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

2017
Annual Report

CONTENTS

CORPORATE INFORMATION

SHARE INFORMATION

Listing place	:	Main Board of the Stock Exchange of Hong Kong Limited
Stock code	:	03303
Listing date	:	21 September 2006
Stock name	:	Jutal Oil Ser
Issued shares	:	1,632,016,389 ordinary shares
Website	:	http://www.jutal.com

BOARD OF DIRECTORS

Executive directors

Mr. Liu Lei *(Chairman)*
Mr. Wang Lishan
Mr. Lin Ke
Mr. Cao Yunsheng *(CEO)*
Mr. Cao Huafeng
Mr. Sergey Borovskiy

Independent non-executive directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY REPRESENTATIVE AND COMPANY SECRETARY

Ms. Leung Fung Yee Alice

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HEADQUARTERS IN THE PRC

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

LEGAL ADVISORS

As to Hong Kong law:

Anthony Siu & Co., Solicitors & Notaries

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

As to PRC law:

Deheng Law Offices (Shenzhen)

11F, Block B, Anlian Building,
No.4018, Jintian Road, Futian District,
Shenzhen, The PRC

As to Cayman Islands law:

Conyers Dill & Pearman

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

AUDITOR AND REPORTING ACCOUNTANT

RSM Hong Kong

Certified Public Accountants

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Royal Bank of Canada Trust Company (Cayman) Limited

Royal Bank House – 3rd Floor,
24 Shedden Road,
P.O. Box 1586,
Grand Cayman, KY1-1110,
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited

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183 Queen's Road East,
Wanchai, Hong Kong

INVESTOR ENQUIRY

Investor Relations

Jutal Offshore Oil Services Limited

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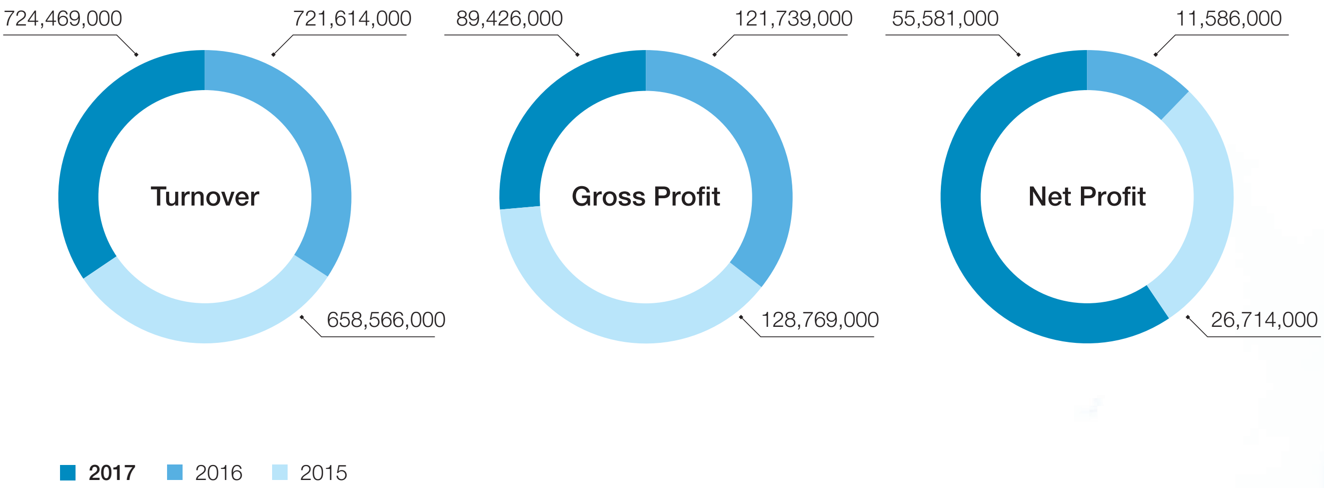
FINANCIAL HIGHLIGHTS

1. RESULTS (RMB)



2. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share were RMB0.0432 and RMB0.0427 respectively.

3. DIVIDEND

The Board of the Directors recommend the payment of a final dividend of HK$0.03 per share for the year ended 31 December 2017.

CEO STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of Jutal Offshore Oil Services Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017 to the shareholders.

CEO STATEMENT

BUSINESS REVIEW

2017 marked a milestone in the development of the Group. During the year, we gained strong support in both capital and business by introducing new controlling shareholder. Through external acquisitions and internal business restructuring, we further strengthened our engineering and manufacturing capabilities and actively explored new business areas and models with an aim to make strategic deployment for our future development.

In June 2017, Beijing Sanju Environmental Protection & New Materials Co., Ltd ("Sanju") completed the subscription of new shares issued by the Company through its wholly-owned subsidiary Sanju Environmental Protection (Hong Kong) Limited ("Sanju HK"), becoming the controlling shareholder of the Company. Being a listed company in the Shenzhen Stock Exchange in China, Sanju is a conglomerate that serves in the green industry and is engaged in clean energy, chemicals and ecological agriculture. Its business areas cover petrochemical and modern coal chemical business as well as technical services in ecological agriculture, green energy and chemicals. With Sanju investing into the Company, the Group's financial needs are satisfied and businesses of both parties are complemented with synergies achieved. Sanju owns a number of core technologies and project resources, while the Group as a provider offering leading equipment fabrication and engineering technologies as well as integrated service in the energy industries for a long time, has a strong presence and extensive experience in equipment fabrication, engineering construction and international projects. As a result, both parties can complement each other and enhance their competitiveness in the market through the dual strategy of "professionalism + capital", which will be favorable to the expansion of our business in China and overseas markets as well as the long-term development of the Group. At the end of 2017, the Group has begun to participate in a number of projects of Sanju, including the project of shale gas desulfurization equipment in North America.

At the end of 2017, we completed the acquisition of the other 70% equity interest of Penglai Jutal Offshore Engineering Heavy Industries Company Limited ("Penglai Jutal"). Penglai Jutal bases in the Penglai Economic and Technological Development Zone in Yantai of Shandong Province in China and owns plants in Bohai Bay, with a total area of approximately 630,000 square meters. It has profound experience in and enjoys an international reputation for certain construction work such as large-scale jacket, onshore LNG modules, FPSO/FLNG related modules, offshore platform topside modules, offshore wind power and single point mooring system. In 2017, Penglai Jutal operated 9 projects in total and has completed all the construction of a total of 33 modules and delivered in advance for Russia's YAMAL LNG project undertaken in 2014, representing a realization of over 25 million working hours of zero accident, with excellent quality and high level of safety. After completion of the acquisition, Penglai Jutal became a wholly-owned subsidiary of the Company, which strengthened the Group's construction capabilities remarkably and also enabled the Group to optimize its resource allocation and implement more efficient management by making full use of its advantage of having two major construction sites in both northern and southern China.

While maintaining our traditional oil and gas engineering and service projects, we had extended our footstep to the areas of refinery market, environmental protection market, wind power market and biodiesel last year, taking up a production project of a series of modules for an oil refinery plant located in Argentina and undertaking the structure manufacturing and machinery installation for the first ever offshore wind power project in Guangdong province. We also provided domestic chemical projects with comprehensive engineering services including engineering design, construction, equipment supply and project management. During the year, we prepare for our further development in the biomass energy business with establishment of professional teams.

PROSPECTS

With global economy picking up, oil prices have stabilized and regained upward momentum and oil companies are expanding their investments in the exploration and development of oil and gas, which in turn facilitates the gradual recovery of the oil and gas engineering and technical service industry.

After years of development, we have already built up strong capability in equipment and modular engineering manufacturing and are highly recognized by international energy companies and general contracting companies in the industry. We will continue to establish our bases in Penglai and Zhuhai to make appropriate and reasonable investments with a view to enhance our project management and construction capabilities as well as our core competitiveness and identify market opportunities in a timely manner.

In line with the “One Belt, One Road” development strategy of China and leveraging on the Group’s edges in engineering and fabrication and Sanju’s advanced super-suspension bed technology, we will not only expand our business into energy and refining and chemical industries and the area of efficient and clean use of energy, but also participating in and undertaking relevant engineering construction and project management business, while actively promoting the development of modular manufacturing in overseas markets.

Sanju is actively allocating its resource into the ecological agriculture and green energy industry, which in turn will create a great number of market opportunities for the Group.

It is said that Sanju intends to carry out a large number of soil improvement projects in China by means of straw carbonization in the future. Relying on our advantages in engineering and equipment installation, we hope to provide services in terms of installation and supply of specialized equipment and play our part in the project construction.

The Group will also focus on the biomass energy business. Biomass energy is the fourth largest energy source following coal, oil and natural gas. With advanced technologies, agricultural and forestry processing waste as well as animal and vegetable fats can be converted into conventional solid, liquid, or gaseous fuels. Using such renewable energy is consistent with the global development trend of environmental protection and energy utilization. In order to achieve rapid development, we established professional teams to maintain sales channels and identify manufacturers with suitable production capacity in Northern China and Hainan Province and carried out various forms of cooperation.

In the coming year, we will accelerate the upgrading and transformation of our business and establish a business model that combines product sales and service operation. Meanwhile, we will also identify suitable resources to carry out capital reorganization by capital acquisitions, so as to become a professional service provider of equipment manufacturing, engineering services and industrial operations in the fossil energy and green energy industries.

By Order of the Board

CAO Yunsheng

CEO

Hong Kong, 23 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL AND BUSINESS REVIEW

Turnover

During the year, the Group expanded its business scope by carrying out the new fabrication of facilities and provision of integrated service for other energy and refining and chemical industries. It also combined the business of provision of technical support and related services for oil and gas industries and sales of related equipment and materials and the business of fabrication of oil and gas facilities and oil and gas processing skid equipment, which are collectively referred to as the fabrication of facilities and provision of integrated services for oil and gas industries. In year 2017, the Group recorded turnover of approximately RMB724,469,000, representing an increase of 0.40% or RMB2,855,000 as compared with year 2016. Turnover from fabrication of facilities and provision of integrated services for oil and gas industries decreased by 32.45% or RMB221,076,000 as compared with year 2016. Turnover from the provision of technical support services for shipbuilding industry decreased by 43.60% or RMB13,927,000 as compared with year 2016. Turnover from the fabrication of facilities and provision of integrated service for other energy and refining and chemical industries amounted to RMB225,885,000. Turnover from the fabrication of facilities and provision of integrated services for oil and gas industries as well as the provision of technical support services for shipbuilding industry decreased as compared with the same period of the previous year, which was mainly attributable to decrease in workload or service prices of these two types of business of the Group due to significant reduction of investment in these industries as a result of the continuous downturn in investments of the global oil and gas industries and in shipbuilding markets.

The table below sets out the analysis of turnover by business segments for the years 2017, 2016 and 2015:

	For the financial year ended 31 December					
	2017		2016		2015	
Business Segments	**RMB'000**	**Percentage to total turnover (%)**	RMB'000	Percentage to total turnover (%)	RMB'000	Percentage to total turnover (%)
1 Fabrication of facilities and provision of integrated services for oil and gas industries	**460,148**	**64**	681,224	95	614,311	93
2 Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries	**225,885**	**31**	–	–	–	–
3 Provision of technical support services for shipbuilding industry	**18,019**	**2**	31,946	4	44,255	7
4 Others	**20,417**	**3**	8,444	1	–	–
Total	**724,469**	**100**	721,614	100	658,566	100

Cost of sales and services

Cost of sales and services of the Group amounted to approximately RMB635,043,000 in year 2017, representing an increase of 5.86% or RMB35,168,000 as compared with year 2016. Cost of sales and service comprised direct costs and manufacturing overheads. Direct costs in the current period amounted to approximately RMB580,344,000, representing 91.39% of total cost of sales and service, and an increase of RMB52,924,000 or a rise of 10.03% from RMB527,420,000 in last year. The Group calculates the cost of sales and service of projects on an order-by-order basis. Since the composition of cost differs for each project, the composition of cost of sales and service varies from project to project. Manufacturing overheads has decreased by RMB17,756,000 or 24.51% from RMB72,455,000 in last year to approximately RMB54,699,000 in current reporting period, which was mainly due to the reduction in workload of the fabrication of facilities and provision of integrated services for oil and gas industries.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit

The total gross profit of the Group for the year 2017 amounted to approximately RMB89,426,000, representing a decrease of 26.54% or RMB32,313,000 as compared with RMB121,739,000 in year 2016. The overall gross profit margin decreased from 16.87% in year 2016 to 12.34%. The gross profit margin of the fabrication of facilities and provision of integrated services for oil and gas industries decreased from 16.07% in year 2016 to 8.30%, and the gross profit margin of the provision of technical support services for shipbuilding industry decreased from 25.93% in year 2016 to negative 13.61%, whereas the gross profit margin of the fabrication of facilities and provision of integrated service for other energy and refining and chemical industries amounted to 20.69%. Changes in business structure resulted in various changes in the gross profit margin of our different business segments. Gross profit margins of the fabrication of facilities and provision of integrated services for oil and gas industries as well as the provision of technical support services for shipbuilding industry decreased significantly, as the Group has proactively conducted downward adjustment in profit expectation in bid proposals so as to tackle with the intense market competitions resulted from the continuous sluggish in investments of the global oil and gas industry and the depressed shipbuilding industry.

The following shows the breakdown of gross profit/(loss) by business segments for the years 2017, 2016 and 2015:

	For the financial year ended 31 December								
	2017			2016			2015		
Business Segments	RMB'000	Gross profit margin (%)	Percentage to total gross profit (%)	RMB'000	Gross profit margin (%)	Percentage to total gross profit (%)	RMB'000	Gross profit margin (%)	Percentage to total gross profit (%)
1 Fabrication of facilities and provision of integrated services for oil and gas industries	38,207	8	43	109,458	16	90	124,610	20	97
2 Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries	46,745	21	52	–	–	–	–	–	–
3 Provision of technical support services for shipbuilding industry	(2,453)	(14)	(3)	8,285	26	7	4,159	9	3
4 Others	6,927	34	8	3,996	47	3	–	–	–
Total	89,426		100	121,739		100	128,769		100

Other income

Other income for the year increased by 404.88% or RMB54,440,000 from 2016, which was mainly due to the gain on deemed disposal of an associate of RMB28,266,000 recognized. Income from government grants, net foreign exchange gains and interest income on bank deposit increased by RMB11,547,000, RMB11,500,000 and RMB4,515,000 respectively.

Administrative and other operating expenses

Administrative and other operating expenses in aggregate decreased by 7.54% or RMB10,477,000 as compared with year 2016 to approximately RMB128,513,000, primarily due to the decrease in salary, rental and impairment of trade receivables and amount due from customers for contract work while increase in travelling expenses and service fee charged by professional institutions.

Finance costs

Finance costs reached approximately RMB10,749,000 in year 2017, which was mainly comprised of interests on bank borrowings and interests on loan from ultimate holding company of approximately RMB9,314,000 and bank charges and other finance costs of approximately RMB1,435,000.

