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

2019
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	:	1,634,016,389 ordinary shares
Website	:	http://www.jutal.com

BOARD OF DIRECTORS

Executive directors

Mr. Liu Lei (Chairman)
Mr. Wang Lishan
Mr. Wang Ningsheng
Mr. Cao Yunsheng
Mr. Liu Yunian
Mr. Tang Hui

Independent non-executive directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY REPRESENTATIVE AND COMPANY SECRETARY

Ms. Leung Fung Yee Alice

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HEADQUARTERS IN THE PRC

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

LEGAL ADVISORS

As to Hong Kong law:

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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Royal Bank House – 3rd Floor,
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Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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INVESTOR ENQUIRY

Investor Relations

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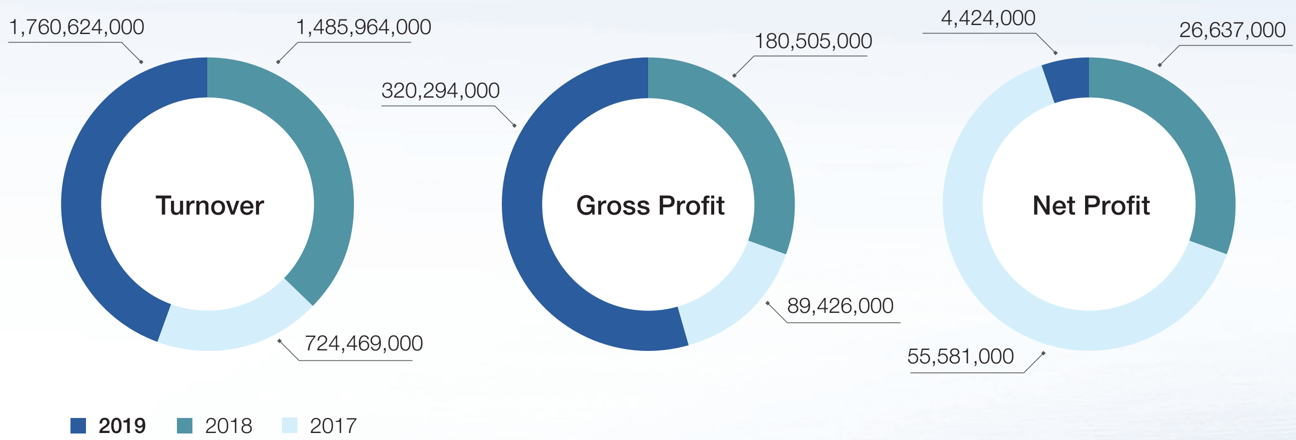
FINANCIAL HIGHLIGHTS

1. RESULTS (RMB)



2. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share were RMB0.0027 and RMB0.0027 respectively in 2019.

3. DIVIDEND

The Board did not recommend payment of a final dividend for the year ended 31 December 2019.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of Jutal Offshore Oil Services Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019 to the shareholders.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

The Group is an integrated service provider mainly offering equipment fabrication and engineering services in the energy industry such as oil and gas. In recent years, in response to the decline in benefits caused by the fluctuations in traditional business market, the Group actively promoted business transformation and strategic deployment through a series of capital operations and adjustment of business layout, so as to closely keep up with the market trends and create a competitive edge. Therefore, results have been achieved in large-scale module construction and other offshore engineering businesses.

Headquartered in Shenzhen, the Group has two large-scale facilities manufacturing bases in Penglai, northern China and Zhuhai, southern China, with business targeting for international market and customers. The Group has a leading comprehensive strength in large-scale module construction and offshore engineering. Besides, the reliability and quality of the projects implemented by the Group are highly recognised by the industry.

