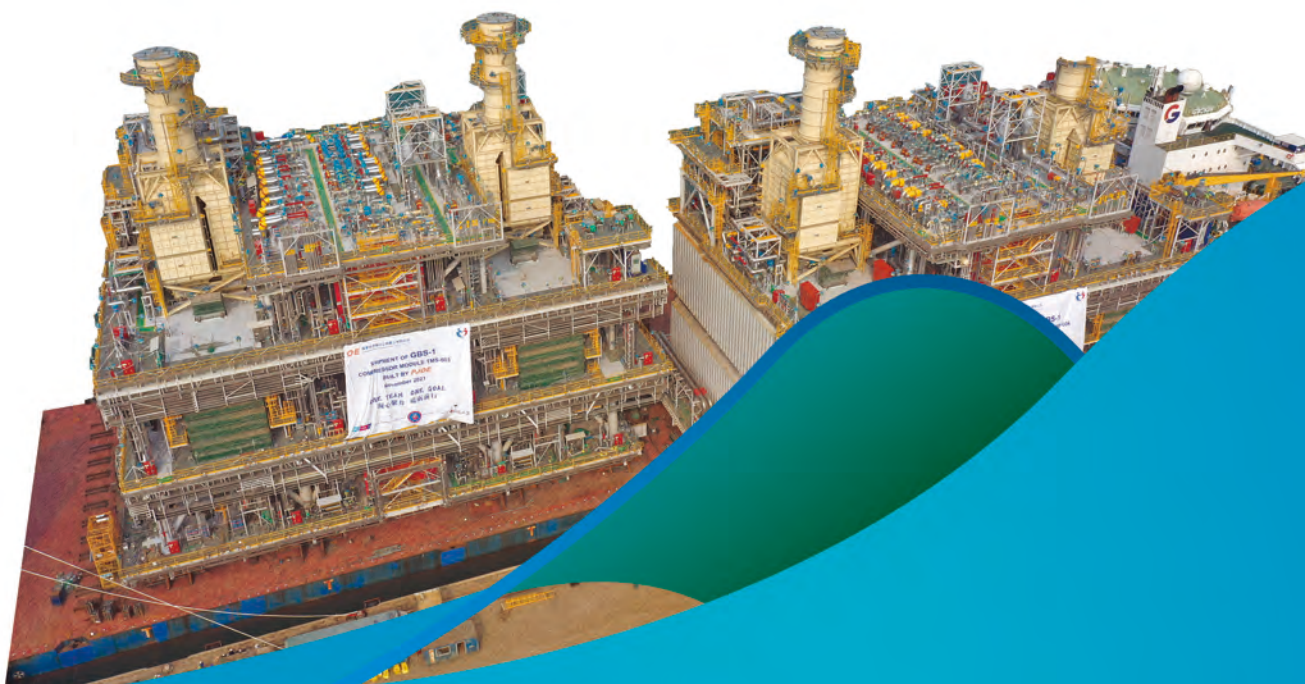
In year 2021, the Group recorded a revenue of approximately RMB3,981,612,000 representing an increase of 9.17% or RMB334,429,000 as compared with year 2020. Among others, revenue from the fabrication of facilities and provision of integrated services for oil and natural gas industries increased by 2.72% or RMB77,378,000 as compared with that of year 2020; the revenue from the fabrication of facilities and provision of integrated services for new energy and refining and chemical industries increased by 33.34% or RMB259,765,000 as compared with that of year 2020, which was mainly due to the contribution from the offshore wind power farm facilities project; other businesses mainly represents provision of subwater technical support services and provision of technical support services for the shipbuilding industry, and the revenue decreased by 11.60% or RMB2,714,000 as compared to last year, 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 2021, 2020 and 2019 respectively:

Business Segments	For the financial year ended 31 December					
	2021 RMB'000	Percentage to total revenue (%)	2020 RMB'000	Percentage to total revenue (%)	2019 RMB'000	Percentage to total revenue (%)
1. Fabrication of facilities and provision of integrated services for oil and gas industries	2,922,044	73	2,844,666	78	1,616,399	92
2. Fabrication of facilities and provision of integrated services for new energy and refining and chemical industries	1,038,885	26	779,120	21	126,480	7
3. Others	20,683	1	23,397	1	17,745	1
Total	3,981,612	100	3,647,183	100	1,760,624	100

Cost of sales and services

Cost of sales and services of the Group amounted to approximately RMB3,697,996,000 in year 2021, representing an increase of 15.58% or RMB498,562,000 as compared with RMB3,199,434,000 in year 2020. Cost of sales and services comprised direct costs and manufacturing overheads. Direct costs in the current year amounted to approximately RMB3,364,114,000, representing 90.97% of the total cost of sales and services, and an increase of RMB431,123,000 or 14.70% from RMB2,932,991,000 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 RMB67,439,000 or 25.31% from RMB266,443,000 of the corresponding period of last year to approximately RMB333,882,000 in current reporting period.



MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit

The total gross profit of the Group for the year 2021 amounted to approximately RMB283,616,000, representing an decrease of 36.66% or RMB164,133,000 as compared with RMB447,749,000 in year 2020. The overall gross profit margin dropped to 7.12% from 12.28% of last year. The gross profit margin of the fabrication of facilities and provision of integrated services for oil and natural gas industries rose from 13.20% in year 2020 to 14.38%; the gross profit margin of the fabrication of facilities and provision of integrated services for new energy and refining and chemical industries dropped from 9.27% in year 2020 to negative 13.19%, which was mainly due to lagging progress and substantial increase in costs of some of the ongoing projects in the Zhuhai site; the gross profit margin of other businesses rose from 0.51% in year 2020 to 2.21%. The changes in business structure resulted in varying changes in the gross profit margin of different business segments during the year. The overall gross profit margin dropped significantly which was mainly due to some of the ongoing projects in the Group's Zhuhai site recorded a significant loss in the year.

The following shows the breakdown of gross profit/(loss) by business segments for the years 2021, 2020 and 2019 respectively:

Business Segments	For the financial year ended 31 December								
	2021			2020			2019		
	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	420,234	14	148	375,425	13	84	328,989	20	103
2 Fabrication of facilities and provision of integrated services for new energy and refining and chemical industries	(137,074)	(13)	(48)	72,204	9	15	(7,649)	(6)	(2)
3 Others	456	2	0	120	1	1	(1,046)	(6)	(1)
Total	283,616		100	447,749		100	320,294		100

Other income

Other income of the Group in year 2021 amounted to approximately RMB63,408,000, mainly comprising in the gains on forward settlement contracts, income from government grants and interest income.

Administrative and other operating expenses

Administrative and other operating expenses in aggregate increased by 25.52% or RMB67,164,000 as compared with that of year 2020 to approximately RMB330,375,000, primarily resulting from the increase in share based payment expenses and staff remuneration.

Finance costs

Finance costs in aggregate amounted to approximately RMB29,586,000 in year 2021, which was mainly comprised of interests on bank borrowings of approximately RMB22,935,000 and bank charges and other finance costs of approximately RMB6,651,000.

Profit attributable to owners of the Company and earnings per share

In summary, in year 2021, profit attributable to owners of the Company amounted to approximately RMB11,024,000, which represented an decrease of 92.49% or RMB135,688,000 as compared to that of RMB146,712,000 in year 2020. Basic and diluted earnings per share attributable to owners of the Company for year 2021 were RMB0.0066 and RMB0.0065 respectively.

2. LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2021, the working funds (cash and cash equivalent) of the Group amounted to approximately RMB666,970,000 (2020: RMB1,191,173,000). During the year, net cash inflow from operating activities amounted to approximately RMB78,546,000, net cash outflow from investing activities amounted to approximately RMB54,210,000, and net cash outflow from financing activities amounted to approximately RMB535,201,000.

As at 31 December 2021, the Group had approximately RMB397,830,000 (2020: RMB332,940,000) of available undrawn banking facilities. Available undrawn banking facilities include bank borrowings, letters of credit, etc. but exclude bank guarantees.

As at 31 December 2021, the Group had obtained bank guarantees under performance bonds for construction contracts of approximately RMB883,331,000 (2020: RMB1,048,565,000).

MANAGEMENT DISCUSSION AND ANALYSIS

3. CAPITAL STRUCTURE

During the year 2021, 47,290,000 ordinary shares were issued by exercising share options under the Company's share option scheme.

As of 31 December 2021, the share capital of the Company comprises 1,681,306,389 ordinary shares (2020: 1,634,016,389 ordinary shares). As at 31 December 2021, net assets of the Group amounted to approximately RMB1,805,467,000 (2020: RMB2,249,345,000), comprising non-current assets of approximately RMB1,736,590,000 (2020: RMB1,787,180,000), net current assets of approximately RMB340,333,000 (2020: RMB1,057,220,000) and non-current liabilities of approximately RMB271,456,000 (2020: RMB595,055,000).

4. SIGNIFICANT INVESTMENT

During the year, according to the market situation and future development plan, the Company further improved the equipment and facilities in the Penglai site and the Zhuhai site with a total amount of approximately RMB80,000,000, and will keep on improving the equipment and facilities conditions in order to satisfy the needs of existing and potential projects.

Save as disclosed above, during the year ended 31 December 2021, the Group had no other significant investment, acquisition and disposal.

5. FOREIGN EXCHANGE RISK

The principal place of production and operation of the Group is in the PRC, and the functional currency of the principal operating subsidiaries of the Group is RMB. The Group also operates its business overseas and possesses assets which are denominated in currencies other than RMB. Fluctuation of RMB against other currencies like United States Dollars ("USD") and Euros would bring certain foreign exchange risk to the Group. The Group would minimise the amount of assets which were denominated in other currencies like USD and Euros, perform rolling estimates on foreign exchange rates, and would consider potential foreign exchange risk when entering into business contracts.

6. ASSETS PLEDGED BY THE GROUP

As at 31 December 2021, approximately RMB134,310,000 (2020: 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.

7. CONTINGENT LIABILITIES

As at 31 December 2021, the Group did not have 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 and lease liabilities 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 2021 and at 31 December 2020 were as follows:

	2021 RMB'000	2020 RMB'000
Bank borrowings	482,200	519,700
Lease liabilities	51,933	54,986
Total equity	1,805,467	2,249,345
Gearing ratio	29.58%	25.55%

The increase in the gearing ratio from the year ended 31 December 2021 resulted primarily from decrease in the Group's equity balances after paying the 2020 interim dividend and 2020 final dividend in aggregate of RMB512,713,000. The Group adjusts the amount of bank borrowings from time to time to meet the Group's working capital needs.

9. EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2021, the Group had total 3,512 employees (31 December 2020: 3,568 employees), of which 1,475 (31 December 2020: 1,625) were management and technical staff, and 2,037 (31 December 2020: 1,943) 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 62, 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 is also the chairman of Penglai Jutal Offshore Engineering Heavy Industries Co., Ltd.* (蓬萊巨濤海洋工程重工有限公司) ("Penglai Jutal"). He established the Group in 1995, and was appointed as an executive director of the Company in November 2005.

Mr. Liu Lei (劉雷), aged 54, is an executive director and deputy chairman of the Company. Mr. Liu 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 and as the chairman of Sanju before 29 July 2021. Mr. Liu is currently a director of Sanju and also acting as director of a number of companies including Beijing Haidian Technology Development Co., Ltd* (北京海淀科技發展有限公司), 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 of the Company in June 2017.

Mr. Cao Yunsheng (曹雲生), aged 58, is an executive director and CEO 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 currently also serves as director of a number of subsidiaries of the Group. He was appointed as an executive director of the Company in January 2021.

Mr. Gao Zhiqiang (高志強), aged 46, 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 serves currently as director of Sanju. Mr. Gao was appointed as an executive director of the Company in April 2020.

Mr. Wang Ningsheng (王寧生), aged 51, is an executive director of the Company and had been the president of the Company during April 2020 to July 2021. 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. Prior to joining Sanju, he had held management positions at Catalyst Plant of CNPC Lanzhou Petrochemical 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 of the Company in January 2020.

Mr. Liu Yunian (劉玉年), aged 59, 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, general manager and director of Penglai Jutal. Prior to joining the Group, Mr. Liu had served in CNOOC platform Fabrication Co.* (中海油平台製造公司), Shenzhen Chiwan Offshore Engineering Co., Ltd.* (深圳赤灣海洋工程有限公司). Mr. Liu was appointed as an executive director of the Company in June 2018.