Share of profit of an associate

The Group held 30% of equity interest in Penglai Jutal before completing the acquisition of additional 70% equity interest in Penglai Jutal. In year 2017, Penglai Jutal recorded net profit after tax of approximately RMB126,437,000. The Group's share of profit of an associate amounted to approximately RMB37,931,000 under the equity method of accounting.

Profit attributable to owners of the Company and earnings per share

In summary, in year 2017, profit attributable to owners of the Company amounted to approximately RMB55,581,000, which represented an increase of 379.73% or RMB43,995,000 as compared to that of RMB11,586,000 in year 2016. Basic and diluted earnings per share attributable to owners of the Company for year 2017 were RMB0.0432 and RMB0.0427 respectively.

2. LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the working funds (cash on cash equivalent) of the Group amounted to approximately RMB1,455,265,000 (2016: RMB122,280,000). During the year, net cash outflow from operating activities amounted to approximately RMB158,179,000, net cash inflow from investing activities amounted to RMB325,772,000, and net cash inflow from financing activities amounted to approximately RMB1,216,023,000.

As at 31 December 2017, the Group had approximately RMB228,723,000 (2016: RMB217,459,000) of available undrawn banking facilities. Available undrawn banking facilities include bank loans, letters of credit, bank guarantees, etc.

As at 31 December 2017, the Group had obtained bank guarantees under performance bonds for construction contracts of approximately RMB321,803,000 (2016: RMB77,508,000).

3. CAPITAL STRUCTURE

As of 31 December 2017, the share capital of the Company comprises 1,632,016,389 ordinary shares (2016: 800,354,278 ordinary shares). As at 31 December 2017, net assets of the Group amounted to approximately RMB2,058,934,000 (2016: RMB1,180,542,000), comprising non-current assets of approximately RMB1,681,920,000 (2016: RMB1,072,764,000), net current assets of approximately RMB765,818,000 (2016: RMB167,829,000) and non-current liabilities of approximately RMB388,804,000 (2016: RMB60,051,000).

4. SIGNIFICANT INVESTMENT

During the year, the Group completed the acquisition of 70% equity interest in Penglai Jutal at a consideration of RMB571,868,000. Penglai Jutal became an indirect wholly-owned subsidiary of the Company after the acquisition.

Apart from the above, the Group had no other significant investment for the year ended 31 December 2017.

5. FOREIGN EXCHANGE RISK

Most of the Group's business transactions, assets and liabilities are principally denominated in RMB, Euro and United States dollars ("US$"). During the years ended 31 December 2017 and 2016, the Group has entered into foreign exchange forward contracts to hedge the foreign currency risk arising from certain of its contract revenue and trade receivables denominated in Euro and US$. The Group currently does not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

6. ASSETS PLEDGED BY THE GROUP

As at 31 December 2017, approximately RMB298,554,000 of the bank deposits were pledged as security deposits for bank borrowings, the issuance of performance bonds, letter of credits and bank acceptance.

As at 31 December 2017, the carrying amount of fixed assets pledged as security for the Group's bank borrowings amounted to approximately RMB10,331,000 (2016: RMB11,596,000).

7. CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities.

8. CAPITAL MANAGEMENT

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

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

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

The gearing ratios at 31 December 2017 and at 31 December 2016 were as follows:

	2017 RMB'000	2016 RMB'000
Bank borrowings	**845,772**	213,628
Loan from ultimate holding company	**80,000**	–
Total borrowings	**925,772**	213,628
Total equity	**2,058,934**	1,180,542
Gearing ratio	**44.96%**	18.10%

The increase in the gearing ratio in 2017 was mainly due to the fact that the Group acquired 70% of the equity interest in Penglai Jutal during the year and consolidated its financial statements. 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 2017, the Group had total 3,399 employees (31 December 2016: 2,174 employees), of which 978 (31 December 2016: 474) were management and technical staff, and 2,421 (31 December 2016: 1,700) were technicians. The significant increase in headcount was mainly due to completion of the acquisition of equity interest in Penglai Jutal during the year and its employees were counted.

The Group encourages staff to long-term service, and strives to create a fair and open competition environment, committed to develop talents with management experience, professional skills and dedication. The Group determines the remuneration and incentives of employees with reference to the prevailing industry practice, and based on their position, duties and performance. The Group contributes to social security funds and housing funds for employees according to the local laws and regulations.

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

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Liu Lei (劉雷), aged 51, is an executive director and the chairman of the Company, who is responsible for the overall development strategic planning. Mr. Liu obtained a Bachelor of Engineering degree from the Chinese People's Liberation Army General Logistics Institute (中國人民解放軍學院) in 1988. He joined Beijing Sanju Environmental Protection and New Materials Co., Ltd. (北京三聚環保新材料股份有限公司) ("Sanju"), a company established in the PRC with limited liability and listed on the Shenzhen Stock Exchange (Shenzhen Stock Exchange Stock Code 300072) in June 2000 and has extensive experience in the chemical industry. Since June 2000, Mr. Liu has been acting as the Chairman of Sanju. Since May 1997, Mr. Liu has been acting as the chairman of 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 Real Estate Development Co., Ltd (北京大行基業房地產開發有限公司). Since November 1999, he has been acting as the general manager of Beijing Haidian Technology Development Co., Ltd (北京海澱科技發展有限公司). Mr. Liu was appointed as an executive director in June 2017.

Mr. Wang Lishan (王立山), aged 59, is an executive director of the Company. He was graduated from Dalian Polytechnic University (大連理工大學) in 1982 with a bachelor's degree in offshore oil construction engineering. Mr. Wang has rich experience of management and administration in the oil and gas industries. Prior to joining the Group, he worked in Bohai Petroleum Company Platform Manufacturing Factory (渤海石油公司平臺製造廠) from 1982 to 1988 and Offshore Oil Company of Bohai Oil Company (渤海石油公司) from 1988 to 1995. Mr. Wang joined the Group in 1995, and was appointed as an executive director in November 2005.

Mr. Lin Ke (林科), aged 56, is an executive director of the Company. Mr. Lin obtained a bachelor of engineering degree from the Beijing University of Science and Technology in 1987. He founded Sanju in June 1997 and has extensive experience in the clean energy industry. Since June 2000, Mr. Lin has been acting as the vice chairman and the president of Sanju and has extensive experience in the clean energy industry. Mr. Lin was appointed as an executive director in June 2017.

Mr. Cao Yunsheng (曹雲生), aged 55, is an executive director and CEO of the Company, who is responsible for the overall operations of the Group. He was graduated from Tianjin College of Finance and Economics (天津財經學院) in 1988, majoring in accounting, and was graduated with a master degree in business administration from Tianjin University (天津大學) in 2004. Mr. Cao joined the Group in 2001 as the deputy general manager and is in charge of the finance, administration and the capital operations of the Group and supervision of the Group's cash-flow management. Prior to joining the Group, he was the supervisor of the finance department and chief accountant of Bohai Petroleum Company Platform Manufacturing Factory (渤海石油公司平臺製造廠), the chief accountant of China Offshore Oil Platform Construction Company (中國海洋石油平臺製造公司) and a financial controller of Offshore Oil Engineering Co., Ltd. (海洋石油工程股份有限公司). Mr. Cao was appointed as an executive director in November 2005.

Mr. Cao Huafeng (曹華鋒), aged 47, is an executive director of the Company. Mr. Cao obtained a Master of Economics degree from Nankai University (南開大學) in 1997. He joined Sanju in February 2008 and served as a deputy general manager and board secretary of Sanju now. Prior to joining Sanju, Mr. Cao has been acting as assistant researcher of China Science and Technology International Trust Company (中國科技國際信託公司) and investment manager of Beijing Haidian Science & Technology Development Co., Ltd. (北京海澱科技發展有限公司). Mr. Cao was appointed as an executive director in August 2017.

Mr. Sergey Borovskiy, aged 46, is an executive director of the Company. He has studied in both Russia and China and holds a university degree in Economics. Mr. Borovskiy has rich experience in business management. He has lived and worked in China since 1991 and is fluent in Russian, English and Mandarin. Mr. Borovskiy is CEO of Sanju Environmental Protection (Hong Kong) Limited, CEO and chairman of General Transactions Inc. He also serves as chairman of the board of directors of South China Heavy Industries Group, and a non-executive director of Zenith Energy Ltd., a Canadian company listed on London Stock Exchange (Stock Symbol: ZEN) and TSX Venture Exchange (Stock Symbol: ZEE). Mr. Borovskiy was appointed as an executive director in August 2017.

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Su Yang (蘇洋), aged 50, is an independent non-executive director of the Company. Mr. Su obtained a bachelor's degree in statistics from Hunan University (湖南大學) and the Certificate of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in 1992 and 1994 respectively. He has a wealth working experience in the field of accounting. Mr. Su had been project manager of Shenzhen Zhongcheng Certified Public Accountants (深圳中誠會計師事務所), department manager of Yuehua Certified Public Accountants Co., Ltd. Shenzhen (深圳岳華會計師事務所有限公司), a principal partner of Shenzhen TaiYang Certified Public Accountants (深圳泰洋會計師事務所) and a managing partner of Wuzhou Songde Certified Public Accountants (五洲松德聯合會計師事務所). He is currently a management partner of Grant Thornton Certified Public Accountants (致同會計師事務所). Mr. Su is also an independent non-executive director of Oriental Fashion Driving School Co., Ltd. (東方時尚駕駛股份有限公司) (Shanghai Stock Code 603377) Mr. Su was appointed as an independent non-executive director in August 2006.

Mr. Zheng Yimin (鄭益民), aged 56, is an independent non-executive director of the Company. Mr. Zheng obtained a bachelor of economics degree from Capital University of Economics (首都經濟貿易大學). He has rich experience in the field of finance. Mr. Zheng was the credit manager and trust manager of Agricultural Bank of China and was responsible for the credit management of companies in Zhongguancun Science and Technology Park (中關村科技園區). From 2009 to 2015, Mr. Zheng acted as the president of China Venture Capital Guarantee Co., Ltd (中國創投融資擔保有限公司) and was responsible for the corporate finance activities of various state-owned enterprises and private enterprises. In 2015, Mr. Zheng founded Hong Mao Heng Asset Management (Beijing) Co., Ltd (鴻茂恒資產管理(北京)有限公司) ("Hong Mao") and has been acting as the president of Hong Mao. Mr. Zheng was appointed as an independent non-executive director in June 2017.

Mr. Qi Daqing (齊大慶), aged 54, is an independent non-executive director of the Company. Mr. Qi graduated from Fudan University with a bachelor's degree of science in Biophysics and a bachelor's degree of arts in International Journalism. He obtained a master's degree in Management from the University of Hawaii and a doctoral degree in Accounting from the Eli Broad College of Business, Michigan State University in the United States. Mr. Qi is currently a professor of Cheung Kong Graduate School of Business (長江商學院) and a member of the American Accounting Association. He had worked for The Chinese University of Hong Kong, the Eli Broad Graduate School of Management at Michigan State University in the United States, the East-West Center in the United States and the China Features in Xinhua News Agency in the PRC. Mr. Qi is also an independent non-executive director of Sohu.com Inc., Ikang Healthcare Group Inc., Momo Inc., SinoMedia Holding Ltd. (中視金橋國際傳媒控股有限公司) (Hong Kong Stock Code 623), Roadshow Holdings Limited (路訊通控股有限公司) (Hong Kong Stock Code 888), and Yunfeng Financial Group Limited (雲鋒金融集團有限公司) (Hong Kong Stock Code 376). Mr. Qi was appointed as an independent non-executive director in July 2015.

AUTHORISED REPRESENTATIVE AND COMPANY SECRETARY

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

SENIOR MANAGEMENT

Mr. Tang Hui (唐暉), aged 46, is the vice president of the Company, who is responsible for the Group's marketing and commercial. He was graduated from Luoyang Institute of Technology (洛陽工學院) with a bachelor's degree in vehicle engineering. Mr. Tang joined the Group in 2000, and has served as engineer, project manager, general manager of the Group's offshore oil and gas services business sector and assistant president of the Company. Prior to joining the Group, Mr. Tang had worked in Hunan Energy Group Co., Ltd. (湖南動力集團有限責任公司) and Hong Kong Far East Steel Engineering Co., Ltd. (香港遠東鋼鐵工程有限公司).

Mr. Li Jing (李靖), aged 50, is the vice president of the Company, who is responsible for the Group's marketing and project management. He was graduated from Sun Yat-Sen University (中山大學) with a bachelor's degree in enterprise management. Mr. Li joined the Group in 1999, and had served as operation manager and the manager of New Star System Formwork Co., Limited (鑫星系統模版有限公司). Mr. Li also served as the deputy manager of Penglai Jutal Offshore Engineering Heavy Industry Co., Ltd. (蓬萊巨濤海洋工程重工有限公司) from the year 2004 to 2009. Prior to joining the Group, Mr. Li had worked in CNOOC platform Fabrication Co. (中海油平臺製造公司), Shenzhen Chiwan Offshore Engineering Co., Ltd. (深圳赤灣海洋工程有限公司) and Shenzhen Chiwan Sambawang Engineering Co. Ltd. (深圳赤灣勝寶旺工程有限公司).

Mr. Zhao Wuhui (趙武會), aged 44, is the vice president of the Company, responsible for finance management and capital operation,. Mr. Zhao graduated from Northeast Forestry University (東北林業大學) with a bachelor's degree in accounting in 1998, and obtained a MBA degree from the University of Wales in 2009. He joined the Group in March 2002, had served as finance manager of the Group and deputy general manager of Penglai Jutal Offshore Engineering Heavy Industries Co., Ltd. (蓬萊巨濤海洋工程重工有限公司). Prior to joining the Group, he had worked with Kerry Oils & Grains (China) Co., Ltd. (嘉裡糧油(中國)有限公司) and Everbright Timber Industry (Shenzhen) Co., Ltd. (光大木材工業(深圳)有限公司) as accountant and auditor.

Mr. Shi Fei (石飛), aged 49, is the vice president of the Company, in charge of the Group's engineering centre and responsible for marketing. He was graduated from Gansu University of Technology (甘肅工業大學) with a bachelor's degree in Engineering in 1992. Mr. Shi joined the Group in 2000 as a design manager and had worked in Propak Systems as engineer and manager from year 2003 to year 2014. Prior to joining to the Group, Mr. Shi had worked in Lanzhou Petroleum Machinery Research Institute (蘭州石油機械研究所).

Mr. Li Jianping (李建平), aged 48, is the assistant president of the Company, who is in charge of the operation of the oil and gas services business of the Group. Mr. Li joined the Group in 1999 and has served as production manager, marketing manager, deputy manager and general manager of the Group's oil and gas services business sector. Prior to joining the Group, Mr Li had worked in CNOOC platform Fabrication Co. (中海油平臺製造公司), Shenzhen Chiwan Offshore Engineering Co., Ltd. (深圳赤灣海洋工程有限公司) and Offshore Oil Engineering Shenzhen Reparation Company (海油工程深圳維修公司).