In order to meet the construction needs of large-scale projects undertaken, in 2019, Penglai Jutal Offshore Engineering Heavy Industries Company Limited* (蓬萊巨濤海洋工程重工有限公司) ("Penglai Jutal"), a subsidiary of the Group, expanded its fabrication site area to approximately 1,000,000 square meters through expansion and long-term lease of a new plant nearby. After optimized layout and facilities upgrade, the site construction capacity has been greatly improved. In July 2019, Penglai Jutal was awarded a large-scale construction contract from TECHNIP France S.A., a wholly-owned subsidiary of Technip FMC, a well-known international engineering contracting company in Europe. According to the contract, Penglai Jutal will provide the construction of the largest core compressor and generator module currently seen in the industry to the first two production lines of the LNG project of Arctic LNG 2 located in the Arctic, with a total contract amount over RMB3 billion. It is another important construction contract obtained by Penglai Jutal after the GCGV large-scale natural gas chemical plant module construction project awarded in mid-2018. The GCGV project also entered the full site construction phase from the second half of 2019, and delivered the first six pipeline corridor modules in November. Compared with the construction site in Penglai, the Group's construction site in Zhuhai has a relatively smaller area. According to its current facilities and construction capabilities, it mainly focuses on the construction of small and medium-sized equipment. The construction site in Zhuhai was still not in full operation during 2019. In 2019, the construction site in Penglai operated a total of 21 various types of modules and offshore engineering construction projects, of which 11 have been successfully completed and delivered. The construction site in Zhuhai had 15 projects under construction and 11 projects completed during the year. As at the end of year 2019, the total backlog value of the Group was over RMB5 billion.

The traditional offshore technical support services business remained stable in 2019, and the southern service base was moved to Huizhou. In addition to customers of traditional oil companies, the Group also closely tracks new customers and new businesses, and actively expands related engineering transformation projects. During the year, it newly opened the offshore wind power installation and underwater service market to provide wind power project services. Facing the shrinking shipbuilding business of the original customers, the Group's Dalian Company also actively responded by diversifying the layout of the market, business and customers, and maintained smooth operation of the business.

In order to continue and strengthen the safety culture, at the beginning of 2019, the Group specifically set up a "Care Committee" in Penglai Jutal, the subsidiary with the largest production scale and the largest number of employees, which consisted of on-site employee representatives, company managers and other personnel from different professions, with an aim to provide effective communication for the health, safety and environmental issues of on-site employees, to continuously improve and perfect the health and safety management system, and build channels that cover different levels of timely feedback on health, safety and environmental demands. During the year, through regular safety seminars, safe family days, safe luncheons, various environmental protection actions and emergency drills, etc., the Company established and shared awareness of health, safety and environmental protection among all employees, identified and solved on-site problems, improved and eliminated employee concerns, encouraged all employees to participate in the investigation and management of hidden dangers, so as to create a healthy and safe working environment.

In 2019, all of the Group's safety, environmental protection and quality work performed well and maintained excellent results.

CHAIRMAN'S STATEMENT

PROSPECTS

According to the 2020 Global Economic Situation and Prospects issued by the United Nations, global economy experienced a decade slow growth in 2019. Trade conflicts, financial turbulence and intensified geopolitical tensions may affect the recovery of global economy in 2020. Despite the slowdown pressure faced by global economy, East Asia remains to be the region with the rapidest economic growth. Especially in China, under the support of appropriate monetary policy and fiscal policy, China will continue to be the major driving force of global economic growth.

In addition, the Novel Coronavirus (“COVID-19”) epidemic brought challenges to China at the beginning of 2020. In response to the national and local requirements on epidemic prevention and control and management, the Group’s production units at various regions immediately established leading groups of epidemic work, refined the deployment of measures on epidemic prevention as well as developed management measures and quarantine program for the staff. Besides, management of the Company, responsible officers of subcontracting labour and customer representatives, as the head in charge of the epidemic prevention and control as well as the management of work resumption for each responsible unit, were required to strive to promote the implementation of all works in a prudent and rapid manner in light of the situation of epidemic prevention and the need of business operation, and organize the staff, owner and subcontracting labour to undergo observation and return to work based on the project schedule and manpower demand.

This year, several large projects under construction of the Group are expected to be at the peak of construction concurrently, resulting great challenges in various aspects, such as human resources, on-site management, project operation and resource deployment. Therefore, more systematic and refined overall arrangements are expected to be required for undertaking new large projects. Facing the complicated production and operation environment, the Group will be prudent and will ensure the manpower supply and carry out skills training, so as to arrange production in a stable and orderly manner to ensure project progress.

As large-scale factories and facilities enjoy the advantages of low overall comprehensive cost, short construction period, excellent quality and environmental compliance through modular construction, they will gradually become the mainstream trend in the construction of energy, chemical and marine engineering industries, which will bring huge market opportunities. In view of the excellent performance of Chinese modular construction sites in global projects, it is expected that large-scale projects will also prefer Chinese sites construction in the future. Over the past few years, the Group has actively participated in the modular construction of several large-scale projects around the world. With high-quality and efficient work, the Group has won the trust from customers and industry reputation as well as accumulated extensive experience.

The Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (《粵港澳大灣區發展規劃綱要》) (the "Plan") was issued by the PRC on 18 February 2019, which aims to further establish mutually beneficial and win-win regional cooperative relations as well as promote synergistic development of regional economy, so as to provide support for the country's efforts to promote supply-side structural reform, implement the strategy of innovation-driven development and formulate a new system of open economy, and build a first-class bay area and world-class city cluster with vigorousness and international competitiveness, thereby shaping a paragon of high-quality development. The Plan also specifically stresses the necessity of vigorously developing the marine economy, and encourages to develop strategic emerging industries, including marine engineering equipment.

The implementation of the development strategy of the Guangdong-Hong Kong-Macao Greater Bay Area (the "Greater Bay Area") will enhance the support to the marine economy and support to strategic emerging industries such as marine engineering equipment. It is also expected to bring more opportunities and impetus to the business development of the Company in the Greater Bay Area.

The Group will conduct in-depth research, give full play to its comparative advantages in competition, closely monitor key projects to secure follow-up orders, further improve production capacity and efficiency and support each other's business development, whilst strive to carry out risk management, strictly control costs and expenses, thereby consolidating existing superior business, and actively exploring new high-value-added business markets.

The Company's construction sites also require further upgrading of the existing facilities to satisfy the construction and shipment needs of subsequent large-scale projects. The two sites located in Penglai and Zhuhai with different scales and focuses are expected to complement each other and give play to their respective business advantages.

By Order of the Board

LIU Lei

Chairman

Hong Kong, 31 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL AND BUSINESS REVIEW

Turnover

In year 2019, the Group recorded turnover of approximately RMB1,760,624,000, representing an increase of 18.48% or RMB274,660,000 as compared with year 2018. Among others, turnover from the fabrication of facilities and provision of integrated services for oil and gas industries increased by 64.42% or RMB633,287,000 as compared with that of year 2018, which was mainly due to the natural gas petrochemical modules construction project undertook by Penglai site in 2018 began to enter into the peak period during the year. Turnover from the fabrication of facilities and provision of integrated services for other energy and refining and chemical industries decreased by 73.94% or RMB358,854,000 as compared with that of year 2018, which was mainly due to the fact that most of the projects secured in 2017 were intensively implemented in 2018 and the Company actively cut down relevant business. Turnover from the provision of technical support services for shipbuilding industry increased by 8.51% or RMB1,108,000 as compared with that of year 2018, which was mainly due to the fact that the workload of such business of the Group was basically the same as that of year 2018 in the continually weakened ship-building market.

The table below sets out the analysis of turnover by business segments for the years 2019, 2018 and 2017 respectively:

	For the financial year ended 31 December					
	2019		2018		2017	
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	1,616,399	92	983,112	66	460,148	64
2 Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries	126,480	7	485,334	33	225,885	31
3 Provision of technical support services for shipbuilding industry	14,120	1	13,012	1	18,019	2
4 Others	3,625	–	4,506	–	20,417	3
Total	1,760,624	100	1,485,964	100	724,469	100

Cost of sales and services

Cost of sales and services of the Group amounted to approximately RMB1,440,330,000 in year 2019, representing an increase of 10.33% or RMB134,871,000 as compared with that of year 2018. Cost of sales and services comprised direct costs and manufacturing overheads. Direct costs in the current period amounted to approximately RMB1,207,969,000, representing 83.87% of the total cost of sales and services, and an increase of RMB112,515,000 or 10.27% from RMB1,095,454,000 of the corresponding period of last year. The Group calculates the cost of sales and services of projects on an order-by-order basis. Since the composition of cost differs for each project, the composition of cost of sales and services varies from project to project. Manufacturing overheads has increased by RMB22,356,000 or 10.65% from RMB210,005,000 of the corresponding period of last year to approximately RMB232,361,000 in current reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit

The total gross profit of the Group for the year 2019 amounted to approximately RMB320,294,000, representing an increase of 77.44% or RMB139,789,000 as compared with RMB180,505,000 in year 2018. The overall gross profit margin increased to 18.19% from 12.15% of the corresponding period of last year. The gross profit margin of the fabrication of facilities and provision of integrated services for oil and gas industries increased from 10.76% in year 2018 to 20.35%, and the gross profit margin of the fabrication of facilities and provision of integrated service for refining and chemical industries decreased from 16.14% in year 2018 to negative 6.05%, whereas the gross profit margin of the provision of technical support services for shipbuilding industry increased from negative 10.21% in year 2018 to 2.80%. Changes in business structure resulted in various changes in the gross profit margin of different business segments during the current period. The increase in the gross profit margin of the fabrication of facilities and provision of integrated services for oil and gas industries was mainly due to higher gross profit margin recorded by certain projects.