Non-executive Directors

Mr. Han Guimao (韓桂茂), aged 71, senior engineer, is a non-executive director of the Company. Mr. Han graduated from Tsinghua University (清華大學) with a major in architecture in 1976 and has rich experience in engineering and management. From 1992 to 1994, he had been executive deputy general manager of Shenzhen Nanshan Central District Development Company* (深圳南山中心區開發公司). From 1994 to 2013, he served as deputy general manager of China Nanshan Development (Group) Co., Ltd.* (中國南山開發(集團)股份有限公司), chairman of Yahgee Modular House Co., Ltd.* (雅致集成房屋股份有限公司) (currently known as Shenzhen New Nanshan Holding (Group) Co., Ltd.* (深圳市新南山控股(集團)股份有限公司)) (Shenzhen Stock Exchange code: 002314), chairman of Shenzhen Chiwan Petroleum Base Co., Ltd. (深圳赤灣石油基地股份有限公司), vice chairman of Shenzhen Chiwan Sambawang Engineering Co., Ltd.* (深圳赤灣勝寶旺工程有限公司), chairman of Shanghai Songwei Steel Structure Co., Ltd.* (上海松尾鋼結構有限公司). From 2004 to 2013, he served as a director of Penglai Jutal. From 2013 to 2017, he served as chairman of Shenzhen Gangchuang Building Materials Co., Ltd.* (深圳港創建材股份有限公司), and since 2020, Mr. Han has been the chairman of Shenzhen Jingwei Jiexun Information Technology Co., Ltd.* (深圳經緯捷訊信息技術有限公司). Since October 2018, Mr. Han has been appointed as a consultant of the Company and will continue to act a consultant of the Company. Mr. Han was appointed as a non-executive director of the Company in April 2022.

Independent non-executive Directors

Mr. Su Yang (蘇洋), aged 53, 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 currently an independent non-executive director of Shenzhen Edan Instruments Co., Ltd.* (深圳市理邦精密儀器股份有限公司) (Shenzhen Stock Code: 300206) and had been 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) since May 2017 to January 2021. Mr. Su was appointed as an independent non-executive director of the Company in August 2006.

Mr. Zheng Yimin (鄭益民), aged 60, is an independent non-executive director of the Company. Mr. Zheng graduated from Capital University of Economics (首都經濟貿易大學) and 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 Heng") and has been acting as the president of Hong Mao Heng. Mr. Zheng was appointed as an independent non-executive director of the Company in June 2017.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Qi Daqing (齊大慶), aged 58, 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.(Nasdaq Stock Code: SOHU), Hello Group Inc.(Nasdaq Stock Code: MOMO), 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 of the Company in July 2015.

Mr. Tam Kin Yip (譚健業), aged 47, is an independent non-executive director of the Company. He is a practicing Barrister-At-Law in Hong Kong and has rich experience in litigation. Mr. Tam currently is also an independent non-executive director of Shunten International (Holdings) Limited (順騰國際(控股)有限公司) (Hong Kong Stock Code: 932). Mr. Tam was appointed as an independent non-executive director of the Company in August 2021.

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 a chartered secretary, a chartered governance professional and an associate of both The Hong Kong Chartered Governance Institute (formerly The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly The Institute of Chartered Secretaries and Administrators). She has rich experience in commercial and corporate matters of all levels. Ms. Leung was appointed as the company secretary in June 2014.

SENIOR MANAGEMENT

Mr. Zhao Wuhui (趙武會), aged 47, 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. Mr. Zhao currently also serves as director or supervisor of several subsidiaries of the Group. 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. Chen Xinzhou (陳新周), aged 42, is the vice president of the Company. 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. Mr. Chen currently also serves as director of several subsidiaries of the Group. 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. Tang Hui (唐暉), aged 49, 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 47, 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. Liang Hai (梁海), aged 53, 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 (陳臺), aged 51, 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.

* For identification purpose only

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 2021.

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.

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, a discussion of the Group's environmental policies and performance, 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, and the ESG report published separately. 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 23 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. It has established a series of employee policies demonstrating the Group's regulations and arrangements regarding recruitment, dismissal, salary, promotion, working hours, holidays, benefits, equal opportunities, anti-discrimination and diversification, 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 positions and duties and provided various trainings and development opportunities for employees, assists them to improve their work knowledge and skills, 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, and the Group 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 major customers of the year 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 provides after-sales services to follow up customers' use of products. 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. The Group has the customer feedback and complaint collecting mechanism for the customers to file their comments and complaints. All the feedbacks are collected and analyzed by the project department of the Group to improve the product quality management.

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 be included 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.

Suppliers which 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, otherwise they would be disqualified and removed from the *Qualified Supplier Directory*.

POLICIES ON HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION AND THE PERFORMANCE

As an integrated 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 impacts 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 established a management structure related to environmental, social and governance. The Board is responsible for leading and monitoring the group's policies, measures and performance and granted the production safety committee the power to perform tasks of environmental protection, responsible production and protection of health and safety in the key sites. The Board attaches great importance to its role in sustainable development issues, supervision on the work of the safety production committee, and continuous improvements of the health and safety management system.

To effectively manage the environmental, social and governance risks, the Group has established *the Risk and Opportunity Management Procedures* and the environmental management risk assessment team to identify and respond to the risks and opportunities at the construction sites, including but not limited to gas emissions, chemical pollution, waste management, occupational health and safety, and anti-corruption.

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.

DIRECTORS' REPORT

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 to comply 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, and 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 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.

The Company's compliance with the relevant provisions set out in the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules for the reporting year are set out in the "Environmental, Social and Governance Report" to be published in due course.

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 2021, the Company's share premium reserve was approximately RMB1,259,939,000 (subject to section 34 of the Cayman Companies Law and the Article of Association of the Company), and the accumulated lost approximately RMB16,624,000 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, 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 Company shall be determined at the sole discretion of the Board and shall be subject to the Memorandum of Association and the Bye-Laws of the Company and all applicable laws and regulations. The Dividend Policy will continue to be reviewed by the Board from time to time and there can be no assurance that dividends will be proposed or declared in any particular amount for any given period.

RESULTS AND DIVIDENDS

Details of the Group’s result for the year ended 31 December 2021 are set out in the consolidated statement of profit or loss on page 49. The Board does not recommend the payment of final dividend for the year ended 31 December 2021.

DONATIONS

During the reporting year, Penglai Jutal Offshore Engineering Heavy Industries Co., Ltd., a wholly-owned subsidiary of the Group, made a donation of RMB5,000.

SHARE CAPITAL AND TRANSACTIONS INVOLVING SHARES OF THE COMPANY

In 2021, the authorised share capital of the Company is HK\$40,000,000 (comprising 4,000,000,000 ordinary shares).

During the year 2021, 47,290,000 ordinary shares were issued by exercising share options under the Company’s share option scheme, and the total amount received was HK\$30,819,000.

As at 31 December 2021, the share capital of the Company comprised of 1,681,306,389 ordinary shares (2020: 1,634,016,389 ordinary shares).

Details of the movements of the Company’s share capital during the year are set out in note 39 to the consolidated financial statements.

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.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the year 2021 or subsisted at the end of 2021.

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

During the year ended 31 December 2021 neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

DIRECTORS' REPORT

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 2021, 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 2021	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\$80 million was used during the reporting year, which would result in the aggregate amount used for the capital expenditure in the production and office facilities of the Group's Zhuhai fabrication yard became HK\$176 million (Note a)	The remaining approximately HK\$74 million will be kept for future capital expenditure in the production and office facilities in the Group's Zhuhai operation as necessary. It is estimated that the remaining balance of the proceeds will be utilised in year 2022
(3) Approximately HK\$212 million for the general working capital of the Group	All has been used as planned	–

Note:

- a. *The use of the raised proceeds from the Subscription was slower than originally planned timeline due to the poor market conditions in 2018 and 2019 as there were lower-than-expected orders and insufficient workload at the Zhuhai fabrication yard. Hence the Group took the initiative to slow down part of the investment in its Zhuhai fabrication yard. The Group will gradually implement the investment in the production and office facilities in accordance with the market conditions, actual business requirement of the yard and its long-term planning.*

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.

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 and 9.72% of the shares (1,681,306,389 shares) on the date of this annual report.

Unless approval of the shareholders has been obtained, the total number of securities 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 securities in issue from time to time.

Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the relevant class of securities in issue; and
- (b) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million,

such further grant of options must be approved by shareholders of the Company.

DIRECTORS' REPORT

According to the terms of the Share Option Schemes, the offer of grant of the share options should be accepted within 28 days from the date of grant and 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 2021, 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 2021	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 2021	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Director: Cao Yunsheng (appointed on 22 January 2021)	23/05/2013 to 22/05/2021	1.06	1.04	1,000,000	1,000,000	1.21	-	-	-	-
1 employee	23/05/2013 to 22/05/2021	1.06	1.04	550,000	-	-	-	550,000	-	-
Total				1,550,000	1,000,000		-	550,000	-	-

(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 2021	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 2021	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	1.18	-	-	-	-
Cao Yunsheng (appointed on 22 January 2021)	29/07/2017 to 28/07/2025	0.86	0.83	8,000,000	8,000,000	1.21	-	-	-	-
Total				13,000,000	13,000,000		-	-	-	-

(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 2021	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 share option scheme during the year	Number of options outstanding as at 31 December 2021	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	1.18	-	-	-	-
Cao Yunsheng (appointed on 22 January 2021)	14/10/2018 to 13/10/2026	0.68	0.63	8,000,000	8,000,000	1.51	-	-	-	-
Total				13,000,000	13,000,000		-	-	-	-

(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 2021	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 share option scheme during the year	Number of options outstanding as at 31 December 2021	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%
Cao Yunsheng (appointed on 22 January 2021)	09/01/2019 to 08/01/2028	2.14	2.11	8,000,000	-	-	-	-	8,000,000	0.48%
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%
22 employees	09/01/2019 to 08/01/2028	2.14	2.11	22,600,000	-	-	-	600,000	22,000,000	1.31%
Total				38,900,000	-	-	-	600,000	38,300,000	2.28%

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 2021	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 share option scheme during the year	Number of options outstanding as at 31 December 2021	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	0.89%
Total				15,000,000	-	-	-	-	15,000,000	0.89%

(vi) 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 as at 1 January 2021	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 share option scheme during the year	Number of options outstanding as at 31 December 2021	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Directors:										
Cao Yunsheng (appointed on 22 January 2021)	04/01/2021 to 23/04/2026	0.48	0.465	2,000,000	1,160,000	1.21	-	-	840,000	0.05%
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	0.30%
Liu Yunian	04/01/2021 to 23/04/2026	0.48	0.465	5,000,000	2,900,000	1.21	-	-	2,100,000	0.12%
Su Yang	04/01/2021 to 23/04/2026	0.48	0.465	2,000,000	1,160,000	1.30	-	-	840,000	0.05%
Zheng Yimin	04/01/2021 to 23/04/2026	0.48	0.465	2,000,000	1,160,000	1.30	-	-	840,000	0.05%
Qi Daojing	04/01/2021 to 23/04/2026	0.48	0.465	2,000,000	1,160,000	1.30	-	-	840,000	0.05%
7 employees	04/01/2021 to 23/04/2026	0.48	0.465	22,000,000	12,750,000	1.27	-	-	9,250,000	0.55%
Total				48,000,000	20,290,000		-	-	27,710,000	1.65%

(vii) Options granted on 10 June 2021

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 share option scheme during the year	Number of options outstanding as at 31 December 2021	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
29 employees	10/06/2021 to 09/06/2024	1.50	1.48	100,000,000	-	-	-	-	100,000,000	5.95%
Total				100,000,000	-	-	-	-	100,000,000	5.95%

The estimated fair value of the options on the date of grant (10 June 2021) is approximately HK\$49,291,000 (equivalent to RMB40,892,000). This estimated fair value was calculated using the Binomial Option-pricing model. The inputs into the model are as follows:

	2021
Number of share options granted	100,000,000
Grant date share price	HK\$1.43
Expected volatility	64.03%
Expected life	3 years
Risk free rate	0.25%
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.

The above information is for reference only since the subjectivity and uncertainty of the values of options to the effect that such values are subject to a number of assumptions and with regard to the limitation of the model.