Mr. Guo Daobin (郭道斌), aged 52, is the assistant president of the Company, who is in charge of the shipbuilding and offshore engineering services business of the Group. Mr. Guo joined the Group in 2000 and has served as the Manager of Structural Engineering Department, the assistant of general Manager, Deputy general Manager, and general Manager of the Group's Dalian Company. Prior to joining the Group, Mr. Guo had worked in Huaneng & Huating Coal Group (華能華亭煤業集團).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Xin Xiaolei (信曉雷), aged 37, is the assistant president of the Company, who is in charge of the operation of the oil and gas fabrication business of the Group. Mr. Xin joined the Group in 2005 and has served as production engineer, production manager, project manager and assistant general manager of Zhuhai Jutal.

Ms. Wei Xiaoli (魏曉麗), aged 41, is the deputy chief accountant of the Company, who is responsible for the financial management of the Group. She graduated from Liaoning Shihua University (遼寧石油化工大學), with a bachelor degree of accounting in 2000. Ms. Wei joined the Group in 2001 and had served as finance manager of the Group.

Mr. Lin Feng (林峰), aged 50, is the deputy chief engineer of the Company, who is responsible for the engineering division. He was graduated from Tianjin University (天津大學) in 1991 with a bachelor's degree in offshore and ship engineering. Mr. Lin joined the Group in 1999 and had served as project manager and manager of the design department. Prior to joining the Group, he had worked as an engineer in Bohai Petroleum Platform Manufacturing Factory (渤海石油公司平台製造廠) and assistant manager in Chiwan Sembawang.

Mr. Xu Zhe (徐喆), aged 42, is the assistant president of the Company, who is responsible for the Group's marketing and commercial. He was graduated from Wuhan University of Water Resources and Hydroelectric Engineering (武漢水利水電大學) with a bachelor's degree in electro technology in 1996 and obtained a degree of executive master of business administration from the University of Texas at Arlington in 2011. Mr. Xu joined the Group in April 1998 and had served a number of positions in the Group including the project manager, procurement manager and commercial manager of the Group.

Mr. Tan Boon Seng (陳文成), aged 45, is the assistant president of the Company, who is responsible for the overseas marketing and business development of the Group. He was graduated in mechanical engineering of Ngee Ann Polytechnic. Mr. Tan joined the Group in 2015, and had served as Regional Marketing Manager. Prior to joining the Group, Mr. Tan had worked in Profab Engineering Pte Ltd, Worfin Heat Exchanger Co., Pfannenberg Asia Pacific Pte. Ltd. and ITT Industries.

DIRECTORS' REPORT

The directors of the Company (the "Directors") present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPLE ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. The Group is principally engaged in fabrication of facilities and provision of integrated services for oil and gas industries, other energy and refining and chemical industries and provision of technical support services for shipbuilding industry.

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

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

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

The Group's customers include energy enterprises, chemical and refining enterprises, general construction contractors and professional equipment manufacturing contractors. We provide our customers with customised facilities and solutions. The projects obtained by the Group are generally through tendering. The annual major customers may not be the same as different projects undertaken each year. We also enter into service agreements with certain customers on a continuous basis in order to provide daily technical support to them for those long term service business. While we emphasize on maintaining the relationships with our customers, we also dedicate to explore new customers.

The Group's suppliers include raw materials suppliers, equipment suppliers as well as labour and other services suppliers. Through comparing quality of materials and services, prices, track records and other aspects, we established our qualified suppliers list based on our suppliers management policies and subject to an review annually. The Group usually ascertains suppliers through a tendering system according to specific requirements of productions and various projects with reference to customer's feedback.

DIRECTORS' REPORT

POLICIES ON HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION AND THE PERFORMANCE

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

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

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

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

We have established a dedicated safety monitoring department and compiled a "Health, Safety and Environmental Protection Manual", which is thoroughly implemented, and in compliance with the relevant laws, regulations and national standards on safety production, environmental protection and occupational health, to offer guidance on different aspects such as factory areas, goods and materials, staff behaviour, manufacturing and operation procedures and management of related parties. Clear and definite operation guidelines and safety signs have been set up at the site. Stringent operation approvals are adopted throughout the production process. Award and penalty system regarding safety is implemented and occupational safety is regularly analysed.

COMPLIANCE WITH LAWS AND REGULATIONS

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

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's share premium reserve was approximately RMB1,730,346,000 (subject to section 34 of the Cayman Companies Law and the Article of Association of the Company), and the retained earnings approximately RMB123,972,000 were available for distribution to the shareholders of the Company (the "Shareholders").

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

RESULTS AND DIVIDENDS

Details of the Group's result for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss on page 43.

The Directors recommend the payment of a final dividend of HK$0.03 per share for the year ended 31 December 2017.

SHARE CAPITAL AND TRANSACTIONS INVOLVING SHARES OF THE COMPANY

In 2017, the authorised share capital of the Company is HK$40,000,000 (comprising 4,000,000,000 ordinary shares).

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.

In addition, 8,100,000 ordinary shares were issued through exercising share options by the share option holders of the Company under the Company's share option scheme and 20,000,000 ordinary shares were issued through exercising warrants by warrants holders.

As at 31 December 2017, the share capital of the Company comprised of 1,632,016,389 ordinary shares (2016: 800,354,278 ordinary shares).

PRE-EMPTIVE RIGHTS

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

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

During the year ended 31 December 2017 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

The net proceeds from the Subscription was approximately HK$962,000,000. As at 31 December 2017, 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 during the year ended 31 December 2017	Plan of use of the outstanding balance of the proceeds from the Subscription
(1)	Approximately HK$500 million for the working capital in EPIC projects; and in built – transfer projects relating to the oil and gas equipment and facilities	Approximately HK$350 million has been used for the working capital of the Group's projects	The remaining approximately HK$150 million will be used for the working capital of the Group's future projects
(2)	Approximately HK$250 million for the capital expenditure in improving and expanding the production facilities and office facilities in the Group's Zhuhai operation	Approximately HK$10 million has been used for the capital expenditure in the production and office facilities of the Group's Zhuhai fabrication yard	The remaining approximately HK$240 million will be kept for the Group's future capital expenditure in the production and office facilities as necessary
(3)	Approximately HK$212 million for the general working capital of the Group	Approximately HK$65.4 million has been used for the general working capital of the Group	The remaining approximately HK$146.6 million will be continually used for the general working capital of the Group

In 2017, the fund of HK$11,005,000 raised through exercising share options by the share option holders of the Company and of HK$42,000,000 raised through exercising warrants by warrants holders were all used for the general working capital of the Group.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 106 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, service provider to the Group whom the Board considers, in its sole discretion, has contributed or contributes to the Group.

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

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

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

The 2006 Share Option Scheme was expired on 20 September 2016, and a new share option scheme of the Company ("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 in issue on the date of the said Annual General Meeting (800,354,278 shares).

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

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

From 1 January 2007 to 31 December 2017, the Board approved to grant and the Company has granted options to Directors and other eligible participants. Details of the options granted are as follows:

(i) Options granted in 2007

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of the Shares immediately before the date of granting the options (HK$)	Number of options as at 1 January 2017	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 2017	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Wang Lishan	16/03/2007	16/03/2008 to 15/03/2017	1.68	1.63	2,000,000	–	–	–	2,000,000	–	–
Cao Yunsheng	16/03/2007	16/03/2008 to 15/03/2017	1.68	1.63	1,000,000	1,000,000	2.00	–	–	–	–
Other eligible participants	16/03/2007	16/03/2008 to 15/03/2017	1.68	1.63	650,000	650,000	2.00	–	–	–	–
Total					3,650,000	1,650,000		–	2,000,000	–	–

DIRECTORS' REPORT

(ii) Options granted in 2008

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of the Shares immediately before the date of granting the options (HK$)	Number of options as at 1 January 2017	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 2017	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Wang Lishan	12/03/2008	12/03/2009 to 11/03/2018	1.62	1.55	2,000,000	–	–	–	–	2,000,000	0.12%
Cao Yunsheng	12/03/2008	12/03/2009 to 11/03/2018	1.62	1.55	1,200,000	1,200,000	2.06	–	–	–	–
Other eligible participants	12/03/2008	12/03/2009 to 11/03/2018	1.62	1.55	1,900,000	1,900,000	2.24	–	–	–	–
Total					5,100,000	3,100,000		–	–	2,000,000	0.12%

(iii) Options granted in 2009

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of the Shares immediately before the date of granting the options (HK$)	Number of options as at 1 January 2017	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 2017	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Cao Yunsheng	14/08/2009	14/08/2010 to 13/08/2019	0.92	0.92	800,000	–	–	–	–	800,000	0.05%
Other eligible participants	14/08/2009	14/08/2010 to 13/08/2019	0.92	0.92	200,000	200,000	2.38	–	–	–	–
Total					1,000,000	200,000		–	–	800,000	0.05%

(iv) Options granted in 2010

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of the Shares immediately before the date of granting the options (HK$)	Number of options as at 1 January 2017	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 2017	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Eligible participants	27/05/2010	27/05/2013 to 26/05/2020	0.93	0.88	2,400,000	2,400,000	2.03	–	–	–	–
Total					2,400,000	2,400,000		–	–	–	–

(v) Options granted in 2011

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of the Shares immediately before the date of granting the options (HK$)	Number of options as at 1 January 2017	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 2017	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Cao Yunsheng	23/05/2011	23/05/2013 to 22/05/2021	1.06	1.04	1,000,000	–	–	–	–	1,000,000	0.06%
Other eligible participants	23/05/2011	23/05/2013 to 22/05/2021	1.06	1.04	1,300,000	750,000	2.20	–	–	550,000	0.03%
Total					2,300,000	750,000		–	–	1,550,000	0.09%

DIRECTORS' REPORT

(vi) Options granted in 2015

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of the Shares immediately before the date of granting the options (HK$)	Number of options as at 1 January 2017	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 2017	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Wang Lishan	29/07/2015	29/07/2017 to 28/07/2025	0.86	0.83	5,000,000	–	–	–	–	5,000,000	0.31%
Cao Yunsheng	29/07/2015	29/07/2017 to 28/07/2025	0.86	0.83	8,000,000	–	–	–	–	8,000,000	0.49%
Total					13,000,000	–		–	–	13,000,000	0.80%

(vii) Options granted in 2016

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of the Shares immediately before the date of granting the options (HK$)	Number of options as at 1 January 2017	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 2017	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Wang Lishan	14/10/2016	14/10/2018 to 13/10/2026	0.68	0.63	5,000,000	–	–	–	–	5,000,000	0.31%
Cao Yunsheng	14/10/2016	14/10/2018 to 13/10/2026	0.68	0.63	8,000,000	–	–	–	–	8,000,000	0.49%
Total					13,000,000	–		–	–	13,000,000	0.80%

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

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

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

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACT

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

Executive Directors	Date of appointment	Date of resignation	Reason of resignation
Mr. Liu Lei	10 June 2017	–	–
Mr. Wang Lishan	24 November 2005	–	–
Mr. Lin Ke	10 June 2017	–	–
Mr. Cao Yunsheng	24 November 2005	–	–
Mr. Cao Huafeng	25 August 2017	–	–
Mr. Sergey Borovskiy	25 August 2017	–	–
Mr. Tang Hui	1 March 2016	25 August 2017	to focus on the business operation of the Group
Mr. Li Jing	1 March 2016	25 August 2017	to focus on the business operation of the Group

Independent Non-executive Directors	Date of appointment	Date of resignation	Reason of resignation
Mr. Su Yang	26 August 2006	–	–
Mr. Xiang Qiang	30 May 2008	25 August 2017	to devote more time on other commitments
Mr. Qi Daqing	31 July 2015	–	–
Mr. Zheng Yimin	10 June 2017	–	–

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

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

Each of the independent non-executive Directors has signed an appointment letter with the Company for a term of 3 years. The Directors' fees is RMB10,000 per month for each independent non-executive Director.

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

The Group's emolument policies are as follows:

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

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

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

DIRECTORS' REPORT

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

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

REMUNERATION OF THE FIVE HIGHEST PAID DIRECTORS/EMPLOYEES

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

DIRECTORS' 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 2017, the interests and short positions of each Directors and chief executive in the shares, underlying shares and debentures of the company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" in the Listing Rules, were as follows:

Name of Directors	Capacity	Number of Shares *(Note 1)*	Approximate percentage of shareholding
Wang Lishan	Interest of a controlled corporation *(Note 2)*	396,911,278 (L)	24.32%
	Share options	12,000,000 (L)	0.74%
Cao Yunsheng	Interest of a controlled corporation *(Note 3)*	8,000,000 (L)	0.49%
	Beneficial Owner	2,200,000 (L)	0.13%
	Share options	17,800,000 (L)	1.09%
Qi Daqing	Beneficial Owner	1,550,000 (L)	0.09%

Notes:

1. *The letter "L" denotes a long position in the Shares.*
2. *The 396,911,278 Shares are held by Cheung Hing Investments Limited, which is wholly-owned by Wang Lishan.*
3. *The 8,000,000 shares are held by Sino Joint International Limited, which is wholly-owned by Cao Yunsheng.*

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

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

At 31 December 2017, in addition to those of the Directors and chief executives already disclosed above, the register of substantial shareholders maintained by the Company pursuant to section 336 of Part XV of the SFO shows that the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name of Shareholder	Capacity	Number of shares *(Note 1)*	Percentage of shareholding
Sanju Environmental Protection (Hong Kong) Limited	Beneficial Owner *(Note 2)*	641,566,556 (L)	39.31%
Cheung Hing Investments Limited	Beneficial Owner *(Note 3)*	396,911,278 (L)	24.32%
Golden Talent (HK) Technology Co., Limited	Beneficial Owner *(Note 4)*	161,995,555 (L)	9.93%

Notes:

1. *The letter "L" denotes a long position in the Shares respectively.*
2. *Sanju Environmental Protection (Hong Kong) Limited is wholly owned by Beijing Sanju Environmental Protection & New materials Co., Ltd.*
3. *Cheung Hing Investments Limited is wholly-owned by Mr. Wang Lishan, an executive director and a substantial shareholder of the Company.*
4. *Golden Talent (HK) Technology Co., Limited is wholly owned by Mr. Lo Chun Yim*

MANAGEMENT CONTRACTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

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

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for 65.39% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 20.06% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 22.32% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 13.49% 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 2017 set out in note 45 to the consolidated financial statements constitute connected transactions as defined in chapter 14A of the Listing Rules and the Company has complied with the disclosure requirements in Chapter 14A of the Listing Rules.

1. The continuing connected transactions with Dalian Shipbuilding Offshore

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

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

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

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

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

2. The continuing connected transactions with Sanju

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

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

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

	(RMB million)	
Annual Caps	From 1 December 2017 to 31 December 2017	For the year ending 31 December 2018
Company Services	632	2,100
Sanju Services	N/A	100

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

According to the Rule 14A.55 of the Listing Rules, the independent non-executive Directors had reviewed annually the Dalian CCT and Sanju CCT mentioned above 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.

DIRECTORS' REPORT

The external auditor has confirmed in writing to the Board that nothing has come to its attention that causes it to believe that the Dalian CCT and Sanju CCT:

(1) have not been approved by the Board;

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

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

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that the Company has maintained a sufficient public float of at least 25% throughout the year ended 31 December 2017.