The following shows the breakdown of gross profit/(loss) by business segments for the years 2019, 2018 and 2017 respectively:

	For the financial year ended 31 December								
	2019			2018			2017		
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	328,989	20	103	105,830	11	59	38,207	8	43
2 Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries	(7,649)	(6)	(2)	78,343	16	43	46,745	21	52
3 Provision of technical support services for shipbuilding industry	395	3	–	(1,329)	(10)	(1)	(2,453)	(14)	(3)
4 Others	(1,441)	(40)	(1)	(2,339)	(52)	(1)	6,927	34	8
Total	320,294		100	180,505		100	89,426		100

Other income

Other income of the Group in year 2019 amounted to approximately RMB58,353,000, mainly comprising interest income, insurance compensation income and income from government grants.

Administrative and other operating expenses

Administrative and other operating expenses in aggregate decreased by 13% or RMB39,939,000 as compared with that of year 2018 to approximately RMB259,852,000, primarily due to decrease in exchange losses and share option expenses compared to that of last year.

Finance costs

Finance costs in aggregate amounted to approximately RM39,452,000 in year 2019, which was mainly comprised of interests on bank and other borrowings of approximately RMB32,795,000 and bank charges and other finance costs of approximately RMB6,657,000.

Profit attributable to owners of the Company and earnings per share

In summary, in year 2019, profit attributable to owners of the Company amounted to approximately RMB4,424,000, which represented a decrease of 83.39% or RMB22,213,000 as compared to that of RMB26,637,000 in year 2018. Basic and diluted earnings per share attributable to owners of the Company for year 2019 were RMB0.0027 and RMB0.0027 respectively.

2. LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the working funds (cash and cash equivalent) of the Group amounted to approximately RMB808,766,000 (2018: RMB902,562,000). During the year, net cash inflow from operating activities amounted to approximately RMB148,754,000, net cash outflow from investing activities amounted to approximately RMB102,924,000, and net cash outflow from financing activities amounted to approximately RMB163,536,000.

As at 31 December 2019, the Group had approximately RMB570,323,000 (2018: RMB630,523,000) of available undrawn banking facilities. Available undrawn banking facilities include bank borrowings, letters of credit, bank guarantees, etc.

As at 31 December 2019, the Group had obtained bank guarantees under performance bonds for construction contracts of approximately RMB497,632,000 (2018: RMB171,699,000).

3. CAPITAL STRUCTURE

As of 31 December 2019, the share capital of the Company comprises 1,634,016,389 ordinary shares (2018: 1,634,016,389 ordinary shares). As at 31 December 2019, net assets of the Group amounted to approximately RMB2,150,993,000 (2018: RMB2,133,016,000), comprising non-current assets of approximately RMB1,716,353,000 (2018: RMB1,668,337,000), net current assets of approximately RMB962,943,000 (2018: RMB903,067,000) and non-current liabilities of approximately RMB528,303,000 (2018: RMB438,388,000).

4. SIGNIFICANT INVESTMENT

During the year, the construction of the foundation of Penglai Jutal's west factory area, the construction site as well as the auxiliary work to wind energy, water energy and electric energy was already completed in 2019, with total investment of approximately RMB72,000,000;

The reconstruction of the Penglai site leased by Penglai Jutal and the bridge engineering have started in the second half of 2019, and has now entered the peak construction period. They are expected to be completed in the first half of 2020, with a total investment of approximately RMB30 million;

The construction of Jutal administrative buildings in Zhuhai was already completed in 2019, with a total investment of approximately RMB35,000,000.

Apart from the above, the Group had no other significant investment during the year ended 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

5. FOREIGN EXCHANGE RISK

Most of the Group's business transactions, assets and liabilities are principally denominated in RMB, Euro and United States dollars (US$). During the years ended 31 December 2019 and 2018, the Group has entered into foreign exchange forward contracts to hedge the foreign currency risk arising from certain of its contract revenue and trade receivables denominated in Euro and US$. The Group currently does not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities.