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' REPORT

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. Cao Yunsheng	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	–	–

Non-executive Directors	Date of appointment	Date of resignation	Reason of resignation
Mr. Han Guimao	1 April 2022	–	–

Independent Non-executive Directors	Date of appointment	Date of resignation	Reason of resignation
Mr. Su Yang	26 August 2006	26 April 2022	to devote more effort into other personal affairs
Mr. Qi Daqing	31 July 2015	27 April 2022	to devote more effort into other personal affairs
Mr. Zheng Yimin	10 June 2017	–	–
Mr. Tam Kin Yip	18 August 2021	–	–

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 three years, unless terminated by not less than three months or any short-term notice agreed with the Board 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 non-executive Director and independent non-executive Directors has signed an appointment letter with the Company for a term of 3 years. The Directors' fees is RMB30,000 per month for the non-executive Director and has been adjusted to RMB20,000 per month from 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 of directors and chief executive officer shall be recommended by the Remuneration Committee after taking into account the Company's operations, personal roles and comparable market statistics, and determined by the Board;
- (ii) The remuneration package of employees is determined individually by the management according to the industry and market level, their personal relevant experience, responsibilities, workload and years of service in the Group; 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 16 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 were 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the reporting year, none of the Directors had any interests in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules.

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 16 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 2021, 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 (Note 4)
Wang Lishan	Interest of a controlled corporation (Note 2)	396,911,278 (L)	23.61%
	Beneficial owner	17,628,000 (L)	1.05%
	Share options	2,300,000 (L)	0.14%
Cao Yunsheng	Interest of a controlled corporation (Note 3)	8,000,000 (L)	0.48%
	Beneficial owner	20,360,000 (L)	1.21%
	Share options	8,840,000 (L)	0.53%
Gao Zhiqiang	Share options	4,000,000 (L)	0.24%
Wang Ningsheng	Share options	5,000,000 (L)	0.30%
Liu Yunian	Beneficial owner	2,900,000 (L)	0.17%
	Share options	3,600,000 (L)	0.21%
Qi Daqing	Beneficial owner	2,710,000 (L)	0.16%
	Share options	2,340,000 (L)	0.14%
Su Yang	Beneficial owner	1,160,000 (L)	0.07%
	Share options	2,340,000 (L)	0.14%
Zheng Yimin	Beneficial owner	610,000 (L)	0.04%
	Share options	2,340,000 (L)	0.14%

Notes:

- (1) The letter "L" denotes a long position in the Shares.
- (2) These Shares are held by Cheung Hing Investments Limited, which is wholly-owned by Mr. Wang Lishan.
- (3) These Shares are held by Sino Joint International Limited, which is wholly-owned by Mr. Cao Yunsheng.
- (4) The percentage is calculated based on the total number of shares issued as at 31 December 2021.

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 2021, 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 Directors	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding (Note 7)
Sanju Environmental Protection (Hong Kong) Limited	Beneficial owner (Note 2)	641,566,556 (L)	38.16%
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)	38.16%
Cheung Hing Investments Limited	Beneficial owner (Note 3)	396,911,278 (L)	23.61%
Wang Lishan	Interest of a controlled corporation (Note 3) Beneficial owner Share Options	396,911,278 (L) 17,628,000 (L) 2,300,000 (L)	23.61% 1.05% 0.14%
Capital Pilot Limited	Person having a security interest in shares (Note 4)	161,995,555 (L)	9.64%
Shiu Shu Ming	Interest of a controlled corporation (Note 4)	161,995,555 (L)	9.64%
Hong Man Chu	Interest of spouse (Note 5)	161,995,555 (S)	9.64%
Lo Chun Yim	Interest of a controlled corporation (Note 6)	161,995,555 (S)	9.64%
Golden Talent (HK) Technology Co., Limited	Beneficial owner (Note 6)	161,995,555 (S)	9.64%

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.
- (7) The percentage is calculated based on the total number of shares issued as at 31 December 2021.

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 reporting 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 87.94% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 44.67% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 24.03% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 12.11% 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 2021 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.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed elsewhere in this annual report, no contracts of significance have been entered into between the Company (or any of its subsidiaries) and the controlling shareholder (or any of its subsidiaries) during the reporting year.

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 2021.

DIRECTORS' REPORT

PERMITTED INDEMNITY PROVISIONS

A permitted indemnity provision for the benefit of the Directors is currently in force throughout the year ended 31 December 2021. 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. Though there has been no change in auditors of the Company since 24 November 2005, the date of incorporation of the Company, the auditor itself has confirmed and the auditor committee has reviewed and monitored the auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards.

On behalf of the Board

WANG Lishan

CHAIRMAN

Hong Kong

31 March 2022

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 Codes set out in Appendix 14 of the Listing Rules for the year ended 31 December 2021, save for the deviations from the code provisions as follows:

Under code provision C.1.2, Management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer’s performance, position and prospects in sufficient detail.

The Company provides the three board members, namely Mr. Cao Yunsheng, Mr. Wang Ningsheng (During his tenure as president of the Company) 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 Corporate Governance Code as set out in Appendix 14 of the Listing Rules is to enhance the Company’s efficiency.

BOARD

The names of the Directors in office during 2021 and up to the date of this report are set out in the Directors’ Report contained in this Annual Report. The brief biographies of the Directors are set out in the Directors and Senior Management section of this Annual Report.

Board members have the appropriate experience and skills required for the Company’s business, and their diverse knowledge and experience can bring a variety of perspectives to the company. The Board considers that the composition of executive directors and non-executive directors (including independent non-executive directors) has achieved balance and can effectively make independent judgments.

In year 2021, Mr. Wang Lishan and Mr. Cao Yunsheng were the chairman and the CEO of the Company respectively and the roles of chairman and the CEO are segregated and not exercised by the same individual. The biographical details of the Directors are set out in the section headed “Directors and Senior Management” of this annual report.

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

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

Mr. Su Yang and Mr. Qi Daqing have tendered their resignation as independent non-executive directors of the Company with effect from 26 April 2022 and 27 April 2022 respectively.

Pursuant to Rule 3.10(1) of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors and pursuant to Rule 3.10A of the Listing Rules, an issuer must appoint independent non-executive directors representing at least one-third of the board. Following the resignation of Mr. Su and Mr. Qi, the Company has only two independent non-executive directors, which is below the minimum requirement under Rules 3.10(1) and 3.10A of the Listing Rules.

Pursuant to Rule 3.21 of the Listing Rules, every listed issuer must establish an audit committee comprising non-executive directors only and the audit committee must comprise a minimum of three members. Following the resignation of Mr. Su and Mr. Qi, the number of members of the audit committee of the Board reduced to two only which is below the minimum requirement prescribed under Rule 3.21 of the Listing Rules. Rule 3.10(2) of the Listing Rules further provides at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise. Currently the independent non-executive directors of the Company do not have appropriate professional qualifications or accounting or related financial management expertise.

CORPORATE GOVERNANCE REPORT

To comply with Rules 3.10(1), 3.10(2), 3.10A and 3.21 of the Listing Rules, the Company is in the process of identifying suitable candidate(s) to fill the vacancies of the independent non-executive directors and the membership of the audit committee of the Board. It is expected that the Company will appoint a sufficient number of independent non-executive directors, including one who meets the requirement of Rule 3.10(2) of the Listing Rules, to meet the requirement under Rule 3.10 and Rule 3.10A of the Listing Rules as soon as practicable and not later than 26 July 2022 in accordance with the Listing Rules. Further announcement(s) will be made by the Company as and when appropriate.

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

The Board confirmed that the Company has received, from each of the independent non-executive Directors, an annual confirmation of 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, the Board's corporate governance duties including:

- 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 monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- 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.

THE DIRECTORS' ATTENDANCE AT THE MEETINGS

During the year 2021, 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 2021 is set out in the table below:

Name of Directors	Board	Attendance/Number of meetings			General Meeting
		Audit Committee	Remuneration Committee	Nomination Committee	
Mr. Wang Lishan	12/12	–	–	–	1/1
Mr. Liu Lei	11/12	–	–	–	0/1
Mr. Cao Yunsheng (appointed on 22 January 2021)	11/11	–	–	–	1/1
Mr. Li Lin (resigned on 22 January 2021)	1/1	–	–	–	0/1
Mr. Gao Zhiqiang	12/12	–	–	–	0/1
Mr. Wang Ningsheng	12/12	–	–	–	0/1
Mr. Liu Yunian	12/12	–	–	–	0/1
Mr. Su Yang	12/12	2/2	3/3	3/3	0/1
Mr. Zheng Yimin	12/12	2/2	3/3	3/3	0/1
Mr. Qi Daqing	12/12	2/2	3/3	3/3	1/1
Mr. Tam Kin Yip (appointed on 18 August 2021)	3/3	1/1	–	–	–

According to the Corporate Governance Code, independent non-executive directors and other non-executive directors should also attend general meetings (including annual general meeting). Due to other business engagements, not all the Directors could attend the annual at the general meetings of 2021 of the Company. However, the Directors who present at the aforementioned annual 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.

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, Mr. Su Yang, Mr. Zheng Yimin and Mr. Qi Daqing participated in the relevant professional knowledge training, other Directors participated in the reading and learning the materials related to corporate management, law and regulations and other professional knowledge etc. respectively.

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”. Ms. Leung is not an employee of the Company. For the financial year ended 31 December 2021, Ms. Leung attended relevant professional training for not less than 15 hours pursuant to Rule 3.29 of the Listing Rules.

Mr. Zhao wuhui, the vice president and board secretary of the Company, is the primary corporate contact person at the Company.

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 Company noticed that Mr. Zheng Yimin, an independent non-executive director of the Company, has sold a total of 550,000 shares of the Company on 29 June 2021 and 6 July 2021, but without first notifying the chairman and obtain confirmation prior to the sale. The Company has explained and informed Mr. Zheng Yimin of the relevant provisions of the Model Code. Other Directors had complied with the required standard set out in the Model Code during the reporting year.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

CORPORATE GOVERNANCE REPORT

The relevant departments of the Group have certain functions for the Group's internal audit, internal control and risk management. They are mainly responsible for auditing and reviewing the financial management condition, production and services procedures, documents management system, etc., of the Group on a regular basis and reporting the results. The responsible 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 matters, 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.

The Board has conducted annual review of the Group's risk management and internal control systems and reviewed their effectiveness. The Board urges management to continue to pay attention to system construction, further enhance risk identification and forecasting, enhance measures to strengthen internal control and management, report major events in a timely manner, and seek professional advice when necessary. After reviewing, the Board considers the current systems are in general effective and adequate.

The Board has also considered the resources and manpower, in terms of qualification and experience, for handling the account, internal audit, financial reporting functions and the environment, social and governance of the Group. Upon review, the Board considered that, in general the staff concerned had received appropriate training and had received adequate budgets and recommended that more resources be invested in internal audit and financial reporting.

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 47.

RSM Hong Kong has been re-appointed as the Company's external auditor at the annual general meeting of 2021 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 2021 are as below:

	Fee paid/payable HK\$
Audit services	1,650,000
Review of the interim report	380,000

ADDITIONAL DISCLOSURE REGARDING THE MODIFIED OPINION

Qualified Opinion

The auditor of the Company issued a qualified opinion in the independent auditor's report relating to the audit of the consolidated financial statements of the Group for the year ended 31 December 2021. In view of the qualified opinion, the Board would like to provide the following additional information.

As stated in the independent auditor's report, the auditor of the Company was unable to obtain sufficient appropriate audit evidence to support the carrying amount of the provision for liquidated damages recognised in the statement of financial position as at 31 December 2021 and the corresponding charge to profit or loss for the year ended 31 December 2021.

The first few batches of shipments of a contract were delayed considerably and a subsidiary of the Group is liable to liquidated damages if the shipments of equipment are delayed pursuant to the terms of the contract.

The management of the Group estimated the provision for liquidated damages for the delay in progress of a contract at an amount of RMB65,000,000 as at 31 December 2021, while the liquidated damages calculated strictly under the terms of the contract is materially in excess of the amount provided. Nevertheless, management is of the opinion that the delay was caused by many reasons and a number of factors which were beyond their control. The management is still in negotiation with the customer on the final amount of the liquidated damages.