PERMITTED INDEMNITY PROVISIONS

A permitted indemnity provision for the benefit of the Directors is currently in force throughout the year ended 31 December 2017. The Company has maintained liability insurance to provide appropriate cover for the Directors.

AUDITOR

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

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

On behalf of the Board

Liu Lei
CHAIRMAN

Hong Kong

23 March 2018

CORPORATE GOVERNANCE REPORT

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

In the opinion of the directors, the Company has complied with the Code Provisions for the year ended 31 December 2017, save and except the Company provides the three board members, namely Mr. Liu Lei, Mr. Lin Ke and Mr. Cao Yunsheng, with monthly internal financial statements, instead of all board members, because they are responsible for overseeing the financial affairs of the Company. The remaining Directors have accessed to the monthly internal financial statements as well. The reason for such deviation from the Code Provisions is to enhance the Company's cost-efficiency.

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

DIRECTORS' SECURITIES TRANSACTIONS

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

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

BOARD

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

Executive Directors

Mr. Liu Lei (Chairman), Mr. Wang Lishan, Mr. Lin ke, Mr. Cao Yunsheng (CEO), Mr. Cao Huafeng, Mr. Sergey Borovskiy

Independent Non-executive Directors

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

In respect of the corporate governance functions, during the year 2017, the Board performed following corporate governance duties in accordance with the terms of reference on the corporate governance duties:

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

INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

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

ACCOUNTABILITY AND AUDIT

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

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

RSM Hong Kong has been re-appointed as the Company's external auditor at the annual general meeting of 2017 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 2017 are as below:

	Fee paid/payable HK$
Audit services	1,390,000
Review of the interim report	260,000
Audit services for acquisition of 70% equity interest of Penglai Jutal	1,070,000
Other assurance and non-assurance services	386,000

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

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

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

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

The audit committee reviewed and discussed with management and external independent auditors on the Company's consolidated financial statements for the year ended 31 December 2017. The audit committee also received reports and met with the independent auditors to discuss their audit work.

Based on these reviews and discussions and the report of the independent auditors, the audit committee recommended for the Board's approval of the Company's consolidated financial statements for the year ended 31 December 2017. The audit committee also reviewed and recommended to the Board approval of the unaudited financial statements for the first six months of 2017, prior to public announcement and filing.

The audit committee recommended to the Board that the Shareholders be asked to re-appoint RSM Hong Kong as the Group's external independent auditor for year 2018.

REMUNERATION COMMITTEE

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

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

(1) annual salary review for 2017 for the Directors and the senior management;

(2) the remuneration of the new directors; and

(3) the remuneration policy.

NOMINATION COMMITTEE

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

During the year, three nomination committee meetings were held in the year to:

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

(2) nominate new directors; and

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

SUMMARY OF BOARD DIVERSITY POLICY

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

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

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

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

CORPORATE GOVERNANCE REPORT

THE DIRECTORS' ATTENDANCE AT THE MEETINGS

During the year 2017, the Board held 17 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 2017 is set out in the table below:

	Attendance/Number of meetings				
Name of Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Mr. Liu Lei (appointed on 10 June 2017)	8/17	–	–	–	0/4
Mr. Wang Lishan	17/17	–	–	–	0/4
Mr. Lin Ke (appointed on 10 June 2017)	8/17	–	–	–	0/4
Mr. Cao Yunsheng	17/17	–	–	–	3/4
Mr. Cao Huafeng (appointed on 25 August 2017)	5/17	–	–	–	1/4
Mr. Sergey Borovskiy (appointed on 25 August 2017)	5/17	–	–	–	1/4
Mr. Tang Hui (resigned on 25 August 2017)	10/17	–	–	–	0/4
Mr. Li Jing (resigned on 25 August 2017)	13/17	–	–	–	1/4
Mr. Su Yang	12/17	2/2	3/3	3/3	1/4
Mr. Zheng Yimin (appointed on 10 June 2017)	7/17	1/2	1/3	1/3	1/4
Mr. Qi Daqing	12/17	2/2	3/3	3/3	0/4
Mr. Xiang Qiang (resigned on 25 August 2017)	7/17	1/2	2/3	2/3	0/4

Under provision A.6.7 of the Code Provisions, independent non-executive directors and other non-executive directors should also attend general meetings. Due to other business engagements, there is not a general meeting of the Company could have an attendance of all the Directors. However, the Directors who present at the general meetings enabled the Board to develop a balanced understanding of the views of Shareholders of the Company and to answer questions raised at the general meetings.

COMPANY SECRETARY

Ms. Leung Fung Yee Alice was appointed as the Company Secretary in 2014. Her biographical details are set out in the section headed "Directors' and Senior Management". For the financial year ended 31 December 2017, Ms. Leung attended relevant professional training for not less than 15 hours pursuant to Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

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

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

If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

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

SIGNIFICANT CHANGES ON THE ARTICLES OF ASSOCIATION

During the year 2017, there is no significant change to the articles of association of the Company.

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Jutal Offshore Oil Services Limited and its subsidiaries (the "Group") set out on pages 43 to 105, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters we identified are:

1. Step acquisition of Penglai Jutal Offshore Engineering Heavy Industries Company Limited

2. Goodwill impairment assessment

3. Revenue recognition for construction contracts

KEY AUDIT MATTERS (CONT'D)

Key Audit Matter	How our audit addressed the Key Audit Matter
Step acquisition of Penglai Jutal Offshore Engineering Heavy Industries Company Limited Refer to note 21(b) to the consolidated financial statements, during the second half of the year ended 31 December 2017, the Group has acquired a further 70% equity interest in Penglai Jutal Offshore Engineering Heavy Industries Company Limited ("Penglai Jutal") for a consideration of RMB571,868,000 (the "Step Acquisition"). Upon completion of the Step Acquisition, Penglai Jutal became a wholly-owned subsidiary of the Group. Immediately before the completion of the Step Acquisition, the Group held a 30% equity interest in Penglai Jutal and Penglai Jutal was accounted for as an associate of the Group. Acquisition of the further 70% equity interests of Penglai Jutal has been accounted for as a step acquisition under HKFRS 3 (Revised) - Business Combination, where the fair value of any non-controlling interests in Penglai Jutal that was held by the Group immediately before the Step Acquisition has been used in the determination of total consideration of the Step Acquisition. The Group engaged an external valuer to perform a valuation of the fair value of the non-controlling interests of 30% held in Penglai Jutal immediately before the completion of the Step Acquisition and the fair values of the net identifiable assets and liabilities of Penglai Jutal as at the date of the Step Acquisition which included the fair values of leasehold land and property, plant and equipment ("PPE"). The fair value of the non-controlling interests was assessed using the guideline public company method under the market approach. The fair values of leasehold land and PPE were assessed using the depreciated replacement cost method under the cost approach. We identified accounting for the Step Acquisition as a key audit matter because of the significant judgment exercised in determining the fair values of the net identifiable assets and liabilities acquired and the fair value of the non-controlling interests that could have a material effect to the gain on deemed disposal of the previously held 30% of equity interests of Penglai Jutal and the amount of goodwill recognised.	Our procedures to assess the accounting for the Step Acquisition of Penglai Jutal included: – Examining the equity transfer agreements relating to the Step Acquisition; – Evaluation of the independence and professional competence of management's external valuer; – Working with internal valuation specialists to evaluate the appropriateness of valuation methodologies adopted by the external valuer, the mathematical accuracy of the valuation calculations and the accuracy and relevance of the valuation data; – Challenging the reasonableness of the key assumptions adopted by management, based on our understanding of the facts and circumstances; – Considering the disclosures in the consolidated financial statements of the Step Acquisition with reference to the requirements of HKFRS 3(Revised).

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONT'D)

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment The Group's accounting policy on goodwill and the critical accounting estimates and judgements on goodwill impairment are described in note 4(b) and 5(d) respectively to the consolidated financial statements. Refer to note 19 and 21(b)(iii) to the consolidated financial statements, a significant amount of the Group's goodwill of RMB52,444,000 arose from the step acquisition of Penglai Jutal completed during the year ended 31 December 2017 and has been allocated to the Group's offshore oil and natural gas exploration facilities fabrication business. Management has determined that there is no impairment in respect of this goodwill. This determination was based on a value in use model that required significant management judgement with respect to the discount rate and the assumptions underlying the forecast cash flows.	Our procedures in relation to management's impairment assessment of goodwill that has been allocated to the Group's offshore oil and natural gas exploration facilities fabrication business included: – Working with internal valuation specialists to assess the mathematical accuracy of the value in use model and the appropriateness of the discount rate used; – Challenging the reasonableness of key assumptions used in the cash flow projections based on our knowledge of the business and industry; and – Reconciling input data to supporting evidence, such as approved budgets and considering the historical accuracy of those budgets.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition for construction contracts Refer to the key sources of estimation uncertainly in note 5(b) to the consolidated financial statements and the accounting policies set out in note 4(i) and 4(t) to the consolidated financial statements. The Group's business involves entering into contractual relationships with customers to provide fabrication and technical support services. Total revenue for construction contracts was approximately RMB497,680,000 and represents approximately 69% of the Group's turnover for the year ended 31 December 2017. Due to the nature of the contracting business, significant management estimates are required in relation to revenue recognition for construction contracts including the determination of costs to complete and total contract costs, the percentage of completion and the timing of revenue recognition and the timing and amount of variation orders recognised.	Our procedures in relation to the significant estimates made by management regarding revenue recognition for construction contracts included: – Evaluating and testing the effectiveness of internal controls over the calculation of contract revenues including those relating to (i) estimates of costs to complete and the total contract costs; (ii) the determination of the percentage of completion and timing of revenue recognition and (iii) the determination of the timing and amount of variation orders recognised. – Performing substantive procedures on a sample basis including: (a) Examining signed contracts, statements of work, variation orders and certifications of work; (b) Assessing the reasonableness of management estimates of forecast costs to complete and total contract costs; (c) Recalculating the percentage of completion for major contracts by reference to the proportion contract costs for work performed to date bear to the total estimated contract costs; and (d) Assessing whether contract revenue recognised in relation to variation orders met the applicable criteria in Hong Kong Accounting Standard 11 – "Construction Contracts".

OTHER INFORMATION

The directors are responsible for the Other Information. The Other Information comprises all the information included in Jutal Offshore Oil Services Limited's 2017 annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

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

RSM Hong Kong
Certified Public Accountants
Hong Kong
23 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Turnover	8	724,469	721,614
Cost of sales and services		(635,043)	(599,875)
Gross profit		89,426	121,739
Other income	9	67,886	13,446
Administrative expenses		(122,014)	(123,615)
Other operating expenses		(6,499)	(15,375)
Profit/(loss) from operations		28,799	(3,805)
Finance costs	11	(10,749)	(8,547)
Share of profit of an associate	21(b)(i)	37,931	29,608
Profit before tax		55,981	17,256
Income tax expense	12	(400)	(5,670)
Profit for the year	13	55,581	11,586
Attributable to:			
Owners of the Company		55,581	11,586
Earnings per share	16		
		RMB	RMB
Basic		4.32 cents	1.45 cents
Diluted		4.27 cents	1.45 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
Profit for the year	55,581	11,586
Other comprehensive income:		
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	(64,127)	15,799
Other comprehensive income for the year, net of tax	(64,127)	15,799
Total comprehensive income for the year	(8,546)	27,385
Attributable to:		
Owners of the Company	(8,546)	27,385

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Fixed assets	17	1,621,710	528,970
Prepaid land lease payments	18	352	417
Goodwill	19	54,648	202,327
Intangible assets	20	2,942	2,974
Investment in an associate	21(b)(i)	–	337,794
Deferred tax assets	36	2,268	282
		1,681,920	1,072,764
Current assets			
Inventories	22	57,268	24,392
Trade and bills receivables	23	424,799	214,774
Gross amount due from customers for contract work	24	410,882	186,820
Prepayments, deposits and other receivables	25	158,565	49,420
Derivative financial instruments	26	4,865	176
Due from directors	27	411	2,710
Current tax assets		613	1,086
Pledged bank deposits	29	298,554	43,527
Bank and cash balances	29	1,443,302	100,535
		2,799,259	623,440
Current liabilities			
Trade and bills payables	30	955,435	175,125
Gross amount due to customers for contract work	24	37,524	15,469
Accruals and other payables	31	126,715	49,490
Loan from ultimate holding company	28	80,000	–
Provisions	32	221,828	1,866
Bank borrowings	33	567,772	213,628
Current tax liabilities		44,167	33
		2,033,441	455,611
Net current assets		765,818	167,829
Total assets less current liabilities		2,447,738	1,240,593

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Deferred revenue	*35*	39,870	24,629
Bank borrowings	*33*	278,000	–
Deferred tax liabilities	*36*	70,934	35,422
		388,804	60,051
NET ASSETS		2,058,934	1,180,542
Capital and reserves			
Share capital	*37*	14,739	7,506
Reserves	*40(a)*	2,044,195	1,173,036
TOTAL EQUITY		2,058,934	1,180,542

Approved by the Board of Directors on 23 March 2018 and are signed on its behalf by:

Liu Lei
Chairman

Cao Yunsheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company										
	Share capital	Share premium account	Special reserve	Convertible loan notes equity reserve	Foreign currency translation reserve	Share-based payment reserve	Warrants reserve	Statutory reserves	Retained profits	Proposed final dividend	Total equity
	(Note 37)	*(Note 40(c)(i))*	*(Note 40(c)(iii))*	*(Note 40(c)(vi))*	*(Note 40(c)(v))*	*(Note 40(c)(ii))*	*(Note 40(c)(vii))*	*(Note 40(c)(iv))*			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	7,506	851,263	(52,040)	2,951	(49,729)	5,525	160	38,642	346,494	6,723	1,157,495
Total comprehensive income for the year	–	–	–	–	15,799	–	–	–	11,586	–	27,385
Share-based payments	–	–	–	–	–	2,465	–	–	–	–	2,465
Share options forfeited	–	–	–	–	–	(131)	–	–	131	–	–
Transfer to statutory reserves	–	–	–	–	–	–	–	957	(957)	–	–
Dividends paid	–	–	–	–	–	–	–	–	(80)	(6,723)	(6,803)
Changes in equity for the year	–	–	–	–	15,799	2,334	–	957	10,680	(6,723)	23,047
At 31 December 2016 and 1 January 2017	7,506	851,263	(52,040)	2,951	(33,930)	7,859	160	39,599	357,174	–	1,180,542
Issue of shares on subscription	6,990	830,669	–	–	–	–	–	–	–	–	837,659
Issue of shares on exercise of share options	70	11,971	–	–	–	(2,577)	–	–	–	–	9,464
Issue of shares on exercise of warrants	173	36,443	–	–	–	–	(160)	–	–	–	36,456
Total comprehensive income for the year	–	–	–	–	(64,127)	–	–	–	55,581	–	(8,546)
Share-based payments	–	–	–	–	–	3,359	–	–	–	–	3,359
Share options forfeited	–	–	–	–	–	(442)	–	–	442	–	–
Transfer to statutory reserves	–	–	–	–	–	–	–	676	(676)	–	–
Proposed final dividend	–	–	–	–	–	–	–	–	(40,637)	40,637	–
Changes in equity for the year	7,233	879,083	–	–	(64,127)	340	(160)	676	14,710	40,637	878,392
At 31 December 2017	14,739	1,730,346	(52,040)	2,951	(98,057)	8,199	–	40,275	371,884	40,637	2,058,934