6. ASSETS PLEDGED BY THE GROUP

As at 31 December 2019, approximately RMB56,813,000 (2018: RMB69,040,000) of the bank deposits and approximately RMB9,507,000 (2018: RMB8,846,000) of other receivables of the Group were pledged as security deposits for bank and other borrowings, the issuance of performance bonds, letter of credits and bank acceptance.

As at 31 December 2019, the carrying amount of fixed assets pledged as security for the Group's bank and other borrowings amounted to approximately RMB105,686,000 (2018: RMB124,423,000).

7. CONTINGENT LIABILITIES

The Group is a defendant in a lawsuit brought during the year ended 2018 claiming approximately RMB8.2 million together with interest relating to subcontracting services rendered by a subcontractor (the "Plaintiff"). The Group has filed a counterclaim against the Plaintiff for approximately RMB3.7 million. The lawsuit is now being proceeded and has not been completed up to the date of this report.

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

Save as disclosed above, as at 31 December 2019 and 31 December 2018, the Group did not have other significant contingent liabilities.

8. CAPITAL MANAGEMENT

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

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

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

The gearing ratios of the Group at 31 December 2019 and at 31 December 2018 were as follows:

	2019 RMB'000	2018 RMB'000
Bank and other borrowings	682,042	805,999
Total equity	2,150,993	2,133,016
Gearing ratio	31.71%	37.79%

The decrease in the gearing ratio in 2019 was mainly due to the decrease in total borrowings. The Group adjusts the amount of bank and other borrowings from time to time in light of changes in conditions to meet the Group's working capital needs.

9. EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group had total 3,172 employees (31 December 2018: 2,747 employees), of which 1,428 (31 December 2018: 1,201) were management and technical staff, and 1,641 (31 December 2018: 1,546) were technicians.

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

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

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Liu Lei (劉雷), aged 53, is an executive director and chairman of the Company. Mr. Liu obtained a Bachelor of Engineering degree from the Chinese People's Liberation Army General Logistics Institute (中國人民解放軍學院) in 1988. He joined Beijing Sanju Environmental Protection and New Materials Co., Ltd. (北京三聚環保新材料股份有限公司) ("Sanju"), a company established in the PRC with limited liability and listed on the Shenzhen Stock Exchange (Shenzhen Stock Exchange Stock Code 300072) in June 2000 as the chairman of Sanju. Mr. Liu has also been acting as the director and general manager of Beijing Haidian Technology Development Co., Ltd (北京海澱科技發展有限公司) as well as director or chairman of a number of companies including Beijing Daxing Foundation Technology Development Co., Ltd (北京大行基業科技發展有限公司) and Beijing Daxing Foundation business management Co., Ltd (北京大行基業商業管理有限公司). Mr. Liu was appointed as an executive director in June 2017.

Mr. Wang Lishan (王立山), aged 61, is an executive director of the Company. He was graduated from Dalian Polytechnic University (大連理工大學) in 1982 with a bachelor's degree in offshore oil construction engineering. Mr. Wang has rich experience of management and administration in the oil and gas industries. Prior to joining the Group, he worked in Bohai Petroleum Company Platform Manufacturing Factory (渤海石油公司平台製造廠) from 1982 to 1988 and Offshore Oil Company of Bohai Oil Company (渤海石油公司) from 1988 to 1995. Mr. Wang joined the Group in 1995, and was appointed as an executive director in November 2005.

Mr. Wang Ningsheng (王寧生), aged 48, is an executive director and president of the Company. He obtained a masters' degree in engineering management from Xi'an Jiaotong University (西安交通大學) in 2006. Mr. Wang joined Sanju in 2012 and had served as a director and executive deputy general manager of Sanju. As advised by Mr. Wang, prior to joining Sanju, he has held management positions at Catalyst Plant of CNPC Lanzhou Petrochemial Corporation* (中國石油石化催化劑廠) and Lanzhou Sanye Company of CNPC Lanzhou Petrochemical Corporation* (中國石油蘭州石油化工公司蘭州三葉公司). Mr. Wang was appointed as an executive director in January 2020.

Mr. Cao Yunsheng (曹雲生), aged 57, is an executive director of the Company. He was graduated from Tianjin College of Finance and Economics (天津財經學院) in 1988, majoring in accounting, and was graduated with a master degree in business administration from Tianjin University (天津大學) in 2004. Mr. Cao joined the Group in 2001 and had served as the deputy general manager and CEO. Prior to joining the Group, he was the supervisor of the finance department and chief accountant of Bohai Petroleum Company Platform Manufacturing Factory (渤海石油公司平台製造廠), the chief accountant of China Offshore Oil Platform Construction Company (中國海洋石油平台製造公司) and a financial controller of Offshore Oil Engineering Co., Ltd. (海洋石油工程股份有限公司). Mr. Cao was appointed as an executive director in November 2005.