In addition, the Group is claiming the customer for some additional work performed in respect of the contract. The amount of the claim is expected to be offset against the liquidated damages described above. However, the aforesaid claims are yet to be approved and finalized with the customer and hence were not recognised in the financial statements. The exact amount of the liquidated damages and the claim are yet to be agreed and finalised with the customer.

The Actual or Potential Impact on the Company's Financial Position

Based on the current information available, assuming the most pessimistic scenario occurred, the impact on the Company's total assets at the end of year 2021 is about a 3% decrease, and the impact on the Company's net assets at the end of year 2021 is about a 6% decrease.

Therefore, based on the current information available to the Company, the Company believes there will be no significant adverse impact on the Company's going concern.

Management's Position and Basis on Major Judgmental Areas, and how Management's View is Different from Auditor's View

Management has been actively negotiating with the customer on the amount of liquidated damages payable by the Company. Based on the progress of negotiation, the Company's management believes that the provision of RMB65 million is appropriate. The auditor requested the Company to provide with written evidence that the customer agrees to accept the liquidated damages of RMB65 million as final settlement or relevant written documents showing any other amount for the liquidated damages as the final settlement amount. The Company was unable to satisfy such requests because the contract work of the project has not been completed, the negotiation with the customer on the amount of the liquidated damages is still in progress, and no definite agreement has yet been reached at present. Therefore, the written evidence required by the auditor is currently not available and cannot be obtained from the customer for auditor's review at the moment. The auditor could not make judgement on whether the provision for the amount of liquidated damages as final settlement amount is appropriate.

Although no agreement has been reached for the time being, it is expected that a final amount will be reached with the customer in July 2022 according to the final delivery schedule.

CORPORATE GOVERNANCE REPORT

Audit Committee's View towards the Qualified Opinion

After discussing with the management and the auditor, the audit committee understood the judgment of the management of the Company and agreed with the basis and point of view of the qualified opinion issued by the auditor. The audit committee will continue to monitor the resolution process of the matter.

Plans to Address the Qualified Opinion

The Company will continue to negotiate with the customer and obtain the relevant written evidence as requested by the auditor to clear the qualified opinion in the auditor's report next year.

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 four members during the reporting year, including the four independent non-executive Directors, which are Mr. Su Yang, Mr. Qi Daqing, Mr. Zheng Yimin and Mr. Tam Kin Yip. 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 financial information, including the final results and the interim results, 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 2021. The audit committee also received reports and discuss their audit work with the independent auditors.

The audit committee noticed that the auditor of the Company issued a qualified opinion in the independent auditor's report relating to the audit of the consolidated financial statements of the Group for the year ended 31 December 2021. After discussion with management and the auditor, the Audit Committee understood the judgment of the management of the Company and agreed with the basis and point of view of the qualified opinion issued by the auditor, and will continue to monitor the process of resolving the matter.

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 2022.

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 four independent non-executive Directors during the reporting year, which are Mr. Zheng Yimin, Mr. Su Yang, Mr. Zheng Yimin and Mr. Tam Kin Yip. Mr. Zheng Yimin is the chairman of the remuneration committee. The primary duties of the remuneration committee (inter alia) are to review and make recommendations to the Board on the Company's policy and structure for directors' and senior management remuneration and their individual remuneration package.

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

- (1) recommendations on the remuneration of new Director and the chief executive officer;
- (2) annual salary review for the Directors and the senior management; and
- (3) the remuneration policy.

The remuneration of directors of the Company is considered and determined with reference to the market level of comparable companies, their responsibilities and the time devoted. No director or any of his associates shall be involved in deciding his own remuneration.

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 four independent non-executive Directors during the reporting year, namely, Mr. Qi Daqing, Mr. Su Yang Mr. Zheng Yimin and Mr. Tam Kin Yip. 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) make recommendations to the Board on the appointment or re-appointment of directors at the annual general meeting;
- (2) make recommendations to the Board on the nomination of new director and chief executive officer; and
- (3) review the structure and composition of the Board and 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 professional experience and technical knowledge of the directors as well as their contribution which could be brought to the Company and the Board should be focused in their process of recommendation and appointment.

The nomination committee will also identify female director through varies means including recommendations by director and shareholder, in order to achieve the goal of gender diversity on the Board.

CORPORATE GOVERNANCE REPORT

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.

Pursuant to the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. For all general meetings held during the year ended 31 December, the chairman of meeting had provided an explanation of the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll.

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.

INVESTOR RELATIONS

There is no significant change to the articles of association of the Company during the year 2021.

The Company has made the shareholders' communication policy, and strengthens communication with Shareholders and investment community through various channels, so that Shareholders can be provided with ready, equal and timely access to balanced and understandable information about the Company, in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders to engage actively with the Company.

Information shall be communicated to Shareholders and the investment community mainly through the Company's financial reports (interim and annual reports) and other regulatory disclosures, general meeting(s), as well as through the Company's website (www.jutal.com).

Investor/analysts briefings and one-on-one meetings, media interviews and marketing activities for investors etc will be available where necessary in order to facilitate communication between the Company, Shareholders and the investment community.

INDEPENDENT AUDITOR'S REPORT



TO THE SHAREHOLDERS OF JUTAL OFFSHORE OIL SERVICES LIMITED

(Incorporated in the Cayman Islands with limited liability)

QUALIFIED 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 49 to 119, which comprise the consolidated statement of financial position as at 31 December 2021, 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, except for the effects of the matter described in the in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, 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 QUALIFIED OPINION

As stated in note 5(i) to the consolidated financial statements, as at 31 December 2021, the management of the Group estimated the provision for liquidated damages for the delay in progress of a contract at an amount of RMB65,000,000.

However, pursuant to the terms of the contract, a subsidiary of the Group is liable to liquidated damages if the shipments of equipment are delayed. The first few shipments of the above mentioned contract were delayed considerably. The liquidated damages calculated strictly under the terms of the contract is materially in excess of the amount provided. Nevertheless, management is of the opinion that the delay was due to many reasons and a number of which were beyond their control and the management is still in negotiation with the customer on the final amount of the liquidated damages.

In addition, the Group is claiming the customer the costs for some additional work performed in respect of the contract. However, the aforesaid claims are yet to be approved and finalised with the customer and hence were not recognised in the financial statements. The exact amount of the liquidated damages and the claim for costs are yet to be agreed and finalised with the customer.

In view of the above circumstances, we were unable to obtain sufficient appropriate audit evidence to support the carrying amount of the provision for liquidated damages recognised in the statement of financial position as at 31 December 2021 and the corresponding charge to profit or loss for the year ended 31 December 2021.

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 qualified opinion.

INDEPENDENT AUDITOR'S REPORT

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. As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate audit evidence to support the carrying amount of the provision for liquidated damages of a contract. Accordingly, we are unable to conclude whether or not the Other Information is materially misstated with respect to this matter.

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. In addition to the matter described in the Basis for Qualified Opinion, we have determined the matters described below to be the key audit matters to be communicated in our report.

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 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(g) respectively to the consolidated financial statements.

Refer to note 21 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.

How our audit addressed the Key Audit Matter

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:

- Evaluation of independent external valuers' competence, capabilities and objectivity;
- 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.

KEY AUDIT MATTERS (CONT'D)

Key Audit Matter

Recognition of revenue from construction contracts and other services contracts over time

Refer to the key sources of estimation uncertainty in note 5(e) 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 RMB3,961,531,000 and represents approximately 99% of the Group's turnover for the year ended 31 December 2021.

For the revenue from construction contracts and other service contracts recognised over time, the Group recognise revenue of these contracts by using the percentage of completion method, depend on the nature of the contract works, measured by reference to the proportion of the actual costs incurred relative to the estimated total costs or to the percentage of certified work performed to date to the estimated total contract sum.

Significant management estimates are required in relation to recognition of revenue from construction contracts and other service contracts over time including the determination of costs to complete and estimated total contract costs, the percentage of completion and the timing of revenue recognition.

How our audit addressed the Key Audit Matter

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
<p>Expected loss allowance on trade and bills receivables</p> <p>Refer to note 25 to the consolidated financial statements and the accounting policies on note 4(cc) and note 5(h) to the consolidated financial statements.</p> <p>As at 31 December 2021, the Group recorded gross trade and bill receivables of RMB549,158,000 and loss allowance of RMB120,146,000, which were significant to the financial statements of the Group.</p> <p>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.</p> <p>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.</p>	<p>Our procedures in relation to management's estimation of expected loss allowance of trade receivables:</p> <ul style="list-style-type: none"> – 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.

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 HKSA's 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 HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee, 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.

INDEPENDENT AUDITOR'S REPORT

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

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

31 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
Revenue	8	3,981,612	3,647,183
Cost of sales and services		(3,697,996)	(3,199,434)
Gross profit		283,616	447,749
Other income	9	63,408	68,520
Reversals of impairment losses on trade and bills receivables/(Impairment losses on trade and bills receivables)		33,708	(55,463)
Reversals of impairment losses on other receivables (Impairment losses on contract assets)/Reversals of impairment losses on contract assets		-	11,591
Administrative expenses		(960)	53
Other operating expenses	11	(301,642)	(256,465)
		(28,733)	(6,746)
Profit from operations		49,397	209,239
Finance costs	12	(29,586)	(34,122)
Profit before tax		19,811	175,117
Income tax expense	13	(8,787)	(28,405)
Profit for the year	14	11,024	146,712
Attributable to:			
Owners of the Company		11,024	146,712
Earnings per share	18	RMB	RMB
Basic		0.66 cents	8.98 cents
Diluted		0.65 cents	8.98 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 RMB'000	2020 RMB'000
Profit for the year	11,024	146,712
Other comprehensive income:		
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	(13,348)	(53,384)
Other comprehensive income for the year, net of tax	(13,348)	(53,384)
Total comprehensive income for the year	(2,324)	93,328
Attributable to:		
Owners of the Company	(2,324)	93,328

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment	19	1,179,349	1,246,905
Right-of-use assets	20	429,513	444,561
Goodwill	21	52,444	52,444
Intangible assets	22	11,046	12,226
Trade receivables, non-current	25	9,476	1,592
Deferred tax assets	38	54,762	29,452
		1,736,590	1,787,180
Current assets			
Inventories	24	174,945	127,343
Trade and bills receivables	25	419,536	721,246
Contract cost assets	26	7,136	6,150
Contract assets	27	488,216	455,282
Prepayments, deposits and other receivables	28	225,618	181,474
Derivative financial instruments	29	24,848	2,182
Current tax assets		6	–
Pledged bank deposits	30	134,310	136,073
Bank and cash balances	30	662,765	1,188,255
		2,137,380	2,818,005
Current liabilities			
Trade and bills payables	31	1,106,870	1,056,120
Contract liabilities	27	86,677	430,267
Accruals and other payables	32	111,133	133,667
Provisions	34	157,697	68,541
Bank borrowings	35	306,000	37,500
Deferred income	37	8,849	8,398
Lease liabilities	33	10,086	9,118
Current tax liabilities		9,735	17,174
		1,797,047	1,760,785
Net current assets		340,333	1,057,220
Total assets less current liabilities		2,076,923	2,844,400

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	<i>Note</i>	2021 RMB'000	2020 RMB'000
Non-current liabilities			
Deferred income	37	19,264	28,563
Lease liabilities	33	41,847	45,868
Bank borrowings	35	176,200	482,200
Deferred tax liabilities	38	34,145	38,424
		271,456	595,055
NET ASSETS			
		1,805,467	2,249,345
Capital and reserves			
Share capital	39	15,150	14,755
Reserves	42(a)	1,790,317	2,234,590
TOTAL EQUITY			
		1,805,467	2,249,345

Approved by the Board of Directors on 31 March 2022 and are signed on its behalf by:

Wang Lishan
Chairman

Cao Yunsheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Attributable to owners of the Company								
	Share capital	Share premium account	Special reserve	Convertible loan notes equity reserve	Foreign currency translation reserve	Share-based payment reserve	Statutory reserves	Retained profits	Total equity
	(Note 39)	(Note 42(c)(i))	(Note 42(c)(iii))	(Note 42(c)(vii))	(Note 42(c)(vi))	(Note 42(c)(ii))	(Note 42(c)(iv))		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 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 and 1 January 2021	14,755	1,733,618	(52,040)	2,951	(72,422)	46,813	40,275	535,395	2,249,345
Total comprehensive income for the year	-	-	-	-	(13,348)	-	-	11,024	(2,324)
Issue of shares on exercise of share options	395	39,034	-	-	-	(13,688)	-	-	25,741
Dividend paid	-	(512,713)	-	-	-	-	-	-	(512,713)
Share-based payments	-	-	-	-	-	45,418	-	-	45,418
Share options forfeited	-	-	-	-	-	(655)	-	655	-
Changes in equity for the year	395	(473,679)	-	-	(13,348)	31,075	-	11,679	(443,878)
At 31 December 2021	15,150	1,259,939	(52,040)	2,951	(85,770)	77,888	40,275	547,074	1,805,467