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		55,981	17,256
Adjustments for:			
Finance costs		10,749	8,547
Share of profit of an associate		(37,931)	(29,608)
Equity settled share-based payments		3,359	2,465
Interest income		(4,878)	(363)
Depreciation		31,105	31,490
Amortisation of prepaid land lease payments		65	65
Amortisation of intangible assets		1,302	1,150
Net loss on disposals of property, plant and equipment		184	766
Allowances for inventories		1,480	598
Allowances for trade and other receivables, net		1,378	2,335
Impairment losses on gross amount due from customers for contract work		3,110	6,689
Reversal of provisions of warranty		–	(1,192)
Fair value changes on derivative financial instruments		(62)	2,054
Gain on deemed disposal of an associate		(28,266)	–
Government grants income		(19,224)	(7,677)
Operating profit before working capital changes		18,352	34,575
(Increase)/decrease in inventories		(11,497)	628
Increase in trade and bills receivables		(173,478)	(52,678)
Increase in gross amount due from customers for contract work		(83,309)	(3,542)
(Increase)/decrease in prepayments, deposits and other receivables		(90,025)	30,587
Decrease/(increase) in amounts due from directors		2,299	(1,563)
Decrease in amount due from an associate		–	398
Increase in trade and bills payables		187,557	33,835
Increase/(decrease) in gross amount due to customers for contract work		22,055	(1,014)
Decrease in accruals and other payables		(17,523)	(28,690)
Cash (used in)/generated from operations		(145,569)	12,536
Income taxes paid		(1,861)	(1,616)
Interest paid		(9,314)	(7,999)
Other finance costs		(1,435)	(726)
Net cash (used in)/generated from operating activities		(158,179)	2,195
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		4,878	363
Purchases of property, plant and equipment		(9,598)	(25,236)
Acquisition of a subsidiary	*21(b)(iii)*	446,198	–
Proceeds from disposals of property, plant and equipment		7,093	1,168
Purchase of intangible assets		(1,171)	(749)
Increase in pledged bank deposits		(259,769)	(15,796)
Dividend income from an associate		108,000	–
Government grants received		29,903	9,458
Net receipt/(payment) from settlement of derivative financial instruments		238	(3,660)
Net cash generated from/(used in) investing activities		325,772	(34,452)

	Note	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank borrowings raised		460,972	341,237
Repayment of bank borrowings		(208,528)	(259,085)
Dividends paid	*15*	–	(6,803)
Loan advance from ultimate holding company		80,000	–
Proceeds from issue of shares upon subscription	*37(c)*	837,659	–
Proceeds from issue of shares on exercise of warrants	*37(d)*	36,456	–
Proceeds from issue of shares on exercise of share options	*37(b)*	9,464	–
Net cash generated from financing activities		1,216,023	75,349
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,383,616	43,092
Effect of foreign exchange rate changes		(50,631)	4,547
CASH AND CASH EQUIVALENTS AT 1 JANUARY		122,280	74,641
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		1,455,265	122,280
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		1,443,302	100,535
Pledged bank deposits		11,963	21,745
		1,455,265	122,280

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

	2017 RMB'000	2016 RMB'000
Pledged bank deposits (mature in three months or less)	11,963	21,745
Pledged bank deposits (mature after three months)	286,591	21,782
	298,554	43,527

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL INFORMATION

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

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

In the opinion of the directors of the Company, as at 31 December 2017, Sanju Environmental Protection (Hong Kong) Limited, a company incorporated in Hong Kong, is the immediate parent of the Company; and Beijing Sanju Environmental Protection & New Materials Co., Limited ("Sanju"), a company incorporated in the People's Republic of China (the "PRC") and listed on the Shenzhen Stock Exchange, is the ultimate parent of the Company.

2. BASIS OF PREPARATION

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

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

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

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2017. None of these impact on the accounting policies of the Group. However, the Amendments to HKAS 7 Statement of Cash Flows: Disclosure Initiative require disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The effect of the amendments on the Group's consolidated financial statements has been the inclusion of additional disclosures in note 41.

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

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2017. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9 Financial Instruments	1 January 2018
HKFRS 15 Revenue from Contracts with Customers	1 January 2018
HKFRS 16 Leases	1 January 2019
HK(IFRIC) 23 Uncertainty over Income Tax Treatments	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below.

HKFRS 9 Financial Instruments

HKFRS 9 will replace HKAS 39 Financial Instruments: Recognition and Measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed the impact of HKFRS 9 to the Group's consolidated financial statements as follows:

(i) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets.

(ii) Impairment

HKFRS 9 requires the Group to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment, if the Group were to adopt the new impairment requirements at 31 December 2017, there will be no significant impact to the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

HKFRS 9 Financial Instruments (cont'd)

(iii) Hedge accounting

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The changes in HKFRS 9 relating to hedge accounting will have no impact as the Group does not currently apply hedge accounting.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

Based on the assessment performed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

Currently, revenue arising from the construction contracts and other services rendered is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

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

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

HKFRS 15 Revenue from Contracts with Customers (cont'd)

(a) Timing of revenue recognition (cont'd)

The Group is unable to estimate the impact of the new revenue standard may have on how it recognises revenue from the construction contracts and other services rendered until the assessment is completed.

For contracts with customers in which the sale of goods is generally expected to be the only performance obligation, adoption of HKFRS 15 is not expected to have any impact on the Group's revenue or profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

(b) Warranty obligations

The Group generally provides for warranties for repairs to any defective works on it's fabrication contracts and does not provide extended warranties in its contracts with customers. As such, most existing warranties will be assurance-type warranties under HKFRS 15, which will continue to be accounted for under HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, consistent with its current practice.

HKFRS 16 Leases

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

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

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

As disclosed in note 44 to the financial statements, the Group's future minimum lease payments under non-cancellable operating leases for its office, staff quarters, warehouses and machineries leases amounted to approximately RMB15,404,000 as at 31 December 2017. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted unless they qualify for low value or short-term leases. The amount will be adjusted for the effects of discounting and the transition reliefs available to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

HK(IFRIC) 23 Uncertainty over Income Tax Treatments

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

(a) Consolidation

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Consolidation (cont'd)

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

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

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

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

(b) Business combination and goodwill

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Associates

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

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

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

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

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

(d) Foreign currency translation

(i) *Functional and presentation currency*

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Foreign currency translation (cont'd)

(iii) Translation on consolidation

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

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

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

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

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

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

(e) Property, plant and equipment

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Intangible assets

Patents and computer software are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 4 to 16 years.

(g) Leases

The Group as lessee

Operating leases

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

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

(h) Inventories

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

(i) Construction contracts

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Recognition and derecognition of financial instruments

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

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

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

(k) Financial assets

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

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

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

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

(ii) Loans and receivables

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

(l) Trade and other receivables

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

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

(m) Cash and cash equivalents

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Financial liabilities and equity instruments

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

(o) Borrowings

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

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

(p) Financial guarantee contract liabilities

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

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

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

(q) Trade and other payables

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

(r) Equity instruments

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

(s) Derivative financial instruments

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

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

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

(t) Revenue recognition

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(t) Revenue recognition (cont'd)

Revenue from the sales of goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers. Progress billings not yet paid by customers and revenue recognised from sales of goods but are not yet contractually able to issue invoices to customers (based on payment terms stipulated in the relevant contract) are included in "trade and other receivables" as billed and unbilled receivables respectively.

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

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

(u) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

(iii) Termination benefits

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

(v) Share-based payments

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

(w) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(x) Government grants

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

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

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

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

(y) Taxation

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(z) Research and development expenditure

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

(aa) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

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

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

(bb) Impairment of financial assets

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

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

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

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

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

(cc) Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(cc) Related parties (cont'd)

(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.

(dd) Provisions and contingent liabilities

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

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

(ee) Events after the reporting period

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

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting polices

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

(a) *Business combinations*

Refer to note 21(b) to the consolidated financial statements, on 29 December 2017 the Group has acquired a further 70% equity interest in Penglai Jutal Offshore Engineering Heavy Industries Company Limited ("Penglai Jutal") for a consideration of RMB571,868,000 (the "Step Acquisition"). Upon completion of the Step Acquisition, Penglai Jutal became a wholly-owned subsidiary of the Group.

Acquisition of the further 70% equity interests of Penglai Jutal have been accounted for as a step acquisition under HKFRS 3 (Revised) – Business Combination, where the fair value of any non-controlling interests in Penglai Jutal that was held by the Group immediately before the Step Acquisition has been used in the determination of the deemed gain on disposal of the previously held non-controlling interest and the amount of goodwill recognised from the Step Acquisition.

In determine the amount of goodwill recognised from the Step Acquisition, the Group is also required to estimate the fair values of the net identifiable assets and liabilities of Penglai Jutal as at the completion date of the Step Acquisition which included the fair value of leasehold land and property plant and equipment.

The determination of the fair value of the previously held non-controlling interests and the fair values of the net identifiable assets and liabilities acquired required significant management judgements and estimation that could have a material effect to the gain on deemed disposal and the amount of goodwill recognised.

Gain on deemed disposal of Penglai Jutal of RMB28,266,000 was recognised for the year ended 31 December 2017 and goodwill of RMB52,444,000 was recognised upon completion of the Step Acquisition.

(b) *Legal titles of certain land and building*

As stated in note 17 to the consolidated financial statements, a subsidiary of the Group, Penglai Jutal is still in the process of obtaining the land use right certificates of certain leasehold lands located in the PRC with carrying amount of approximately RMB32,100,000 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 RMB63,690,000.

In additional, Penglai Jutal is in the process of obtaining the ownership certificates of other building structures with carrying amounts of RMB44,565,000. These building structures were erected on certain leasehold lands which Penglai Jutal has obtained the land use right certificates.

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

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

Key sources of estimation uncertainty

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

(a) *Fixed assets and depreciation*

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

The carrying amount of fixed assets as at 31 December 2017 was approximately RMB1,621,710,000 (2016: RMB528,970,000).

(b) *Revenue and profit recognition*

The Group estimates the percentage of completion of the construction contracts by reference to the proportion of contract costs incurred for work performed to date to the estimated total costs for the contracts. When the final cost incurred by the Group is different from the amounts that were initially budgeted, such differences will impact the revenue and the profit or loss recognised in the period in which such determination is made. Budget cost of each project will be reviewed periodically and revised accordingly where significant variances are noted during the revision. During the year, approximately RMB497,680,000 (2016: RMB623,205,000) of revenue from construction contracts was recognised.

(c) *Income taxes*

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the year, approximately RMB400,000 (2016: RMB5,670,000) of income tax expense was charged to profit or loss based on the Group's estimated profit for the year.

(d) *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was approximately RMB54,648,000 (2016: RMB202,327,000).

(e) *Allowance for trade and other receivables*

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

As at 31 December 2017, allowances were made for trade receivables and other receivables of approximately RMB8,215,000 (2016: RMB7,510,000) and RMB2,664,000 (2016: RMB1,991,000) respectively.

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

Key sources of estimation uncertainty (cont'd)

(f) Provision for claims on construction work

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

As at 31 December 2017, provision for claims of approximately RMB158,996,000 were made (2016: Nil).

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$"). During the years ended 31 December 2017 and 2016, the Group started to enter into foreign exchange forward contracts to hedge the foreign currency risk arising from certain of its contract revenue and trade receivables denominated in Euro and US$. The Group currently does not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities.

At 31 December 2017, if the US$ had weakened 5 per cent against RMB with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB5,252,000 (2016: RMB3,983,000) lower, arising mainly as a result of the foreign exchange loss on bank deposits and net position of trade receivables and trade payables denominated in US$. If the US$ had strengthened 5 per cent against RMB with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB5,252,000 (2016: RMB3,983,000) 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 26 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 2017, all outstanding foreign currency forward contracts are used to hedge the risk of depreciation of US$ against RMB. Based on the terms of these contracts, at 31 December 2017, if the US$ had weakened 5 per cent against RMB with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB17,522,000 higher. If the US$ had strengthened 5 per cent against RMB with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB7,781,000 lower. In the opinion of the directors, the sensitivity analysis is unrepresentative of the inherent market risk as the price model used involves multiple variables and certain variables which are interdependent.

The directors of the Group consider that the foreign currency exposure in respect of the outstanding foreign currency forward contracts for the year ended 31 December 2016 is insignificant to the Group and therefore no sensitivity analysis is presented thereon.

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For the year ended 31 December 2017

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk

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

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

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

As at 31 December 2017, one customer (2016: one) which individually contributed over 10% of the Group's trade and other receivables. The aggregate carrying amount of trade and other receivables from this customer amounted to 27% of the Group's total trade and other receivables as at 31 December 2017 (2016: 11%).

(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	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017					
Trade and bills payables	**955,435**	**–**	**–**	**–**	**955,435**
Accruals and other payables	**124,310**	**–**	**–**	**–**	**124,310**
Loan from ultimate holding company	**80,000**	**–**	**–**	**–**	**80,000**
Bank borrowings *(note)*	**594,932**	**103,743**	**201,837**	**–**	**900,512**
At 31 December 2016					
Trade and bills payables	175,125	–	–	–	175,125
Accruals and other payables	48,770	–	–	–	48,770
Bank borrowings	218,926	–	–	–	218,926

Note:

Bank borrowing with a repayment on demand clause are included in the 'on demand or less than 1 year' time band in the above maturity analysis. As at 31 December 2017, the undiscounted aggregate principal amounts of these bank borrowings amounted to approximately RMB5,100,000 (2016: RMB6,868,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the bank will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank borrowings will be repaid three (2016: four) years after the end of the reporting period in accordance with the scheduled repayment dates or conditions set out in the loan agreement. At that time, the aggregate principal and interest cash outflows will amount to approximately RMB5,924,000 (2016: RMB8,370,000).

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (cont'd)

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2017					
Derivative – gross settlement					
Foreign exchange forward contracts					
– Inflow	259,642	–	–	–	259,642
– Outflow	(254,777)	–	–	–	(254,777)
	4,865	–	–	–	4,865
At 31 December 2016					
Derivative – gross settlement					
Foreign exchange forward contracts					
– Inflow	11,816	–	–	–	11,816
– Outflow	(11,640)	–	–	–	(11,640)
	176	–	–	–	176

(d) Interest rate risk

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

At 31 December 2017, if interest rates had been 100 basis points lower with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB10,751,000 lower, arising mainly as a result of lower interest income on bank deposits. If interest rates had been 100 basis points higher, with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB10,751,000 higher, arising mainly as a result of higher interest income on bank deposits.