Mr. Liu Yunian (劉玉年), aged 58, is an executive director and the executive vice president of the Group. Mr. Liu was graduated from Tianjin University (天津大學) in 1983 with a bachelor's degree in offshore engineering. He joined the Group in 2001, and has served as the operation manager, the deputy general manager and general manager of Penglai Jutal. Prior to joining the Group, Mr. Liu had served in CNOOC platform Fabrication Co. (中海油平台製造公司), Shenzhen Chiwan Offshore Engineering Co., Ltd. (深圳赤灣海洋工程有限公司). Mr. Liu was appointed as an executive director in June 2018.

Mr. Tang Hui (唐暉), aged 48, is an executive director and vice president of the Company. He was graduated from Luoyang Institute of Technology (洛陽工學院) with a bachelor's degree in vehicle engineering. Mr. Tang joined the Group in 2000, and has served as engineer, project manager, general manager of the Group's offshore oil and gas services business sector and assistant president of the Company. Prior to joining the Group, Mr. Tang had worked in Hunan Energy Group Co., Ltd. (湖南動力集團有限責任公司) and Hong Kong Far East Steel Engineering Co., Ltd. (香港遠東鋼鐵工程有限公司). Mr. Tang was appointed as an executive director in June 2018.

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Su Yang (蘇洋), aged 52, is an independent non-executive director of the Company. Mr. Su obtained a bachelor's degree in statistics from Hunan University (湖南大學) and the Certificate of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in 1992 and 1994 respectively. He has a wealth working experience in the field of accounting. Mr. Su had been project manager of Shenzhen Zhongcheng Certified Public Accountants (深圳中誠會計師事務所), department manager of Yuehua Certified Public Accountants Co., Ltd. Shenzhen (深圳岳華會計師事務所有限公司), a principal partner of Shenzhen TaiYang Certified Public Accountants (深圳泰洋會計師事務所) and a managing partner of Wuzhou Songde Certified Public Accountants (五洲松德聯合會計師事務所). He is currently a management partner of Grant Thornton Certified Public Accountants (致同會計師事務所). Mr. Su is also an independent non-executive director of Oriental Fashion Driving School Co., Ltd. (東方時尚駕駛股份有限公司) (Shanghai Stock Code 603377) and Shenzhen Edan Instruments Co., Ltd. (深圳市理邦精密儀器股份有限公司) (Shenzhen Stock Code 300206). Mr. Su was appointed as an independent non-executive director in August 2006.

Mr. Zheng Yimin (鄭益民), aged 58, 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 56, is an independent non-executive director of the Company. Mr. Qi graduated from Fudan University (復旦大學) with a bachelor's degree of science in Biophysics and a bachelor's degree of arts in International Journalism. He obtained a master's degree in Management from the University of Hawaii and a doctoral degree in Accounting from the Eli Broad College of Business, Michigan State University in the United States. Mr. Qi is currently a professor of Cheung Kong Graduate School of Business (長江商學院) and a member of the American Accounting Association. He had worked for The Chinese University of Hong Kong, the Eli Broad Graduate School of Management at Michigan State University in the United States, the East-West Center in the United States and the China Features in Xinhua News Agency in the PRC. Mr. Qi is also an independent non-executive director of Sohu.com Inc., Momo Inc., SinoMedia Holding Ltd. (中視金橋國際傳媒控股有限公司) (Hong Kong Stock Code 623), Bison Finance Group Limited (貝森金融集團有限公司) (Hong Kong Stock Code 888), Haidilao International Holdings Ltd. (海底撈國際控股有限公司) (Hong Kong Stock Code 6862) and Yunfeng Financial Group Limited (雲鋒金融集團有限公司) (Hong Kong Stock Code 376). Mr. Qi was appointed as an independent non-executive director in July 2015.

AUTHORISED REPRESENTATIVE AND COMPANY SECRETARY

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

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Zhao Wuhui (趙武會), aged 46, is the vice president of the Company and the Board secretary. Mr. Zhao graduated from Northeast Forestry University (東北林業大學) with a bachelor's degree in accounting in 1998, and obtained a MBA degree from the University of Wales in 2009. He joined the Group in March 2002, had served as finance manager of the Group and deputy general manager of Penglai Jutal. Prior to joining the Group, he had worked with Kerry Oils & Grains (China) Co., Ltd. (嘉裡糧油(中國)有限公司) and Everbright Timber Industry (Shenzhen) Co., Ltd. (光大木材工業(深圳)有限公司) as accountant and auditor.