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	19,811	175,117
Adjustments for:		
Finance costs	29,586	34,122
Equity settled share-based payments	45,418	5,024
Interest income	(10,019)	(11,296)
Depreciation of property, plant and equipment	143,913	128,645
Depreciation of right-of-use assets	22,724	27,389
Amortisation of intangible assets	2,009	1,345
Net (gains)/losses on disposals of property, plant and equipment	(171)	1,934
Written off of right-of-use assets	–	154
Allowances/(reversal of allowances) for inventories	4,614	(3,878)
(Reversal of impairment losses)/impairment losses on trade and bills receivables, net	(33,708)	55,463
Impairment losses on goodwill	–	2,204
Reversal of impairment losses on other receivables	–	(11,591)
Impairment losses/(reversal of impairment losses) on contract assets	960	(53)
Impairment losses on property, plant and equipment	5,317	–
Provisions of warranty, net	33,077	(11,611)
Provision of onerous contract	56,079	22,035
Fair value changes on derivative financial instruments	(30,992)	(13,179)
Government grants income	(15,585)	(19,338)
Operating profit before working capital changes	273,033	382,486
(Increase)/decrease in inventories	(52,216)	24,910
Decrease in trade and bills receivables	327,534	154,249
(Increase)/decrease in contract cost assets	(986)	63,504
Increase in contract assets	(33,894)	(293,452)
(Increase)/decrease in prepayments, deposits and other receivables	(44,144)	85,168
Decrease in amounts due from directors	–	833
Increase in trade and bills payables	50,750	307,127
(Decrease)/increase in contract liabilities	(343,590)	131,157
(Decrease)/Increase in accruals and other payables	(22,534)	11,962
Cash generated from operations	153,953	867,944
Income taxes paid	(45,821)	(35,490)
Interest paid	(22,935)	(27,031)
Interest on lease liabilities	(2,599)	(2,776)
Other finance costs	(4,052)	(4,315)
Net cash generated from operating activities	78,546	798,332

	Note	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		10,019	11,296
Purchases of property, plant and equipment		(82,271)	(146,902)
Proceeds from disposals of property, plant and equipment		758	8,144
Purchase of intangible assets		(829)	(7,062)
Payments for right-of-use assets		–	(87)
Decrease/(increase) in pledged bank deposits		3,050	(76,778)
Government grants received		6,737	12,533
Net receipt from settlement of derivative financial instruments		8,326	13,388
Net cash used in investing activities		(54,210)	(185,468)
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank borrowings raised	43(b)	–	202,500
Repayment of bank borrowings	43(b)	(37,500)	(364,842)
Proceeds from issue of shares on exercise of share options		25,741	–
Dividend paid		(512,713)	–
Principal elements of lease payment	43(b)/(c)	(10,729)	(14,728)
Net cash used in financing activities		(535,201)	(177,070)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(510,865)	435,794
Effect of foreign exchange rate changes		(13,338)	(53,387)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		1,191,173	808,766
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		666,970	1,191,173
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		662,765	1,188,255
Pledged bank deposits		4,205	2,918
		666,970	1,191,173

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

	2021 RMB'000	2020 RMB'000
Pledged bank deposits (mature in three months or less)	4,205	2,918
Pledged bank deposits (mature after three months)	130,105	133,155
	134,310	136,073

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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 23 to the consolidated financial statements.

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 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 2021 for the preparation of the consolidated financial statements:

Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2
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Except as described below, the application of 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 HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates ("IBOR reform").

The amendments do not have an impact on these financial statements as the group does not have contracts that are indexed to benchmark interest rates which are subject to the IBOR reform.

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

(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 2021. 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 3 Business Combination – 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
Amendments to HKAS 1 Presentation of Financial Statements and HKFRS Practice Statement 2 Making Materiality Judgements – Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12 Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	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 2021

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).

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Business combination and goodwill (Cont'd)

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 assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. 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 2021

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Leases (Cont'd)

The Group as lessee (Cont'd)

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 or fixed assets are expensed as incurred.

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

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

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Contract assets and contract liabilities (Cont'd)

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 be regarded 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 is regarded 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

(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.

(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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(z) Taxation (Cont'd)

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 used 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.

(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 cash-generating units to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating units.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating units. 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 cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating units. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

Significant increase in credit risk (Cont'd)

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).

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, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

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 19 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 RMB9,783,000 (2020: 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 RMB40,885,000 (2020: RMB43,678,000).

In addition, Penglai Jutal is in the process of obtaining the ownership certificates of other building structures with carrying amounts of RMB58,096,000 (2020: RMB74,212,000). These building structures were erected on certain leasehold lands which Penglai Jutal has obtained the land use right certificates.

Despite the fact that Penglai Jutal has not obtained the relevant legal titles, the directors determined to recognise those building structures and leasehold lands as fixed assets 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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

Critical judgements in applying accounting policies (Cont'd)

(c) *Other contract costs*

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

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.

(d) *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 2021 was approximately RMB1,179,349,000 (2020: RMB1,246,905,000).

(e) *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 RMB1,615,672,000 (2020: RMB1,151,364,000) 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.

(f) *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 RMB8,787,000 (2020: RMB28,405,000) of income tax was charged to profit or loss based on the Group's estimated profit for the year.

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

Key sources of estimation uncertainty (Cont'd)

(g) *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than the expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise.

The carrying amount of goodwill at the end of the reporting period was approximately RMB52,444,000. (2020: RMB52,444,000).

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

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

As at 31 December 2021, the carrying amount of trade and bills receivables and contract assets is RMB917,228,000 (net of allowance for doubtful debts of RMB122,322,000) (2020: RMB1,178,120,000 (net of allowance for doubtful debts of RMB155,070,000)).

(i) *Estimation of liquidated damages of a construction contract*

At 31 December 2021, the completion date of certain milestones of a contract were delayed and the Group is therefore contractually liable for the liquidated damages for this contract.

The management of the Group estimates the amount of liquidated damages provision based on the progress of the contract milestones, events that caused the delay, negotiations with the customer and the Group's past experience with similar types of contracts.

Where the actual amount of liquidated damages of this contract is different from previously estimated, such differences will impact the Group's revenue and results in the period in which such determination is made.

At 31 December 2021, the Group estimates the liquidated damages provision of this contract amounted to RMB 65,000,000 (2020: Nil).

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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 2021 and 2020, 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. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2021, 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 RMB22,260,000 (2020: RMB5,275,000) 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 RMB22,260,000 (2020: RMB5,275,000) 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 29 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 2021 and 2020, 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 2021 and 2020 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.

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.

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

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

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

As at 31 December 2021

	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	0.36%	1.97%	4.87%	7.33%	9.11%	100%	
Group 2	4.88%	17.84%	N/A	80.75%	100%	100%	
Gross carrying amount							
– Collectively assessed							
Group 1 (RMB'000)	305,440	65,716	15,768	18,101	6,359	17,929	429,313
Group 2 (RMB'000)	9,782	1,338	–	1,515	12	1,036	13,683
– Specifically assessed (RMB'000)	1,436	–	–	–	54,230	50,496	106,162
Total	316,658	67,054	15,768	19,616	60,601	69,461	549,158
Loss allowance							
– Collectively assessed							
Group 1 (RMB'000)	1,098	1,296	768	1,327	579	17,929	22,997
Group 2 (RMB'000)	477	239	–	1,223	12	1,036	2,987
– Specifically assessed (RMB'000)	1,436	–	–	–	42,230	50,496	94,162
Total	3,011	1,535	768	2,550	42,821	69,461	120,146

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6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

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

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

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 0.36% and 4.88% respectively (2020: 0.19% and 2.36% respectively). As at 31 December 2021, the loss allowance provision for contract assets amounted to RMB2,176,000 (2020: RMB1,216,000).

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 receivables RMB'000	Contract assets RMB'000	Total RMB'000
At 1 January 2020	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
Impairment losses/(reversal of impairment losses) recognised for the year	(33,708)	960	(32,748)
At 31 December 2021	120,146	2,176	122,322

The following changes in the gross carrying amounts of trade and bills receivables and contract assets contributed to the decrease in the loss allowance during 2021:

- origination of new trade receivables net of those settled resulted in an decrease in loss allowance of RMB52,703,000; and
- increase in days past due over 90 days resulted in an increase in loss allowance of RMB15,277,000.

Other receivables

All of the Group's other receivables are considered 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 2020, 31 December 2020 and 1 January 2021	11
Impairment losses recognised for the year	-
At 31 December 2021	11

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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 2021					
Trade and bills payables	1,106,870	–	–	–	1,106,870
Accruals and other payables	111,133	–	–	–	111,133
Lease liabilities	12,365	11,200	20,117	18,966	62,648
Bank and other borrowings (note)	322,618	183,098	–	–	505,716
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 and other borrowings (note)	60,148	322,618	183,098	–	565,864

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 2021, no bank borrowings contain a repayment on demand clause (2020: no bank borrowings contain a repayment on demand clause).

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 2021					
Derivative – gross settlement					
Foreign exchange forward contracts					
– Inflow	619,066	15,965	–	–	635,031
– Outflow	(594,071)	(15,949)	–	–	(610,020)
	24,995	16	–	–	25,011
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

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 2021, 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 RMB3,473,000 (2020: RMB7,711,000) 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 RMB3,473,000 (2020: RMB7,711,000) 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 borrowings bear fixed interest rates and therefore are subject to fair value interest rate risks.

(e) Categories of financial instruments at 31 December

	2021 RMB'000	2020 RMB'000
Financial assets:		
Financial assets measured at amortised cost	1,928,391	2,681,574
Derivative financial instruments – held for trading	24,848	2,182
Financial liabilities:		
Financial liabilities at amortised cost	1,700,203	1,709,487

(f) Fair values

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

7. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

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

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

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

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

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7. FAIR VALUE MEASUREMENTS (CONT'D)

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

Description	Fair value measurements as at	
	31 December 2021 using level 2 RMB'000	31 December 2020 using level 2 RMB'000
Recurring fair value measurements:		
Financial assets		
Derivatives		
Foreign currency forward	24,848	2,182
Financial liabilities		
Derivatives		
Foreign currency forward	-	-

(b) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2021:

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 2021.

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

Description	Valuation technique	Key inputs	Fair value			
			2021 RMB'000		2020 RMB'000	
			Assets	Liabilities	Assets	Liabilities
Derivatives – foreign currency forward	Discounted cash flows	Forward exchange rate; Contract forward rates; and Discount rate	24,848	-	2,182	-

There were no changes in the valuation techniques used for the years ended 31 December 2021 and 2020.

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:

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by type of contract		
– Revenue from construction contracts	3,801,550	3,516,273
– Trading of oil and gas, chemical and new energy products	14,455	9,043
– Technical support services	165,607	121,867
	3,981,612	3,647,183

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		Trading of		Technical		Total	
	construction contracts		oil and gas, chemical and new energy products		support services			
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Timing of revenue recognition								
Goods and services transferred at a point in time	5,032	108,105	14,455	9,043	594	1,119	20,081	118,267
Goods and services transferred over time	3,796,518	3,408,168	–	–	165,013	120,748	3,961,531	3,528,916
Total	3,801,550	3,516,273	14,455	9,043	165,607	121,867	3,981,612	3,647,183

(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 2021 and the expected timing of recognising revenue as follows:

	Construction contracts		Trading of oil and gas, chemical and new energy products		Technical support services	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
	Within one year	1,210,418	3,715,111	–	3,804	42,089
More than one year but not more than two years	145,549	221,985	–	–	2,989	–
More than two years	–	–	–	–	–	–
	1,355,967	3,937,096	–	3,804	45,078	53,648

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8. REVENUE (CONT'D)

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

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.