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

The Group's other fixed-rate bank borrowings, loan from ultimate holding company and bank deposits bear fixed interest rates and therefore are subject to fair value interest rate risks.

(e) Categories of financial instruments at 31 December

	2017 RMB'000	2016 RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	2,217,342	370,312
Derivative financial instruments – held for trading	4,865	176
Financial liabilities:		
Financial liabilities at amortised cost	2,005,517	437,523

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(f) Fair values

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

7. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

	Fair value measurements as at	
Description	31 December 2017 using level 2 RMB	31 December 2016 using level 2 RMB
Recurring fair value measurements:		
Financial assets		
Derivatives		
Foreign currency forward	4,865	176

(b) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2017:

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 2017.

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

Level 2 fair value measurements			Fair value			
			2017 RMB'000		2016 RMB$'000	
Description	Valuation technique	Key inputs	Assets	Liabilities	Assets	Liabilities
Derivatives – foreign currency forward	Discounted cash flows	Forward exchange rate; Contract forward rates; and Discount rate	4,865	–	176	–

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

8. TURNOVER

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

	2017 RMB'000	2016 RMB'000
Revenue from construction contracts	497,680	623,205
Sales of goods	145,621	27,629
Other services rendered	81,168	70,780
	724,469	721,614

9. OTHER INCOME

	2017 RMB'000	2016 RMB'000
Gain on deemed disposal of an associate *(note 21(b)(ii))*	28,266	–
Government grants recognised *(note a)*	19,224	7,677
Interest income on bank deposits	4,878	363
Net foreign exchange gains	14,693	3,193
Fair value gains on derivative financial instruments	62	–
Others	763	2,213
	67,886	13,446

(a) For the year ended 31 December 2017, government grants of approximately RMB13,972,000 (2016: RMB2,267,000) 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 RMB5,252,000 (2016: RMB5,410,000) are recognised in relation to certain research and development activities.

10. SEGMENT INFORMATION

For the year ended 31 December 2016, the Group's reportable segments are strategic business units that offer different products and services.

During the year ended 31 December 2017, the Group has reassessed the segment reporting information and rearranged the segments reporting structure by industry sectors for the reason that the revised segment information would be more aligned with the internal financial information reported to the chief operating decision maker for making strategic decisions about resources allocation. Accordingly, two operating segments previously separately reported namely (i) provision of technical support and related services for oil and gas industry and sales of related equipment and materials and (ii) fabrication of oil and gas facilities and oil and gas processing skid equipment were aggregated into a single operating segment – "Fabrication of facilities and provision of integrated services for oil and gas industries" for the year ended 31 December 2017. The presentation of segment information for the year ended 31 December 2016 has been restated to reflect the change of segment composition.

As at the end of the reporting period, the Group has three reportable segments as follows:

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

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

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

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For the year ended 31 December 2017

10. SEGMENT INFORMATION (CONT'D)

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

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

	Fabrication of facilities and provision of integrated services for oil and gas industries RMB'000	Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries RMB'000	Provision of technical support services for shipbuilding industry RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2017					
Turnover from external customers	460,148	225,885	18,019	20,417	724,469
Segment profit	38,207	46,745	(2,453)	6,927	89,426
Depreciation and amortisation	30,176	1,600	696	–	32,472
Other material non-cash items:					
Allowance for trade and other receivables, net	1,007	123	42	206	1,378
Impairment losses on gross amount due from customers for contract work	3,110	–	–	–	3,110
Additions to segment non-current assets	10,769	–	–	–	10,769
As at 31 December 2017					
Segment assets	2,291,592	288,652	32,443	18,985	2,631,672
Segment liabilities	1,154,848	150,249	17,558	4,239	1,326,894
Year ended 31 December 2016					
Turnover from external customers (restated)	681,224	–	31,946	8,444	721,614
Segment profit (restated)	109,458	–	8,285	3,996	121,739
Depreciation and amortisation (restated)	32,235	–	470	–	32,705
Other material non-cash items:					
Allowance for trade and other receivables, net (restated)	1,757	–	578	–	2,335
Impairment losses on gross amount due from customers for contract work (restated)	6,204	–	485	–	6,689
Additions to segment non-current assets (restated)	26,163	–	–	–	26,163
As at 31 December 2016					
Segment assets (restated)	945,947	–	15,310	7,562	968,819
Segment liabilities (restated)	216,748	–	3,873	1,723	222,344

10. SEGMENT INFORMATION (CONT'D)

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

	2017 RMB'000	2016 RMB'000
Profit or loss		
Total profit or loss of reportable segments	89,426	121,739
Unallocated amounts:		
Finance costs	(10,749)	(8,547)
Other income	67,886	13,446
Other corporate expenses	(128,513)	(138,990)
Share of profit of an associate	37,931	29,608
Consolidated profit before tax for the year	55,981	17,256
Assets		
Total assets of reportable segments	2,631,672	968,819
Unallocated amounts:		
Bank and cash balances	1,443,302	100,535
Pledged bank deposits	298,554	43,527
Derivative financial instruments	4,865	176
Current tax assets	613	1,086
Deferred tax assets	2,268	282
Investment in an associate	–	337,794
Goodwill	54,648	202,327
Other corporate assets	45,257	41,658
Consolidated total assets	4,481,179	1,696,204
Liabilities		
Total liabilities of reportable segments	1,326,894	222,344
Unallocated amounts:		
Bank borrowings	845,772	213,628
Current tax liabilities	44,167	33
Deferred revenue	39,870	24,629
Deferred tax liabilities	70,934	35,422
Loan from ultimate holding company	80,000	–
Other corporate liabilities	14,608	19,606
Consolidated total liabilities	2,422,245	515,662

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10. SEGMENT INFORMATION (CONT'D)

Geographical information:

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

	Turnover		Non-current assets	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
PRC except Hong Kong	538,072	367,000	1,679,595	1,072,364
Singapore	10,782	187,143	–	–
Portugal	369	167,471	–	–
France	100,096	–	–	–
Spain	73,675	–	–	–
Others	1,475	–	57	118
Consolidated total	724,469	721,614	1,679,652	1,072,482

Turnover from major customers:

	Fabrication of facilities and provision of integrated services for oil and gas industries RMB'000	Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries RMB'000	Provision of technical support services for shipbuilding industry RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2017					
Customer A	–	–	–	–	–
Customer B	100,096	–	–	–	100,096
Customer C	–	–	–	–	–
Customer D	–	–	–	–	–
Customer E	–	145,305	–	–	145,305
Customer F	73,675	–	–	–	73,675
Year ended 31 December 2016					
Customer A (restated)	170,956	–	–	–	170,956
Customer B (restated)	95,922	–	–	–	95,922
Customer C (restated)	120,066	–	–	–	120,066
Customer D (restated)	45,693	–	29,956	–	75,649
Customer E	–	–	–	–	–
Customer F	–	–	–	–	–

11. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on bank borrowings	9,234	7,999
Amount capitalised	–	(178)
	9,234	7,821
Interest on loan from ultimate holding company	80	–
Others	1,435	726
	10,749	8,547

The weighted average capitalisation rate on funds borrowed generally is at a rate of 5.1% per annum for the year ended 31 December 2016.

12. INCOME TAX EXPENSE

	2017 RMB'000	2016 RMB'000
Current tax – PRC Enterprise Income Tax		
Provision for the year	18,947	209
Under-provision in prior years	218	427
	19,165	636
Deferred tax *(note 36)*	(18,765)	5,034
	400	5,670

(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 2017 and 2016.

(b) PRC Enterprise Income Tax

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

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

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

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

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

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For the year ended 31 December 2017

12. INCOME TAX EXPENSE (CONT'D)

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

	2017 RMB'000	2016 RMB'000
Profit/(loss) before tax (excluding share of profit of an associate)	18,050	(12,352)
Tax at the PRC enterprise income tax rate of 25% (2016: 25%)	4,513	(3,088)
Tax effect of income that is not taxable	(12,567)	(736)
Tax effect of expenses that are not deductible	10,544	9,033
Tax effect of tax losses not recognised	–	4,200
Tax effect of utilisation of tax losses not previously recognised	(3,311)	–
Deferred tax on undistributed earnings of the PRC subsidiaries and an associate	1,986	581
Tax benefit for qualifying research and development expenses	(1,440)	(3,894)
Under-provision in prior years	218	427
Effect of different tax rates of subsidiaries	457	(853)
Income tax expense	400	5,670

13. PROFIT FOR THE YEAR

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

		2017 RMB'000	2016 RMB'000
(a)	Staff costs (including directors' emoluments):		
	Salaries, wages and other benefits	161,736	227,969
	Retirement scheme contributions	10,114	12,768
	Share-based payments	3,359	2,465
		175,209	243,202
(b)	Others items:		
	Amortisation of intangible assets	1,302	1,150
	Amortisation of prepaid land lease payments	65	65
	Depreciation	31,105	31,490
	Net loss on disposals of property, plant and equipment*	184	766
	Net foreign exchange gains	(14,693)	(3,193)
	Gain on deemed as disposal of an associate	(28,266)	–
	Operating lease charges		
	– Plant and equipment	561	9,574
	– Land and buildings	2,458	5,485
	Research and development expenditure	24,440	31,149
	Auditor's remuneration	1,238	1,097
	Cost of inventories utilised in construction contracts and sold	323,711	150,059
	Allowance for inventories*	1,480	598
	Allowance for trade and other receivables*	3,429	2,491
	Reversal of allowance for trade and other receivables*	(2,051)	(156)
	Impairment loss on gross amount due from customers for contract work*	3,110	6,689
	Fair value changes on derivative financial instruments	(62)	2,054

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

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments of every director is set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking					
	Fees	Salaries and allowances	Discretionary bonus	Share-based payments	Retirement benefits scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Mr. Wang Lishan	–	1,705	–	1,292	80	3,077
Mr. Cao Yunsheng	–	851	–	2,067	55	2,973
Mr. Tang Hui *(note a)*	–	628	–	–	54	682
Mr. Li Jing *(note a)*	–	564	–	–	54	618
Mr. Liu Lei *(note b)*	–	1,630	–	–	–	1,630
Mr. Lin Ke *(note b)*	–	698	–	–	–	698
Mr. Cao Huafeng *(note c)*	–	35	–	–	–	35
Mr. Sergey Alexandrovich Borovskiy *(note c)*	–	35	–	–	–	35
	–	6,146	–	3,359	243	9,748
Independent non-executive directors						
Mr. Su Yang	120	–	–	–	–	120
Mr. Xiang Qiang *(note d)*	80	–	–	–	–	80
Mr. Qi Daqing	120	–	–	–	–	120
Mr. Zheng Yimin *(note e)*	67	–	–	–	–	67
	387	–	–	–	–	387
Total for 2017	387	6,146	–	3,359	243	10,135
Executive directors						
Mr. Wang Lishan	–	2,040	–	948	71	3,059
Mr. Cao Yunsheng	–	1,042	–	1,517	49	2,608
Mr. Tang Hui *(note a)*	–	633	–	–	41	674
Mr. Li Jing *(note a)*	–	574	–	–	41	615
Mr. Zhao Wuhui *(note f)*	–	109	–	–	8	117
Mr. Li Chunyi *(note g)*	–	48	–	–	–	48
	–	4,446	–	2,465	210	7,121
Independent non-executive directors						
Mr. Su Yang	120	–	–	–	–	120
Mr. Xiang Qiang	120	–	–	–	–	120
Mr. Qi Daqing	120	–	–	–	–	120
	360	–	–	–	–	360
Total for 2016	360	4,446	–	2,465	210	7,481

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

(a) Directors' emoluments (cont'd)

Notes:

(a) Mr. Tang Hui and Mr. Li Jing were appointed as executive directors on 1 March 2016 and resigned on 25 August 2017.

(b) Mr. Liu Lei and Mr. Lin Ke were appointed as executive directors on 10 June 2017.

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

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

(e) Mr. Zheng Yimin was appointed as independent non-executive director on 10 June 2017.

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

(g) Mr. Li Chunyi resigned on 1 March 2016.

Save as disclosed above, there was no arrangement under which a director waived or agreed to waive any emoluments during the years ended 31 December 2017 and 2016.

(b) Employees' emoluments

The five highest paid individuals in the Group during the year included four (2016: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining one individual (2016: three individuals) is set out below:

	2017 RMB'000	2016 RMB'000
Basic salaries and allowances	1,241	3,449
Discretionary bonus	–	–
Share-based payments	–	–
Retirement benefits scheme contributions	–	48
	1,241	3,497

The emoluments of these remaining one individual (2016: three individuals) fell within the following bands:

	Number of individuals	
	2017	2016
HK$1,000,001 to HK$1,500,000 (approximately RMB870,001 to RMB1,305,000)	1	2
HK$1,500,001 to HK$2,000,000 (approximately RMB1,305,001 to RMB1,740,000)	–	1

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

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

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

Pursuant to a master service agreement dated 2 December 2014 made between the Company and Dalian Shipbuilding Industry Offshore Company Limited ("Dalian Shipbuilding Offshore"), Dalian Shipbuilding Offshore agrees to engage the Group to provide construction support services including constructions and other agreed services. Contract revenue and other sales income received/receivable from Dalian Shipbuilding Offshore was amounted to approximately RMB25,015,000 for the year ended 31 December 2017 (2016: RMB46,670,000). Mr. Wang Lishan, an executive director of the Company, is interested in this transaction to the extent that Dalian Shipbuilding Offshore is an associate of Prospering Investments Limited, a Company beneficially wholly-owned by Mr. Wang Lishan.

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

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

15. DIVIDENDS

	2017 RMB'000	2016 RMB'000
2015 final dividend of HK$0.01 per ordinary share	–	6,803

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2017 of HK$0.03 per shares has been proposed by the directors and is subject to approval by the shareholders at the forthcoming general meeting.