Mr. Shi Fei (石飛), aged 51, is the vice president of the Company. He was graduated from Gansu University of Technology (甘肅工業大學) with a bachelor's degree in Engineering in 1992. Mr. Shi joined the Group in 2000 as a design manager and had worked in Propak Systems as engineer and manager from year 2003 to year 2014. Prior to joining to the Group, Mr. Shi had worked in Lanzhou Petroleum Machinery Research Institute (蘭州石油機械研究所).

Mr. Liu Dongtao (劉東濤), aged 45, is the executive deputy general manager of Penglai Jutal. He obtained a master's degree in business administration from Dalian University of Technology (大連理工大學) in 2015. Mr. Liu joined the Group in 2006 and has served as the operation manager, production supervisor, deputy general manager and executive deputy general manager of Penglai Jutal. Prior to joining the group, Mr. Liu had worked in CNOOC platform Fabrication Co. (中海油平台製造公司), Shenzhen Chiwan Offshore Engineering Co., Ltd. (深圳赤灣海洋工程有限公司) and Shenzhen Chiwan Shengbaowang Engineering Co., Ltd. (深圳赤灣勝寶旺工程有限公司).

Mr. Chen Xinzhou (陳新周), aged 41, is the deputy general manager of Penglai Jutal. He graduated from Northwest University (西北大學) with a bachelor's degree in accounting in 2003. Mr. Chen Joined the Group in 2006 and has served as senior accountant, finance manager of Zhuhai Jutal Offshore Oil Services Ltd. (珠海巨濤海洋石油服務有限公司) ("Zhuhai Jutal") and deputy general manager of Penglai Jutal. Prior to joining the Group, Mr. Chen had worked in Airmate Electric (Shenzhen) Co., Ltd. (艾美特電器(深圳)有限公司) and Dawn Optoelectronics (Dongguan) Co., Ltd. (敦樸光電(東莞)有限公司).

Mr. Liang Hai (梁海), aged 51, is the deputy general manager of Penglai Jutal. He was graduated from Tianjin University (天津大學) in 1991 with a bachelor's degree in offshore engineering. Mr. Liang joined the Group in 1999 and had served as project manager and assistant president. Prior to joining the Group, he had worked in Bohai Petroleum Platform Manufacturing Factory (渤海石油公司平台製造廠), Shenzhen Chiwan Offshore Engineering Co., Ltd. (深圳赤灣海洋工程有限公司) and Shenzhen Chiwan Sambawang Engineering Co. Ltd. (深圳赤灣勝寶旺工程有限公司).

Mr. Chen Die (陳耋), aged 49, is the deputy general manager of Penglai Jutal. He was graduated from University of Houston with a bachelor's degree in Chemical Engineering and a master degree in Electrical Engineering from University of Texas Austin. Mr. Chen joined Penglai Jutal in 2006, and has served as project manager, manager of project department, director of mechanical division and assistant general manager. Prior to joining the Group, Mr. Chen had worked in Shenzhen Chiwan Sembawang Engineering Co., Ltd. (深圳赤灣勝寶旺工程有限公司) and ConocoPhillips Co., Ltd.

DIRECTORS' REPORT

The directors of the Company (the "Directors") present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

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 "Chairman's Statement" and the "Management Discussion and Analysis" and the "Notes to the Consolidated Financial Statements" in this annual report. Details of major financial key performance indicators can be found in the "Management Discussion and Analysis" and "Financial Summary" in this annual report. These discussions form part of this directors' report.

The principal activities of the subsidiaries are set out in note 22 to the consolidated financial statements.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group always regards its employees as the most important partners, formulated various personnel management policies and offered reasonable wages and welfare on the basis of the well-being of its employees. The Group values internal training, and always encourages the employees' personal and career development through continuous education. The Group strives to create a fair and open competition environment, committed to nurturing dedicated talents who excel in management and have professional skills.