9. OTHER INCOME

	2021 RMB'000	2020 RMB'000
Net foreign exchange gains	–	17,977
Compensation income	1,922	–
Reversal of allowance for inventories	–	3,878
Government grants recognised (note a)	15,585	19,338
Interest income on bank deposits	10,019	11,296
Gains on derivative financial instruments	30,992	13,179
Reversal of other receivable previously written off (note b)	3,000	–
Gains on disposal of property, plant and equipment	171	–
Others	1,719	2,852
	63,408	68,520

Note (a): For the year ended 31 December 2021, government grants of approximately RMB6,737,000 (2020: RMB10,999,000) 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 RMB8,848,000 (2020: RMB8,339,000) are recognised in relation to certain research and development activities.

Note (b): For the year ended 31 December 2021, the reversal of other receivable was mainly resulted from the settlement of the amount which was fully written off in previous year.

10. SEGMENT INFORMATION

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 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. None of these segments meets any of the quantitative thresholds for determining reportable segments. The information of these other operating segments is included in the 'others' column.

The accounting policies of the reportable segments are the same as those described in note 4 to the consolidated financial statements. Segment profits or losses do not include other income, administrative expenses, other operating expenses, finance costs, impairment losses/reversals of impairment losses on (i) trade and bills receivables; (ii) other receivables; and (iii) 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 borrowings, derivative financial instruments, current and deferred tax liabilities and deferred income.

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 2021				
Revenue from external customers	2,922,044	1,038,885	20,683	3,981,612
Segment profit	420,234	(137,074)	456	283,616
Depreciation and amortisation	131,204	36,664	778	168,646
Other material non-cash items: (Reversals of impairment losses)/impairment losses on trade and bills and other receivables, net	17,355	(50,982)	(81)	(33,708)
(Reversals of impairment losses)/impairment losses on contract assets	547	411	2	960
Additions to segment non-current assets	54,117	36,152	507	90,776
As at 31 December 2021				
Segment assets	2,185,251	720,242	28,295	2,933,788
Segment liabilities	1,318,533	180,727	15,050	1,514,310
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: (Reversals of impairment losses)/impairment losses on trade and bills and other receivables, net	(17,463)	61,778	(443)	43,872
(Reversals of impairment losses)/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

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10. SEGMENT INFORMATION (CONT'D)

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

	2021 RMB'000	2020 RMB'000
Profit or loss		
Total profit of reportable segments	283,616	447,749
Unallocated amounts:		
Finance costs	(29,586)	(34,122)
Reversals of impairment losses on trade and bills receivables/(impairment losses on trade and bills receivables)	33,708	(55,463)
Reversals of impairment losses on other receivables (Impairment losses on contract assets)/reversals of impairment losses on contract assets	-	11,591
Other income	63,408	68,520
Other corporate expenses	(330,375)	(263,211)
Consolidated profit before tax for the year	19,811	175,117
Assets		
Total assets of reportable segments	2,933,788	3,184,553
Unallocated amounts:		
Bank and cash balances	662,765	1,188,255
Pledged bank deposits	134,310	136,073
Derivative financial instruments	24,848	2,182
Current tax assets	6	-
Deferred tax assets	54,762	29,452
Goodwill	52,444	52,444
Other corporate assets	11,047	12,226
Consolidated total assets	3,873,970	4,605,185
Liabilities		
Total liabilities of reportable segments	1,514,310	1,743,581
Unallocated amounts:		
Bank borrowings	482,200	519,700
Current tax liabilities	9,735	17,174
Deferred income	28,113	36,961
Deferred tax liabilities	34,145	38,424
Consolidated total liabilities	2,068,503	2,355,840

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	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
PRC except Hong Kong	378,067	470,578	1,681,828	1,757,728
United States	453,766	1,708,780	–	–
Switzerland	103,743	44,993	–	–
Norway	174,161	36,057	–	–
Singapore	2,075	41,320	–	–
Japan	148	21,520	–	–
France	1,835,086	535,600	–	–
United Kingdom	952,275	674,930	–	–
Netherlands	71,726	112,365	–	–
Others	10,565	1,040	–	–
Consolidated total	3,981,612	3,647,183	1,681,828	1,757,728

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 2021				
Customer A	320,047	–	–	320,047
Customer B	65,310	886,602	–	951,912
Customer C	1,778,619	–	–	1,778,619
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

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11. OTHER OPERATING EXPENSES

	2021 RMB'000	2020 RMB'000
Net losses on disposal of property, plant and equipment	–	1,934
Impairment losses on goodwill	–	2,204
Net foreign exchange losses	16,382	–
Impairment losses on inventories	4,614	
Impairment losses on property, plant and equipment	5,317	
Others	2,420	2,608
	28,733	6,746

12. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest on bank borrowings	22,935	27,031
Interest on lease liabilities	2,599	2,776
Others	4,052	4,315
	29,586	34,122

13. INCOME TAX EXPENSE

	2021 RMB'000	2020 RMB'000
Current tax – PRC Enterprise Income Tax		
Provision for the year	39,116	54,642
Over-provision in prior years	(740)	(1,227)
	38,376	53,415
Deferred tax (<i>note 38</i>)	(29,589)	(25,010)
	8,787	28,405

(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 2021 and 2020.

13. INCOME TAX EXPENSE (CONT'D)

(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 2021, 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 approved to recognise as a new and high technology enterprise since 3 December 2020 to 2 December 2023 (the "Period").

During the year ended 31 December 2021, 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")*

Zhuhai Jutal was 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 2021, 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.

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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:

	2021 RMB'000	2020 RMB'000
Profit before tax	19,811	175,117
Tax at the PRC enterprise income tax rate of 25% (2020: 25%)	4,953	43,779
Tax effect of income that is not taxable	(952)	(2,434)
Tax effect of expenses that are not deductible	17,622	10,709
Tax effect of tax losses not recognised	5,693	–
Deferred tax on undistributed earnings of the PRC subsidiaries	3,245	4,080
Tax benefit for qualifying research and development expenses	(12,677)	(5,455)
Over-provision in prior years	(740)	(1,227)
Effect of different tax rates of subsidiaries	(8,357)	(21,047)
Income tax expense	8,787	28,405

14. PROFIT FOR THE YEAR

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

	2021 RMB'000	2020 RMB'000
(a) Staff costs (including directors' emoluments):		
Salaries, wages and other benefits	550,732	476,719
Retirement scheme contributions	36,444	25,131
Share-based payments	44,232	3,760
	631,408	505,610
Amortisation of intangible assets	2,009	1,345
Depreciation on property, plant and equipment	143,913	128,645
Depreciation on right-of-use assets	22,724	27,389
Net (gains)/losses on disposals of property, plant and equipment*	(171)	1,934
Written off of right-of-use assets*	–	154
Net foreign exchange losses/(gains)*	16,382	(17,977)
Research and development expenditure	123,665	119,063
Auditor's remuneration	1,693	1,720
Share-based payments paid to a consultant	1,186	1,264
Cost of inventories utilised in construction contracts and sold	726,237	1,000,734
Impairment/(Reversals) of allowance on inventories*	4,614	(3,878)
(Reversals)/Impairment of allowance on trade and bills receivables	(33,708)	55,463
Reversals of impairment losses on other receivables	–	(11,591)
Impairment/(Reversals) of allowance on contract assets	960	(53)
Impairment losses on goodwill*	–	2,204
Impairment losses on property, plant and equipment*	5,317	–
Gains on derivative financial instruments*	(30,992)	(13,179)

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

15. EMPLOYEE BENEFITS EXPENSE

	2021 RMB'000	2020 RMB'000
Employee benefits expense:		
Salaries, bonuses and allowances	550,732	476,719
Share-based payments	44,232	3,760
Retirement benefit scheme contributions	36,444	25,131
	631,408	505,610

(a) Pensions – defined contribution plans

The Group contributes to defined contribution retirement plans which are available for eligible employees in the PRC and Hong Kong.

Pursuant to the relevant laws and regulations in the People's Republic of China, the Group has joined defined contribution retirement schemes for the employees arranged by local government labour and security authorities (the "PRC Retirement Schemes"). The Group makes contributions to the PRC Retirement Schemes at the applicable rates based on the amounts stipulated by the local government organisations. Upon retirement, the local government labour and security authorities are responsible for the payment of the retirement benefits to the retired employees.

The Group operates a Mandatory Provident Fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the laws of Hong Kong) for employees employed under the jurisdiction of Hong Kong Employment Ordinance (Chapter 57 of the laws of Hong Kong). The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and the employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000.

During the years ended 31 December 2021 and 2020, the Group had no forfeited contributions under the PRC Retirement Scheme and MPF Scheme and which may be used by the Group to reduce the existing level of contributions. There were also no forfeited contributions available at 31 December 2021 and 2020 under the PRC Retirement Scheme and MPF Scheme which may be used by the Group to reduce the contribution payable in future years.

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included two (2020: one) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three individual (2020: four individual) is set out below:

	2021 RMB'000	2020 RMB'000
Basic salaries and allowances	8,730	11,972
Discretionary bonus	–	–
Share-based payments	348	–
Retirement benefits scheme contributions	–	40
	9,078	12,012

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15. EMPLOYEE BENEFITS EXPENSE (CONT'D)

(b) Five highest paid individuals (Cont'd)

The emoluments of this remaining three individual (2020: four individual) fell within the following bands:

	Number of individuals	
	2021	2020
HK\$2,000,001 to HK\$2,500,000 (approximately RMB1,660,001 to RMB2,075,000)	–	–
HK\$2,500,001 to HK\$3,000,000 (approximately RMB2,075,001 to RMB2,490,000)	2	1
HK\$3,000,001 to HK\$3,500,000 (approximately RMB2,490,001 to RMB2,905,000)	1	1
HK\$3,500,001 to HK\$4,000,000 (approximately RMB2,905,001 to RMB3,320,000)	–	1
HK\$4,000,001 to HK\$4,500,000 (approximately RMB3,320,001 to RMB3,735,000)	–	1

16. BENEFITS AND INTERESTS OF DIRECTORS

(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					Total RMB'000
	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Share-based payments RMB'000	Retirement benefits scheme contributions RMB'000	
Executive directors						
Mr. Wang Lishan	-	1,992	-	-	-	1,992
Mr. Cao Yunsheng (note b)	-	1,846	-	139	63	2,048
Mr. Liu Lei	-	2,788	-	-	-	2,788
Mr. Liu Yunian	-	2,222	-	348	64	2,634
Mr. Wang Ningsheng	-	1,717	-	348	74	2,139
Mr. Li Lin (note e)	-	-	-	-	-	-
Mr. Gao Zhiqiang (note c)	-	-	-	278	-	278
	-	10,565	-	1,113	201	11,879
Independent non-executive directors						
Mr. Su Yang	164	-	-	139	-	303
Mr. Qi Daqing	164	-	-	139	-	303
Mr. Tam Kin Yip (note f)	89	-	-	-	-	89
Mr. Zheng Yimin	164	-	-	139	-	303
	581	-	-	417	-	998
Total for 2021	581	10,565	-	1,530	201	12,877
Executive directors						
Mr. Wang Lishan	-	2,133	-	11	-	2,144
Mr. Cao Yunsheng (note b)	-	480	167	14	-	661
Mr. Tang Hui (note d)	-	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	-	815	500	359	22	1,696
Mr. Li Lin (note e)	-	-	-	287	-	287
Mr. Gao Zhiqiang (note c)	-	-	-	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. Tam Kin Yip (note f)	-	-	-	-	-	-
Mr. Zheng Yimin	120	-	-	151	-	271
	360	-	-	453	-	813
Total for 2020	360	7,388	1,827	1,780	43	11,398

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For the year ended 31 December 2021

16. BENEFITS AND INTERESTS OF DIRECTORS (CONT'D)

(a) Directors' emoluments (Cont'd)

Notes:

- (a) Mr. Lin Ke was resigned as an executive director on 8 January 2020.
- (b) Mr. Cao Yunsheng was appointed as executive director on 22 January 2021.
- (c) Mr. Gao Zhiqiang were appointed as executive directors on 10 April 2020.
- (d) Mr. Tang Hui was resigned as executive director on 10 April 2020.
- (e) Mr. Li Lin was appointed as executive director on 10 April 2020 and subsequently resigned on 22 January 2021.
- (f) Mr. Tam Kin Yip was appointed as independent non-executive director on 18 August 2021.

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.