16. EARNINGS PER SHARE

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

	2017 RMB'000	2016 RMB'000
Earnings		
Earnings for the purpose of calculating basic and diluted earnings per share	55,581	11,586

	2017	2016
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,285,799,017	800,354,278
Effect of dilutive potential ordinary shares arising from share options	17,322,823	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,303,121,840	800,354,278

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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17. FIXED ASSETS

	Property, plant and equipment							
	Buildings, pier and other infrastructure RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Leasehold land RMB'000	Total RMB'000
Cost								
At 1 January 2016	267,508	98,402	23,843	18,337	25,287	433,377	231,182	664,559
Additions	–	16,082	3,072	291	5,969	25,414	–	25,414
Reclassification	30,233	–	–	–	(30,233)	–	–	–
Disposals	(2,213)	(315)	(15)	–	–	(2,543)	–	(2,543)
Exchange realignment	–	21	14	35	–	70	–	70
At 31 December 2016 and 1 January 2017	295,528	114,190	26,914	18,663	1,023	456,318	231,182	687,500
Additions	–	7,600	687	–	1,311	9,598	–	9,598
Additions upon acquisition of a subsidiary *(note 21(b)(iii))*	674,622	186,540	35,362	2,304	601	899,429	222,100	1,121,529
Reclassification	2,126	–	–	–	(2,126)	–	–	–
Write off/disposals	–	(13,592)	(1,417)	(337)	(80)	(15,426)	–	(15,426)
Exchange realignment	–	(8)	(5)	(14)	–	(27)	–	(27)
At 31 December 2017	972,276	294,730	61,541	20,616	729	1,349,892	453,282	1,803,174
Accumulated depreciation								
At 1 January 2016	37,666	39,363	16,378	14,172	–	107,579	20,009	127,588
Charge for the year	11,447	10,378	2,930	1,683	–	26,438	5,052	31,490
Disposals	(448)	(148)	(13)	–	–	(609)	–	(609)
Exchange realignment	–	20	14	27	–	61	–	61
At 31 December 2016 and 1 January 2017	48,665	49,613	19,309	15,882	–	133,469	25,061	158,530
Charge for the year	11,692	10,322	2,744	1,295	–	26,053	5,052	31,105
Write off/disposals	(66)	(6,350)	(1,396)	(337)	–	(8,149)	–	(8,149)
Exchange realignment	–	(8)	(5)	(9)	–	(22)	–	(22)
At 31 December 2017	60,291	53,577	20,652	16,831	–	151,351	30,113	181,464
Carrying amount								
At 31 December 2017	911,985	241,153	40,889	3,785	729	1,198,541	423,169	1,621,710
At 31 December 2016	246,863	64,577	7,605	2,781	1,023	322,849	206,121	528,970

At 31 December 2017 the carrying amount of fixed assets pledged as security for the Group's bank borrowings amounted to approximately RMB10,331,000 (2016: RMB11,596,000).

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

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

18. PREPAID LAND LEASE PAYMENTS

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

	2017 RMB'000	2016 RMB'000
At 1 January	417	482
Amortisation of prepaid land lease payments	(65)	(65)
At 31 December	352	417

19. GOODWILL

	RMB'000
Cost and carrying amount	
At 1 January 2016	191,084
Exchange difference	11,243
At 31 December 2016 and 1 January 2017	202,327
Exchange difference	(13,491)
Deemed disposal	(186,632)
Arising on acquisition of a subsidiary *(note 21(b)(iii))*	52,444
At 31 December 2017	54,648

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

	2017 RMB'000	2016 RMB'000
Offshore oil and natural gas exploration facilities fabrication business	52,444	200,123
Undersea maintenance services	2,204	2,204
At 31 December	54,648	202,327

As at 31 December 2017 and 31 December 2016, no impairment loss on goodwill is recognised.

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

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 3% (2016: 5%) and 3% (2016: 3%) for the Group's offshore oil and natural gas exploration facilities fabrication business and undersea maintenance services activities respectively. These rates do not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from the Group's offshore oil and natural gas exploration facilities fabrication business and undersea maintenance services activities are 17.44% (2016: 12.26%) and 19.70% (2016: 18.88%) respectively.

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20. INTANGIBLE ASSETS

	Patents and computer software RMB'000
Cost	
At 1 January 2016	9,539
Additions	749
At 31 December 2016 and 1 January 2017	**10,288**
Additions	**1,171**
Arising on acquisition of a subsidiary *(note 21(b)(iii))*	**99**
At 31 December 2017	**11,558**
Accumulated depreciation	
At 1 January 2016	6,164
Amortisation for the year	1,150
At 31 December 2016 and 1 January 2017	**7,314**
Amortisation for the year	**1,302**
At 31 December 2017	**8,616**
Carrying amount	
At 31 December 2017	**2,942**
At 31 December 2016	2,974

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 7.2 years (2016: 4.7 years).

21. SUBSIDIARIES

(a) List of subsidiaries

Particulars of the Group's major subsidiaries as at 31 December 2017 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing Direct	Indirect	Principal activities
Directly held:					
Jutal Investment Limited	British Virgin Islands	5 ordinary shares of US$1 each	100%	–	Investment holding
Indirectly held:					
Jutal Engineering Company Limited	Hong Kong	2 ordinary shares	–	100%	Provision of integrated services for oil and gas industries
Jutal Holdings Limited	British Virgin Islands	2 ordinary shares of US$1 each	–	100%	Investment holding
Hong Kong Jutal Holdings Limited	Hong Kong	157,045,432 ordinary shares	–	100%	Investment holding
Sanju Biofuel International Limited	Hong Kong	1,000,000 ordinary shares	–	100%	Inactive

21. SUBSIDIARIES (CONT'D)

(a) List of subsidiaries (cont'd)

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing Direct	Indirect	Principal activities
Indirectly held: (cont'd)					
Stand Success Resources Limited	British Virgin Islands	1 ordinary share of US$1	–	100%	Investment holding
巨濤油田服務(天津)有限公司* (Jutal Oilfield Services (Tianjin) Company Limited)	PRC	Registered capital of HK$10,000,000	–	100%	Fabrication of facilities and provision of integrated services for oil and gas industries and other energy and refining and chemical industries
深圳巨濤機械設備有限公司* (Shenzhen Jutal Machinery Equipment Company Limited)	PRC	Registered capital of RMB200,000,000	–	100%	Fabrication of facilities and provision of integrated services for oil and gas industries and other energy and refining and chemical industries
珠海巨濤海洋石油服務有限公司 (Zhuhai Jutal Offshore Oil Services Company Limited)	PRC	Registered capital of RMB500,000,000	–	100%	Fabrication of facilities and provision of integrated services for oil and gas industries and other energy and refining and chemical industries
巨濤海洋船舶工程服務(大連)有限公司# (Jutal Offshore Shipbuilding Services (Dalian) Company Limited)	PRC	Registered capital of HK$33,330,000	–	100%	Provision of technical support services for shipbuilding industry
成都巨濤油氣工程有限公司 (Chengdu Jutal Oil and Gas Engineering Co., Ltd.)	PRC	Registered capital of RMB10,000,000	–	100%	Fabrication of facilities and provision of integrated services for oil and gas industries and other energy and refining and chemical industries
深圳市藍海潛水工程有限公司 (Shenzhen Marine Diving Engineering Co., Ltd.)	PRC	Registered capital of RMB20,000,000	–	100%	Provision of undersea maintenance services
蓬萊巨濤海洋工程重工有限公司 (Penglai Jutal)	PRC	Registered capital of US$43,500,000	–	100%	Sales and construction of offshore oil and natural gas exploration facilities; quayside machineries and chemical engineering facilities; design, fabrication, installation and repair of steel formation structures; and provision of other quayside and warehouse services

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

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

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

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21. SUBSIDIARIES (CONT'D)

(b) Acquisition of Penglai Jutal

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

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

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

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

	2017 RMB'000	2016 RMB'000
Unlisted investments:		
Share of net assets	–	337,794

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

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

	2017 RMB'000	2016 RMB'000
At 31 December		
Non-current assets	–	963,304
Current assets	–	1,501,731
Non-current liabilities	–	(264,230)
Current liabilities	–	(1,074,826)
Net assets	–	1,125,979
Group's share of net assets	–	337,794

21. SUBSIDIARIES (CONT'D)

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

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

	2017 RMB'000	2016 RMB'000
Profit for the period/year		
Turnover	1,484,504	1,599,740
Profit from continuing operations	126,437	98,693
Other comprehensive income	–	–
Total comprehensive income	126,437	98,693
Share of profit of an associate	37,931	29,608
Dividends received from an associate	120,000	–

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

	2017 RMB'000	2016 RMB'000
As at 1 January	337,794	308,186
Share of profit of an associate	37,931	29,608
Dividend received from an associate	(120,000)	–
Deemed disposal	(255,725)	–
As at 31 December	–	337,794

(ii) Gain on deemed disposal of an associate

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

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21. SUBSIDIARIES (CONT'D)

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

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

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

The fair value of the trade and other receivables acquired is approximately RMB57,045,000, which is the same amount as the gross amount due under the contracts.

21. SUBSIDIARIES (CONT'D)

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

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

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

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

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

(c) As at 31 December 2017, the pledged bank deposits and bank and cash balances of the Group's subsidiaries and associate in the PRC denominated in RMB amounted to approximately RMB717,372,000 and RMBNil (2016: RMB100,151,000 and RMB446,953,000) respectively. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

22. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	57,268	24,392

23. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	421,874	211,030
Allowance for doubtful debts	(8,215)	(7,510)
	413,659	203,520
Bills receivables	11,140	11,254
	424,799	214,774

The Group's trading terms with customers are mainly on credit. The credit terms other than retentions receivables generally range from 30 to 90 days. The credit terms for retentions receivables generally range from 12 to 24 months after completion of the respective construction contracts. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

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23. TRADE AND BILLS RECEIVABLES (CONT'D)

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

	2017 RMB'000	2016 RMB'000
Billed		
0 to 30 days	107,482	80,655
31 to 90 days	61,505	47,481
91 to 365 days	53,777	50,121
Over 365 days	15,722	25,263
	238,486	203,520
Unbilled *(note a)*	175,173	–
	413,659	203,520

Note a: The unbilled balance was mainly attributable to sales of goods which will be billed within next twelve months from the end of the reporting date in accordance with the payment terms stipulated in the relevant contracts entered into between the Group and the contract customers. These receivables were neither past due nor impaired and relate to a number of customers for whom there was no recent history of default.

As at 31 December 2017, trade receivables aged over 90 days includes retentions receivables amounted to approximately RMB13,550,000 (2016: RMB12,828,000).

As at 31 December 2017, collateral which represents fixed assets, inventories, equity interests and personal guarantee are obtained by the Group against certain trade receivables balance of RMB145,581,000 (2016: Nil).

At 31 December 2017, no trade and bill receivables (2016: RMB10,000,000) were pledged to secure bank or other borrowings.

As at 31 December 2017, an allowance was made for estimated irrecoverable trade receivables of approximately RMB8,215,000 (2016: RMB7,510,000). The reconciliation of allowance for trade receivables is as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	7,510	5,019
Allowance for the year	2,756	2,491
Reversal	(2,051)	–
At 31 December	8,215	7,510

23. TRADE AND BILLS RECEIVABLES (CONT'D)

As of 31 December 2017, trade receivables of approximately RMB58,686,000 (2016: RMB55,175,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2017 RMB'000	2016 RMB'000
Up to 3 months	26,644	39,251
3 to 6 months	13,209	4,578
Over 6 months	18,833	11,346
	58,686	55,175

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

	2017 RMB'000	2016 RMB'000
RMB	315,742	131,682
US$	105,691	56,436
Euro	–	23,436
HK$	3,366	3,220
Total	424,799	214,774

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

	2017 RMB'000	2016 RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	5,263,235	973,091
Less: Progress billings	(4,880,166)	(806,273)
Exchange differences	(9,711)	4,533
	373,358	171,351
Gross amount due from customers for contract work	410,882	186,820
Gross amount due to customers for contract work	(37,524)	(15,469)
	373,358	171,351

In respect of construction contracts in progress at the end of the reporting period, retentions receivables included in trade and bills receivables amounted to approximately RMB14,278,000 (2016: RMB13,918,000). Retentions receivables expected to be recovered after more than twelve months amounted to approximately RMB738,000 (2016: RMB6,816,000).

Advances received in respect of construction contracts amounted to approximately RMB2,405,000 at 31 December 2017 (2016: RMB720,000) and is included in accruals and other payables.

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For the year ended 31 December 2017

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Prepayments	113,154	18,872
Deposits	1,973	3,645
Other receivables	46,102	28,894
	161,229	51,411
Less: Allowance for other receivables	(2,664)	(1,991)
	158,565	49,420

As at 31 December 2017, an allowance was made for estimated irrecoverable other receivables of approximately RMB2,664,000 (2016: RMB1,991,000). The reconciliation of allowance for other receivables is as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	1,991	2,147
Allowance for the year	673	–
Reversal	–	(156)
At 31 December	2,664	1,991

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 RMB'000	2016 RMB'000
Financial assets		
Derivatives not under hedge accounting:		
Foreign currency forward	4,865	176

At 31 December 2017, the Group had outstanding foreign currency forward contracts mainly to hedge the foreign currency risk arising from certain of its contract revenue and trade receivables denominated in US$ (2016: Euro). The maximum notional principal amounts of these outstanding foreign currency forward contracts at 31 December 2017 were as follows:

	2017 RMB'000	2016 RMB'000
Sell US$ for RMB	253,890	–
Sell Euro for RMB	–	11,483

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

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

The net change in the fair value of all of the non-hedging foreign currency forward contracts amounting to approximately RMB62,000 was credited to the profit or loss for the year ended 31 December 2017 (2016: RMB2,054,000 was charged to the profit or loss).

27. DUE FROM DIRECTORS

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

Name	Terms	Balance at 31 December 2017 RMB'000	Balance at 1 January 2017 RMB'000	Maximum amount outstanding during the year RMB'000
Mr. Wang Lishan	Unsecured, interest-free and no fixed repayment terms	–	882	2,653
Mr. Cao Yunsheng	Unsecured, interest-free and no fixed repayment terms	411	682	2,062
Mr. Tang Hui	Unsecured, interest-free and no fixed repayment terms	–	553	795
Mr. Li Jing	Unsecured, interest-free and no fixed repayment terms	–	593	593
		411	2,710	

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

28. LOAN FROM ULTIMATE HOLDING COMPANY

The amount due is unsecured, interest bearing at 6% per annum and has no fixed repayment terms. The Group subsequently repaid the loan from ultimate holding company in January 2018.

29. 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 33 and 34 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:

	2017 RMB'000	2016 RMB'000
RMB	717,372	100,151
HK$	29,811	2,714
US$	994,579	40,523
Euro	23	601
Others	71	73
	1,741,856	144,062

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

30. TRADE AND BILLS PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	821,750	175,125
Bills payables	133,685	–
	955,435	175,125

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

	2017 RMB'000	2016 RMB'000
0 to 30 days	609,354	63,842
31 to 90 days	81,379	39,708
91 to 365 days	74,950	57,991
Over 365 days	56,067	13,584
	821,750	175,125

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

	2017 RMB'000	2016 RMB'000
RMB	950,038	174,547
US$	5,377	578
EUR	20	–
Total	955,435	175,125

31. ACCRUALS AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Accrued staff salaries	73,124	29,673
Receipt in advances	2,405	720
Other payables	21,663	13,041
Payables for purchases of fixed assets	18,288	4,161
Others	11,235	1,895
	126,715	49,490

32. PROVISIONS

	Provision for claim on construction contract *(note (i))* RMB'000	Warranty provision *(note (ii))* RMB'000	Total RMB'000
At 1 January	–	1,866	1,866
Arising on acquisition of a subsidiary *(note 21(b)(iii))*	158,996	60,966	219,962
At 31 December	158,996	62,832	221,828

(i) At 31 December 2017, the balance of provision of claims on construction contract represents claim from customer against the Group for certain contract works completed during the year. At the end of the reporting period, the Group is still negotiating with the customer in relation to the final claim amount. The management estimates the Group's liability and amount of provisions made by reference to the terms of the subcontracting agreement, supporting evidence of work done and the basis of charge for the rectification of the related works. The provision is made based on management's best estimates and judgements of the circumstance. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

(ii) The warranty provision represents the Group's best estimate of the Group's liability under 18 – 60 months warranties granted to its customers in relation to certain construction contracts under which defective works are rectified or replaced.