(b) 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 our sourcing services* (項目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 RMB4,629,000 for the year ended 31 December 2021 (2020: RMB70,610,000). 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.

17. DIVIDENDS

	2021 RMB'000	2020 RMB'000
2020 interim special dividend of HK\$0.15 per ordinary share	204,930	–
2020 final dividend of HK\$0.22 per ordinary share	307,783	–

In February 2021, the Company paid an interim special dividend of RMB204,930,000 (HK\$0.15 per ordinary share) to the shareholders.

18. EARNINGS PER SHARE

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

	2021 RMB'000	2020 RMB'000
Earnings		
Earnings for the purpose of calculating basic and diluted earnings per share	11,024	146,712
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,664,616,937	1,634,016,389
Effect of dilutive potential ordinary shares arising from share options	18,207,469	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,682,824,406	1,634,016,389

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.

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19. 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 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 and 1 January 2021	1,138,033	410,055	113,068	18,915	32,831	1,712,902
Additions	3,021	27,901	5,953	2,553	42,843	82,271
Reclassification	48,725	20,324	–	–	(69,049)	–
Write off/disposals	–	(11,362)	(2,254)	(3,127)	–	(16,743)
Exchange realignment	–	–	(16)	(11)	–	(27)
At 31 December 2021	1,189,779	446,918	116,751	18,330	6,625	1,778,403
Accumulated depreciation						
At 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 and 1 January 2021	214,370	172,791	61,699	17,137	–	465,997
Charge for the year	74,132	58,720	10,314	747	–	143,913
Write off/disposals	–	(10,983)	(2,063)	(3,110)	–	(16,156)
Provision for impairment losses	–	–	5,275	42	–	5,317
Exchange realignment	–	–	(16)	(1)	–	(17)
At 31 December 2021	288,502	220,528	75,209	14,815	–	599,054
Carrying amount						
At 31 December 2021	901,277	226,390	41,542	3,515	6,625	1,179,349
At 31 December 2020	923,663	237,264	51,369	1,778	32,831	1,246,905

At 31 December 2021 and 2020, there is no property, plant and equipment was pledged as security.

At 31 December 2021, the Group is still in the process of obtaining the land use rights certificates of certain leasehold lands with the carrying amounts of approximately RMB9,783,000 (2020: RMB10,338,000).

At 31 December 2021, the Group has certain building structures with carrying amounts of approximately RMB40,885,000 (2020: RMB43,678,000) 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 2021, the Group is still in the process of obtaining the ownership certificates of other building structures with carrying amounts of approximately RMB58,096,000 (2020: RMB74,212,000).

During the year, the Group assessed the recoverable amount of a construction cash generating unit and as a result recognised impairment losses of RMB5,317,000 (2020: Nil) in respect of plant and machinery attributable to that cash generating unit.

20. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Leased properties RMB'000	Total RMB'000
At 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 and 1 January 2021	390,840	53,721	444,561
Additions	–	7,676	7,676
Depreciation	(10,641)	(12,083)	(22,724)
At 31 December 2021	380,199	49,314	429,513

Lease liabilities of RMB51,933,000 (2020: RMB54,986,000) are recognised with related right-of-use assets of RMB49,314,000 (2020: RMB53,721,000) as at 31 December 2021. 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.

	2021 RMB'000	2020 RMB'000
Depreciation expenses on right-of-use assets	22,724	27,389
Interest expense on lease liabilities (included in finance cost)	2,599	2,776
Expenses relating to short-term lease (included in cost of sales and services and administrative expense)	13,741	7,648
Expenses relating to leases of low value assets (included in administrative expenses)	254	32

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.

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20. 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 2021 (discounted) RMB'000	Potential future lease payments under extension options not included in lease liabilities (undiscounted) RMB'000
Fabrication site – PRC	23,568	12,258

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 2021, there has been no such triggering event.

21. GOODWILL

	RMB'000
Cost	
At 31 December 2020, 1 January 2021 and 31 December 2021	54,648
Accumulated impairment losses	
At 31 December 2020, 1 January 2021 and 31 December 2021	(2,204)
Carrying amount	
At 31 December 2021 and 31 December 2020	52,444

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:

	2021 RMB'000	2020 RMB'000
Offshore oil and natural gas exploration facilities fabrication business	52,444	52,444
Undersea maintenance services	–	–
At 31 December	52,444	52,444

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

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 2% (2020: 2.6%) 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 14.5% (2020: 15.25%).

22. INTANGIBLE ASSETS

	Patents and computer software (purchased) RMB'000
Cost	
At 1 January 2020	16,984
Additions	7,062
At 31 December 2020 and 1 January 2021	24,046
Additions	829
At 31 December 2021	24,875
Accumulated amortisation	
At 1 January 2020	10,475
Amortisation for the year	1,345
At 31 December 2020 and 1 January 2021	11,820
Amortisation for the year	2,009
At 31 December 2021	13,829
Carrying amount	
At 31 December 2021	11,046
At 31 December 2020	12,226

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 years (2020: 5.4 years).

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23. SUBSIDIARIES

List of subsidiaries

Particulars of the Group's major subsidiaries as at 31 December 2021 are as follows:

Name	Principal country of operation/Country of incorporation/Kind of legal entity	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/Limited liability company	5 ordinary shares of US\$1 each	100%	–	Investment holding
Indirectly held:					
Jutal Engineering Company Limited	Hong Kong/Limited liability company	2 ordinary shares	–	100%	Provision of integrated services for oil and gas industries
Jutal Holdings Limited	British Virgin Islands/Limited liability company	2 ordinary shares of US\$1 each	–	100%	Investment holding
Hong Kong Jutal Holdings Limited	Hong Kong/Limited liability company	157,045,432 ordinary shares	–	100%	Investment holding
Sanju Biofuel International Limited	Hong Kong/Limited liability company	1,000,000 ordinary shares	–	100%	Trading of biofuel products
Stand Success Resources Limited	British Virgin Islands/Limited liability company	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/wholly-foreign-owned enterprise	Paid up 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/wholly-foreign-owned enterprise	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/Limited liability company	Paid up 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
巨濤海洋船舶工程服務(大連)有限公司 (Jutal Offshore Shipbuilding Services (Dalian) Company Limited)	PRC/sino-foreign equity joint venture	Paid up and registered capital of HK\$33,330,000	–	100%	Provision of technical support services for shipbuilding industry

23. SUBSIDIARIES (CONT'D)

List of subsidiaries (Cont'd)

Name	Principal country of operation/Country of incorporation/Kind of legal entity	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
			Direct	Indirect	
成都巨濤油氣工程有限公司 (Chengdu Jutal Oil and Gas Engineering Co., Ltd.)	PRC/Limited liability company	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/Limited liability company	Paid up 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)	PRC/sino-foreign equity joint venture	Paid up 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

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

24. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	174,945	127,343

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25. TRADE AND BILLS RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	548,848	857,630
Allowance for doubtful debts	(120,146)	(153,854)
	428,702	703,776
Bills receivables	310	19,062
	429,012	722,838
	2021 RMB'000	2020 RMB'000
Classified as:		
Trade receivables, non-current	9,476	1,592
Trade and bills receivables, current	419,536	721,246
	429,012	722,838

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 regularly reviewed by the directors.

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

	2021 RMB'000	2020 RMB'000
Billed		
0 to 30 days	249,385	399,622
31 to 90 days	83,267	23,548
91 to 365 days	25,725	59,730
Over 365 days	72,695	184,123
	431,072	667,023
Unbilled (note a)	117,776	190,607
	548,848	857,630

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 2021, unbilled balance of RMB9,476,000 (2020: RMB1,592,000) will be billed after one year from the end of the reporting date.

As at 31 December 2021, trade receivables aged over 90 days includes retentions receivables amounted to approximately RMB18,386,000 (2020: RMB8,313,000).

25. TRADE AND BILLS RECEIVABLES (CONT'D)

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

	2021 RMB'000	2020 RMB'000
RMB	350,757	575,426
US\$	77,104	144,273
Euro	–	3,139
HK\$	1,151	–
Total	429,012	722,838

26. CONTRACT COST ASSETS

	2021 RMB'000	2020 RMB'000
Contract cost assets	7,136	6,150

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:

	2021 RMB'000	2020 RMB'000
At 1 January	6,150	69,654
Additions	1,219	27,147
Amortisation for the year	(233)	(90,651)
Impairment loss on contract cost assets	–	–
At 31 December	7,136	6,150

27. CONTRACT ASSETS/CONTRACT LIABILITIES

Contract assets

	2021 RMB'000	2020 RMB'000
Arising from performance under construction contracts	443,872	411,806
Arising from performance under technical support services	44,344	43,476
	488,216	455,282
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables"	429,012	722,838

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.

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

Contract assets (Cont'd)

The amount of revenue recognised during the year from performance obligations satisfied (or partially satisfied) in previous period is RMB258,636,000 (2020: RMB608,000), 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 RMB371,000 (2020: RMB170,000).

Contract liabilities

	2021 RMB'000	2020 RMB'000
Billings in advance of performance obligation		
– Construction contracts	80,881	428,399
– Technical support services	5,796	1,868
	86,677	430,267

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 decrease in the contract liabilities balance mainly because revenue from contracts with significant amount of contract liabilities at the beginning of the year were recognised in the year.

Movements in contract liabilities:

	2021 RMB'000	2020 RMB'000
Balance at 1 January	430,267	299,110
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	(514,519)	(280,200)
Increase in contract liabilities as a result of billing in advance of construction activities	170,929	411,357
Balance at 31 December	86,677	430,267

No billings in advance are expected to be recognised as income after more than one year for the years ended 31 December 2021 and 2020.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Prepayments	2,035	2,348
Deposits	78,448	82,017
Other receivables	145,146	97,120
	225,629	181,485
Less: Allowance for other receivables	(11)	(11)
	225,618	181,474

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2021 RMB'000	2020 RMB'000
Financial assets		
Derivatives not under hedge accounting:		
Foreign currency forward	24,848	2,182

At 31 December 2021 and 2020, the Group had outstanding foreign currency forward contracts mainly to hedge the foreign currency risk arising from certain of its contract revenue, trade receivables and contract assets 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:

	2021 RMB'000	2020 RMB'000
Sell US\$ for RMB	504,731	76,065
Sell Euro for RMB	130,397	95,386

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 RMB30,992,000 was credited to the profit or loss for the year ended 31 December 2021 (2020: RMB13,179,000).

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30. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group as set out in notes 34 and 35 to the consolidated financial statements.

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

	2021 RMB'000	2020 RMB'000
RMB	318,732	887,218
HK\$	4,204	3,592
US\$	404,996	431,554
Euro	69,077	1,894
Others	66	70
	797,075	1,324,328

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

	2021 RMB'000	2020 RMB'000
Trade payables	1,064,500	980,751
Bills payables	42,370	75,369
	1,106,870	1,056,120

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

	2021 RMB'000	2020 RMB'000
0 to 30 days	803,232	816,354
31 to 90 days	135,846	54,711
91 to 365 days	66,984	15,376
Over 365 days	58,438	94,310
	1,064,500	980,751

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

	2021 RMB'000	2020 RMB'000
RMB	1,103,859	1,040,115
US\$	2,772	15,899
HK\$	104	106
EUR	135	-
Total	1,106,870	1,056,120

32. ACCRUALS AND OTHER PAYABLES

	2021 RMB'000	2020 RMB'000
Accrued staff costs	69,959	71,001
Payables for purchases of property, plant and equipment, construction fees and other expenses	15,827	49,082
Others	25,347	13,584
	111,133	133,667

33. LEASE LIABILITIES

	Minimum lease payments		Present value of minimum lease payments	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Within one year	12,365	11,527	10,086	9,118
In the second to fifth years, inclusive	31,317	37,449	26,057	30,210
After five years	18,966	18,966	15,790	15,658
	62,648	67,942	51,933	54,986
Less: Future finance charges	(10,715)	(12,956)	N/A	N/A
Present value of lease obligations	51,933	54,986	51,933	54,986
Less: Amount due for settlement within 12 months (shown under current liabilities)			(10,086)	(9,118)
Amount due for settlement after 12 months			41,847	45,868

The weighted average incremental borrowing rates applied to lease liabilities is 4.9% (2020: 4.8%).

The lease liabilities are denominated in Renminbi.

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34. PROVISIONS

	Warranty provision (note (i))		Provision for onerous contract (note (ii))		Total	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
At 1 January	46,506	58,117	22,035	–	68,541	58,117
Additional provisions	46,920	26,068	56,079	22,035	102,999	48,103
Provisions used	–	–	–	–	–	–
Unused provisions reversed	(13,843)	(37,679)	–	–	(13,843)	(37,679)
At 31 December	79,583	46,506	78,114	22,035	157,697	68,541

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 BORROWINGS

	2021 RMB'000	2020 RMB'000
Bank borrowings	482,200	519,700

The bank borrowings are repayable as follows:

	2021 RMB'000	2020 RMB'000
Within one year	306,000	37,500
More than one year, but not exceeding two years	137,100	306,000
More than two years, but not more than five years	39,100	176,200
	482,200	519,700
Less: Amount due for settlement within 12 months (shown under current liabilities)	(306,000)	(37,500)
Amount due for settlement after 12 months	176,200	482,200

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

The average interest rate of the Group's bank borrowings at 31 December 2021 was 4.64% (2020: 4.75%) per annum.

Bank borrowings of approximately RMB224,000,000 (2020: RMB266,000,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Bank borrowings were arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

35. BANK BORROWINGS (CONT'D)

As at 31 December 2021, bank borrowings of approximately RMB419,700,000 (2020: RMB454,200,000) are secured by the followings:

- i. corporate guarantee executed by a major shareholder of the 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.

36. BANKING FACILITIES

At 31 December 2021, the Group had approximately RMB397,830,000 (2020: RMB332,940,000) of available undrawn banking facilities. Available undrawn banking facilities include bank loans, letters of credit, etc, but exclude bank guarantees. The Group's banking facilities are secured by the followings:

- i. a charge over the Group's pledged bank deposits (note 30);
- ii. corporate guarantees executed by a major shareholder of the Company, the Company and three 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 2021, the Group had obtained bank guarantees under performance bonds for construction contracts of approximately RMB883,331,000 (2020: RMB1,048,565,000).

37. DEFERRED INCOME

	Note	2021 RMB'000	2020 RMB'000
At 1 January		36,961	43,766
Addition during the year		–	1,534
Recognised as income and included in the Group's other income		(8,848)	(8,339)
At 31 December		28,113	36,961
Represented by:			
Government grant A	(i)	8,016	8,883
Government grant B	(ii)	20,097	28,078
At 31 December		28,113	36,961
Classified as:			
Current liabilities		8,849	8,398
Non-current liabilities		19,264	28,563
		28,113	36,961

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37. DEFERRED INCOME (CONT'D)

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 use. 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 RMB866,000 was transferred to profit or loss for the year ended 31 December 2021 (2020: RMB867,000).

- (ii) These represent 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 use. Deferred income of approximately RMB7,982,000 was transferred to profit or loss for the year ended 31 December 2021 (2020: RMB7,472,000).

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	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 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 and 1 January 2021	82,999	(4,039)	21,558	(38,152)	(53,394)	8,972
Charge to profit or loss for the year (note 13)						
– Changes in temporary differences	(6,709)	4,213	3,245	(29,188)	(1,150)	(29,589)
At 31 December 2021	76,290	174	24,803	(67,340)	(54,544)	(20,617)

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

	2021 RMB'000	2020 RMB'000
Deferred tax liabilities	34,145	38,424
Deferred tax assets	(54,762)	(29,452)
	(20,617)	8,972

38. DEFERRED TAX (CONT'D)

At the end of reporting period the Group has unused tax losses of approximately RMB506,835,000 (2020: RMB268,917,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB448,937,000 (2020: RMB255,367,000). No deferred tax asset has been recognized in respect of the remaining approximately of RMB57,898,000 (2020: RMB13,550,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB4,613,000, RMB11,558,000, RMB262,000, RMB23,221,000, RMB2,274,000 and RMB2,622,000 that can be carried forward by ten years, nine years, eight years, five years, four years and two years respectively. Other tax losses may be carried forward indefinitely. (2020: The remaining RMB13,550,000 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 RMB22,015,000 (2020: RMB17,391,000). 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.

39. SHARE CAPITAL

	Number of Shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 (2020: HK\$0.01) each		
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	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 (2020: HK\$0.01) each			
At 1 January 2020, 31 December 2020 and 1 January 2021	1,634,016,389	16,341	14,755
Exercise of share options	(a) 47,290,000	472	395
At 31 December 2021	1,681,306,389	16,813	15,150

Note:

- (a) Share options were exercised by option holders during the year ended 31 December 2021 to subscribe for a total of 47,290,000 ordinary shares in the Company at total consideration of approximately HK\$30,819,000 (equivalent to approximately RMB25,741,000), of which approximately RMB395,000 was credited to share capital and the balance of approximately RMB25,346,000 was credited to the share premium account. Approximately RMB13,688,000 has been transferred from the share-based payment reserve to the share premium account.

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

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

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39. SHARE CAPITAL (CONT'D)

The Group monitors capital using a gearing ratio, which is total borrowings and lease liabilities 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 2021 is as follows:

	2021 RMB'000	2020 RMB'000
Bank and other borrowings	482,200	519,700
Lease liabilities	51,933	54,986
Total equity	1,805,467	2,249,345
Gearing ratio	29.58%	25.55%

The increase in gearing ratio from the year ended 31 December 2020 resulted primarily from decrease in the Group's equity balances after paying the 2020 interim dividend and 2020 final dividend in aggregate of RMB512,713,000. The Group adjusts the amount of bank 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 2021, 35.06% (2020: 35.88%) 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.

40. SHARE-BASED PAYMENTS (CONT'D)

Equity-settled share option scheme (Cont'd)

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

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

Details of the specific categories of options are as follows:

	Date of grant	Vesting period	Exercise period	Exercise price HK\$
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 2020	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
2021	10 June 2021	N/A	10 June 2021 to 9 June 2024	1.50

For share options granted in 2021, if the options remain unexercised after a period of 3 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.

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40. SHARE-BASED PAYMENTS (CONT'D)

Equity-settled share option scheme (Cont'd)

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

	2021		2020	
	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	129,450,000	1.13	107,950,000	1.64
Granted during the year	100,000,000	0.50	48,000,000	0.48
Forfeited during the year	(1,150,000)	1.62	(26,500,000)	2.14
Exercised during the year	(47,290,000)	0.65	–	N/A
Outstanding at the end of the year	181,010,000	1.44	129,450,000	1.13
Exercisable at the end of the year	145,850,000	1.62	66,450,000	1.60

The weighted average share price at the date of exercise for share options exercised during the year was HK\$1.30. The options outstanding at the end of the year have a weighted average remaining contractual life of 3.5 years (2020: 5.3 years) and the exercise price ranges from HK\$0.48 to HK\$2.14 (2020: HK\$0.48 to HK\$2.14).

In 2021, 100,000,000 options were granted on 10 June 2021. The estimated fair value of the options on this date is approximately HK\$49,291,000 (equivalent to RMB40,892,000). This estimated fair value was calculated using the Binomial Option-pricing model. The inputs into the model are as follows:

	2021
Number of share options granted	100,000,000
Grant date share price	HK\$1.43
Expected volatility	64.03%
Expected life	3 years
Risk free rate	0.25%
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.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2021 RMB'000	2020 RMB'000
Non-current assets			
Investments in a subsidiary		524,774	505,786
Current assets			
Prepayments, deposits and other receivables		11,882	3,138
Due from subsidiaries		821,086	1,257,454
Bank and cash balances		2,993	2,108
		835,961	1,262,700
Current liabilities			
Accruals and other payables		2,775	2,680
Due to subsidiaries		141,449	38,924
Financial guarantee contract liability		–	4,387
		144,224	45,991
Net current assets		691,737	1,216,709
NET ASSETS		1,216,511	1,722,495
Capital and reserves			
Share capital		15,150	14,755
Reserves	42(b)	1,201,361	1,707,740
TOTAL EQUITY		1,216,511	1,722,495

The Company's statement of financial position was approved by the Board of Directors on 31 March 2022 and signed on its behalf by:

Wang Lishan
Chairman

Cao Yumsheng
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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 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 and 1 January 2021	1,733,618	2,951	(82,745)	46,813	7,103	1,707,740
Issue of shares on exercise of share options	39,034	-	-	(13,688)	-	25,346
Dividend paid	(512,713)	-	-	-	-	(512,713)
Share options forfeited	-	-	-	(655)	655	-
Share-based payments	-	-	-	45,418	-	45,418
Total comprehensive income for the year	-	-	(40,048)	-	(24,382)	(64,430)
At 31 December 2021	1,259,939	2,951	(122,793)	77,888	(16,624)	1,201,361

(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.

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 RMB7,676,000 (2020: RMB19,560,000) 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 2021 RMB'000	Addition RMB'000	Cash flows RMB'000	Interest expenses RMB'000	31 December 2021 RMB'000
Lease liabilities (note 33)	54,986	7,676	(13,328)	2,599	51,933
Bank borrowings (note 35)	519,700	–	(60,435)	22,935	482,200

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

(c) Total cash outflow for leases

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

	2021 RMB'000	2020 RMB'000
Within operating cash flows	16,594	10,456
Within investing cash flows	–	87
Within financing cash flows	10,729	14,728
	27,323	25,271

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(c) Total cash outflow for leases (Cont'd)

These amounts relate to the following:

	2021 RMB'000	2020 RMB'000
Lease rental paid	27,323	25,184
Payments for right-of-use assets	–	87
	27,323	25,271

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 2021 and 2020, 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:

	2021 RMB'000	2020 RMB'000
Property, plant and equipment	5,190	19,636

46. OPERATING LEASE ARRANGEMENTS

The Group regularly entered into short-term leases for office equipment and certain staff quarters. As at 31 December 2021, 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 20.

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	2021 RMB'000	2020 RMB'000
Revenue received/receivable from a major shareholder/the ultimate holding company	(a)	2,457	239
Revenue received/receivable from subsidiaries of a major shareholder/the ultimate holding company	(b)	2,172	70,371
Payment on lease liabilities to a related company	(c)	1,995	1,882
Expense related to short – term lease to the ultimate holding company		–	296

Notes:

- (a) The related party transactions with a major shareholder (2020: 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 32 to 33.
- (b) These subsidiaries are wholly-owned by a major shareholder (2020: 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 32 to 33.
- (c) The related company is a wholly-owned subsidiary of Mr. Wang Lishan, a director of the Group.

(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:

	2021 RMB'000	2020 RMB'000
Trade receivables due from a major shareholder/the ultimate holding company	98	3,508
Contract assets from a major shareholder/the ultimate holding company	16,461	16,506
Contract liabilities to the ultimate holding company	–	876
Trade receivables due from fellow subsidiaries	–	35,083
Trade payables due to a subsidiary of a major shareholder/a fellow subsidiary	29	152
Contract liabilities to a fellow subsidiary	–	8,522
Other receivables due from subsidiaries of a major shareholder/fellow subsidiaries	250	250

48. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 31 March 2022.

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				2021 RMB'000
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	
Turnover	724,469	1,485,964	1,760,624	3,647,183	3,981,612
Profit for the year attributable to owners of the Company	55,581	26,637	4,424	146,712	11,024

ASSETS AND LIABILITIES

	As at 31 December				2021 RMB'000
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	
Total assets	4,481,179	3,963,474	4,205,991	4,605,185	3,873,970
Total liabilities	(2,422,245)	(1,830,458)	(2,054,998)	(2,355,840)	(2,068,503)
Total equity	2,058,934	2,133,016	2,150,993	2,249,345	1,805,467

LIQUIDITY AND GEARING RATIO

	As at 31 December				2021
	2017	2018	2019	2020	
Current Ratio ⁽¹⁾	1.38	1.65	1.63	1.60	1.19
Quick Ratio ⁽²⁾	1.35	1.59	1.50	1.53	1.09
Gearing Ratio ⁽³⁾	44.96%	37.79%	31.71%	25.55%	29.58%

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 and lease liabilities divided by total equity and multiplied by 100%.
- (4) Current ratio as at 31 December 2021 decreased compared to that as at 31 December 2020, which is mainly attribute to the decrease of current assets due to the distribution of dividend.
- (5) Gearing ratio as at 31 December 2021 increased compared to that as at 31 December 2020, which is mainly attribute to a decline of total equities.