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

33. BANK BORROWINGS

	2017 RMB'000	2016 RMB'000
Bank borrowings	845,772	213,628

The bank borrowings are repayable as follows:

	2017 RMB'000	2016 RMB'000
Within one year	562,662	206,760
More than one year, but not exceeding two years	64,500	–
More than two years, but not more than five years	213,500	–
	840,662	206,760
Portion of bank borrowings that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	5,110	6,868
	845,772	213,628
Less: Amount due for settlement within 12 months (shown under current liabilities)	(567,772)	(213,628)
Amount due for settlement after 12 months	278,000	–

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For the year ended 31 December 2017

33. BANK BORROWINGS (CONT'D)

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 2017 was 4.90% (2016: 4.65%) per annum.

Bank borrowings of approximately RMB470,730,000 (2016: RMB181,760,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Other bank borrowings were arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

As at 31 December 2017, bank borrowings of approximately RMB640,841,000 are secured by the following:

i. a charge over the Group's fixed assets (note 17) and pledged bank deposits (note 29);

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

iii. corporate guarantee executed by a financial institution.

As at 31 December 2016, bank borrowings of approximately RMB16,628,000 are secured by the Group's fixed assets (note 17) and bills receivables (note 23) respectively.

34. BANKING FACILITIES

At 31 December 2017, the Group had approximately RMB228,723,000 (2016: RMB217,459,000) of available undrawn banking facilities. Available undrawn banking facilities include bank loans, letters of credit, bank guarantees, etc. The Group's banking facilities are secured by:

(a) Pledges of the Group's fixed assets (note 17) and bank deposits (note 29) (2016: fixed assets, bills receivables and bank deposits respectively);

(b) Corporate guarantees executed by the Company and three subsidiaries of the Group; and

(c) Corporate guarantee executed by a financial institution.

As at 31 December 2017, the Group had obtained bank guarantees under performance bonds for construction contracts of approximately RMB321,803,000 (2016: RMB77,508,000).

35. DEFERRED REVENUE

	Note	2017 RMB'000	2016 RMB'000
At 1 January		**24,629**	21,331
Addition during the year		**15,931**	8,708
Arising on acquisition of a subsidiary *(note 21(b)(iii))*		**4,562**	–
Recognised as income and included in the Group's other income		**(5,252)**	(5,410)
At 31 December		**39,870**	24,629
Represented by:	*Note*		
Government grant A	*(i)*	**11,046**	11,696
Government grant B	*(ii)*	**28,824**	12,933
At 31 December		**39,870**	24,629
Analysed as:			
Non-current liabilities		**39,870**	24,629

Notes:

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

The grant is recognised as deferred revenue and a portion of the deferred revenue will be credited to profit or loss on a straight-line basis over the useful lives of the related assets when the assets are ready for management's intended used. The remaining portion will be credited to profit or loss when the related research and development activities are successfully completed. The Group has an obligation to repay the grant if the grant is not utilised for the development project. Deferred revenue of approximately RMB650,000 was transferred to profit or loss for the year ended 31 December 2017 (2016: RMB3,902,000).

(ii) During the year, the Group received approximately RMB15,931,000 (2016: RMB8,708,000) government grants in relation to certain development projects, including construction of certain production premises and acquisition of certain plant and machineries.

The grants are recognised as deferred revenue and the deferred revenue will be credited to profit or loss on a straight-line basis over the useful lives of the related assets when the assets are ready for management's intended used. Deferred revenue of approximately RMB4,602,000 was transferred to profit or loss for the year ended 31 December 2017 (2016: RMB1,508,000).

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36. DEFERRED TAX

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

	Accelerated tax depreciation	Investment in an associate	Recognition of contracting income	Undistributed earnings of the PRC subsidiaries	Provisions	Tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	2,051	19,741	12,985	2,100	–	(983)	(5,788)	30,106
Charge to profit or loss for the year *(note 12)*								
– Changes in temporary differences	2,184	930	2,948	(349)	–	983	(1,662)	5,034
At 31 December 2016 and 1 January 2017	4,235	20,671	15,933	1,751	–	–	(7,450)	35,140
Reallocation	–	(10,467)	–	10,467	–	–	–	–
Arising on acquisition of a subsidiary *(note 21(b)(iii))*	71,794	–	528	–	(10,040)	–	(9,991)	52,291
Charge to profit or loss for the year *(note 12)*								
– Changes in temporary differences	4,615	(10,204)	(8,289)	189	–	(2,337)	(2,739)	(18,765)
At 31 December 2017	**80,644**	**–**	**8,172**	**12,407**	**(10,040)**	**(2,337)**	**(20,180)**	**68,666**

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

	2017	2016
	RMB'000	RMB'000
Deferred tax liabilities	**70,934**	35,422
Deferred tax assets	**(2,268)**	(282)
	68,666	35,140

At the end of reporting period the Group has unused tax losses of approximately RMB22,886,000 (2016: RMB43,381,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB9,336,000 (2016: Nil). No deferred tax asset has been recognised in respect of the remaining approximately of RMB13,550,000 (2016: RMB43,381,000) due to the unpredictability of future profit streams. These unrecognised tax losses may be carried forward indefinitely (2016: approximately RMB16,802,000, RMB8,037,000, RMB4,420,000 and RMB389,000 that can be carried forward by five years, four years, three years and two year respectively. Other tax losses may be carried forward indefinitely.).

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately RMB1,940,000 (2016: RMB1,751,000). 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.

37. SHARE CAPITAL

	Note	Number of Shares	Amount HK$'000
Authorised:			
Ordinary shares of HK$0.01 (2016: HK$0.01) each			
At 1 January 2016, 31 December 2016 and 1 January 2017		1,500,000,000	15,000
Creation of additional ordinary shares	(a)	2,500,000,000	25,000
At 31 December 2017		**4,000,000,000**	**40,000**

	Note	Number of Shares	Amount HK$'000	Equivalent to Amount RMB'000
Issued and fully paid:				
Ordinary shares of HK$0.01 (2016: HK$0.01) each				
At 1 January 2016 and 31 December 2016		800,354,278	8,004	7,506
Exercise of share options	(b)	8,100,000	81	70
Issue of shares on subscription	(c)	803,562,111	8,036	6,990
Exercise of warrants	(d)	20,000,000	200	173
At 31 December 2017		**1,632,016,389**	**16,321**	**14,739**

Note:

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

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

(c) On 15 March 2017, Sanju Environmental Protection (Hong Kong) Limited and Golden Talent (HK) Technology Co., Limited (together refer to as the "Subscribers") and the Company entered into a subscription agreement pursuant to which the Company has conditionally agreed to allot and issue and the Subscribers have conditionally agreed to subscribe for an aggregate of 803,562,111 subscription shares of the Company at subscription price of HK$1.2 per subscription share (the "Subscription").

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

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

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37. SHARE CAPITAL (CONT'D)

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

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

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

The gearing ratio as at the 31 December 2017 is as follows:

	2017 RMB'000	2016 RMB'000
Bank borrowings	845,772	213,628
Loan from ultimate holding company	80,000	–
Total borrowings	925,772	213,628
Total equity	2,058,934	1,180,542
Gearing ratio	44.96%	18.10%

The increases in gearing ratio from year 2017 was mainly due to the fact that the Group acquired 70% of the equity interest in Penglai Jutal during the year and consolidated its financial statements. 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 2017, 25.72% (2016: 48.91%) of the shares were in public hands.

38. SHARE-BASED PAYMENTS

Equity-settled share option scheme

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

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

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

38. SHARE-BASED PAYMENTS (CONT'D)

Equity-settled share option scheme (cont'd)

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

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

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

Details of the specific categories of options are as follows:

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

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38. SHARE-BASED PAYMENTS (CONT'D)

Equity-settled share option scheme (cont'd)

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

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

	2017		2016	
	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	40,450,000	0.99	27,850,000	1.13
Granted during the year	–	–	13,000,000	0.68
Forfeited during the year	(2,000,000)	1.68	(400,000)	1.06
Exercised during the year	(8,100,000)	1.36	–	–
Outstanding at the end of the year	30,350,000	0.84	40,450,000	0.99
Exercisable at the end of the year	4,350,000	1.29	14,450,000	1.38

The weighted average share price at the date of exercise for share options exercised during the year was HK$2.30. The options outstanding at the end of the year have a weighted average remaining contractual life of 3.9 years (2016: 6.6 years) and the exercise price ranges from HK$0.68 to HK$1.62 (2016: HK$0.68 to HK$1.68).

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Investments in a subsidiary		478,198	468,003
Current assets			
Prepayments, deposits and other receivables		1,781	305
Due from subsidiaries		1,341,098	552,488
Due from a director		2,626	–
Bank and cash balances		11,382	1,247
		1,356,887	554,040
Current liabilities			
Accruals and other payables		2,281	1,191
Due to subsidiaries		38,793	43,276
Financial guarantee contract liability		22,742	27,448
		63,816	71,915
Net current assets		1,293,071	482,125
NET ASSETS		1,771,269	950,128
Capital and reserves			
Share capital		14,739	7,506
Reserves	*40(b)*	1,756,530	942,622
TOTAL EQUITY		1,771,269	950,128

The Company's statement of financial position was approved by the Board of Directors on 23 March 2018 and signed on its behalf by:

Liu Lei	**Cao Yunsheng**
Chairman	*Director*

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40. RESERVES

(a) Group

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

(b) Company

	Share premium account RMB'000	Convertible loan notes equity reserve RMB'000	Foreign currency translation reserve RMB'000	Share-based payment reserve RMB'000	Warrants reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2016	851,263	2,951	(55,611)	5,525	160	62,670	6,723	873,681
Share-based payments	–	–	–	2,465	–	–	–	2,465
Share options forfeited	–	–	–	(131)	–	131	–	–
Total comprehensive income for the year	–	–	53,193	–	–	20,086	–	73,279
Dividends paid	–	–	–	–	–	(80)	(6,723)	(6,803)
At 31 December 2016 and 1 January 2017	851,263	2,951	(2,418)	7,859	160	82,807	–	942,622
Issue of shares on subscription	830,669	–	–	–	–	–	–	830,669
Issue of shares on exercise of share options	11,971	–	–	(2,577)	–	–	–	9,394
Issue of shares on exercise of warrants	36,443	–	–	–	(160)	–	–	36,283
Share-based payments	–	–	–	3,359	–	–	–	3,359
Share options forfeited	–	–	–	(442)	–	442	–	–
Total comprehensive income for the year	–	–	(106,520)	–	–	40,723	–	(65,797)
Proposed final dividend	–	–	–	–	–	(40,637)	40,637	–
At 31 December 2017	1,730,346	2,951	(108,938)	8,199	–	83,335	40,637	1,756,530

40. RESERVES (CONT'D)

(c) Nature and purpose of reserves

(i) Share premium account

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

(ii) Share-based payment reserve

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

(iii) Special reserve

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

(iv) Statutory reserves

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

(v) Foreign currency translation reserve

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

(vi) Convertible loan notes equity reserve

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

(vii) Warrants reserve

Warrants reserve represents fair value of consideration received from the subscription of warrants. It is transferred to share premium account when the warrant is exercised or released directly to retained profits when the warrant is expired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

41. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

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

	1 January 2017 RMB'000	Drawdown RMB'000	Repayment RMB'000	Arising on acquisition of a subsidiary RMB'000	31 December 2017 RMB'000
Loan from ultimate holding company *(note 28)*	–	80,000	–	–	80,000
Bank borrowings *(note 33)*	213,628	460,972	(208,528)	379,700	845,772

42. CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities (2016: Nil).

43. CAPITAL COMMITMENTS

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

	2017 RMB'000	2016 RMB'000
Property, plant and equipment	496	577

44. LEASE COMMITMENTS

At 31 December 2017 the total future minimum lease payments under non-cancellable operating leases of which the Group as lessee are payable as follows:

	2017 RMB'000	2016 RMB'000
Within one year	2,140	1,976
In the second to fifth years, inclusive	3,660	3,500
After five years	9,604	10,411
	15,404	15,887

Operating lease payments represent rentals payable by the Group for certain of its office, staff quarters, warehouses and machineries. Leases are negotiated for an average term of 3 (2016: 3) years and rentals are fixed over the lease terms and do not include contingent rentals.

45. 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	2017 RMB'000	2016 RMB'000
Contract revenue received/ receivable from an associate, Penglai Jutal		200	1,328
Purchase from an associate, Penglai Jutal		145	–
Contract revenue and other sales income received/ receivable from a related company, Dalian Shipbuilding Offshore	*(a)*	25,015	46,670
Contract revenue and other sales income received/ receivable from a fellow subsidiary, SJ Environmental Corporation	*(b)*	1,302	–
Interest expenses paid to ultimate holding company, Sanju		80	–

Notes:

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

The related party transactions with Dalian Shipbuilding Offshore constitute as continuing connected transactions as defined in Chapter 14A of the Listing Rules, further details of which are included in the Directors' Report on pages 28 to 30.

(b) *SJ Environmental Corporation is a wholly-owned subsidiary of Sanju, the ultimate holding company.*

The related party transactions with SJ Environmental Corporation constitute as continuing connected transactions as defined in Chapter 14A of the Listing Rules, further details of which are included in the Directors' Report on pages 28 to 30.

(B) Balance

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

	2017 RMB'000	2016 RMB'000
Gross amount due from customers for contract work – from a related company, Dalian Shipbuilding Offshore	7,395	–
Trade receivables due from a related company, Dalian Shipbuilding Offshore	–	2,596
Gross amount due from customers for contract work – from a fellow subsidiary, SJ Environmental Corporation	1,302	–

46. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 23 March 2018.

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				
	2013	2014	2015	2016	**2017**
Turnover	889,827	950,881	658,566	721,614	**724,469**
Profit for the year attributable to owners of the Company	55,645	28,456	26,174	11,586	**55,581**

ASSETS AND LIABILITIES

	As at 31 December				
	2013	2014	2015	2016	**2017**
Total assets	1,595,612	1,728,262	1,582,694	1,696,204	**4,481,179**
Total liabilities	(577,058)	(601,893)	(425,199)	(515,662)	**(2,422,245)**
Total equity	1,018,554	1,126,369	1,157,495	1,180,542	**2,058,934**

LIQUIDITY AND GEARING RATIO

	As at 31 December				
	2013	2014	2015	2016	**2017**
Current Ratio(1)	1.27	1.27	1.45	1.37	**1.38**
Quick Ratio(2)	1.21	1.24	1.38	1.31	**1.35**
Gearing Ratio(3)	22.97%	20.44%	11.36%	18.10%	**44.96%**

Notes:

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

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

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

Gearing ratio as at 31 December 2017 increased compared to that as at 31 December 2016, which is mainly attribute to consolidation of Penglai Jutal's financial statements upon acquisition of its additional 70% equity interest.