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

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

POLICIES ON HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION AND THE PERFORMANCE

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

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

DIRECTORS' REPORT

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

Adopting the quantitative indicators of energy conservation required by the country, the Group lowers the consumption of energy and water resource, promotes campaigns regarding energy conservation and consumption reduction and records the production volume and energy consumption of its products. Indicators for energy consumption have also been set up to decrease the energy consumption per unit of its products. The Group advocates the effective use and conservation of resources, tries to reuse reusable materials whenever possible so as to minimise the consumption of resources, strives to realise clean production, reduces wastes as much as possible, makes all-out efforts to prevent pollution, improves the working environment and labour condition continuously, and makes continuous improvement.

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

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's share premium reserve was approximately RMB1,733,618,000 (subject to section 34 of the Cayman Companies Law and the Article of Association of the Company), and the accumulated losses approximately RMB5,364,000 were available for distribution to the shareholders of the Company (the "Shareholders").

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

DIVIDEND POLICY

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

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

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

RESULTS AND DIVIDENDS

Details of the Group's result for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss on page 44.

The Board did not recommend payment of a final dividend for the year ended 31 December 2019.

SHARE CAPITAL AND TRANSACTIONS INVOLVING SHARES OF THE COMPANY

In 2019, the authorised share capital of the Company is HK$40,000,000 (comprising 4,000,000,000 ordinary shares).

As at 31 December 2019, the share capital of the Company comprised of 1,634,016,389 ordinary shares (2018: 1,634,016,389 ordinary shares).

PRE-EMPTIVE RIGHTS

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

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

During the year ended 31 December 2019 neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

USE OF THE RAISED PROCEEDS

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

DIRECTORS' REPORT

The net proceeds from the Subscription was approximately HK$962,000,000. As at 31 December 2019, the raised fund has been used as follows:

	Plan of use of proceeds from the Subscription as stipulated in the circular of the Company dated 11 May 2017	Use of proceeds from the Subscription as at 31 December 2019	Plan of use of the outstanding balance of the proceeds from the Subscription
(1)	Approximately HK$500 million for the working capital in EPIC projects; and in built – transfer projects relating to the oil and gas equipment and facilities	All has been used as planned	–
(2)	Approximately HK$250 million for the capital expenditure in improving and expanding the production facilities and office facilities in the Group's Zhuhai operation	Approximately HK$46 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$204 million will be kept for the Group's future capital expenditure in the production and office facilities as necessary
(3)	Approximately HK$212 million for the general working capital of the Group	All has been used as planned	–

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 120 of the annual report.

SHARE OPTION

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

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

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

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

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

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

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

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

From 1 January 2009 to 31 December 2019, 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 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 2019	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 2019	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	–	–
Total					800,000	–		–	800,000	–	–

DIRECTORS' REPORT

(ii) 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 2019	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 2019	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Cao Yunsheng	23/05/2011	23/05/2013 to 22/05/2021	1.06	1.04	1,000,000	–	–	–	–	1,000,000	0.06%
Other eligible participants	23/05/2011	23/05/2013 to 22/05/2021	1.06	1.04	550,000	–	–	–	–	550,000	0.03%
Total					1,550,000	–		–	–	1,550,000	0.09%

(iii) 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 2019	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 2019	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%

(iv) 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 2019	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 2019	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%

(v) Options granted in 2018

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of the Shares immediately before the date of granting the options (HK$)	Number of options as at 1 January 2019	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 2019	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Wang Lishan	09/01/2018	09/01/2019 to 08/01/2028	2.14	2.11	2,300,000	–	–	–	–	2,300,000	0.14%
Cao Yunsheng	09/01/2018	09/01/2019 to 08/01/2028	2.14	2.11	8,000,000	–	–	–	–	8,000,000	0.49%
Tang Hui	09/01/2018	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	–	–	–	–	1,500,000	0.09%
Liu Yunian	09/01/2018	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	–	–	–	–	1,500,000	0.09%
Su Yang	09/01/2018	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	–	–	–	–	1,500,000	0.09%
Zheng Yimin	09/01/2018	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	–	–	–	–	1,500,000	0.09%
Qi Daqing	09/01/2018	09/01/2019 to 08/01/2028	2.14	2.11	1,500,000	–	–	–	–	1,500,000	0.09%
Other eligible participants	09/01/2018	09/01/2019 to 08/01/2028	2.14	2.11	49,200,000	–	–	–	1,600,000	4,760,000	2.91%
Total					67,000,000	–	–	–	1,600,000	65,400,000	4.00%

(vi) Options granted in 2019

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of the Shares immediately before the date of granting the options (HK$)	Number of options granted during the year	Number of options exercised during the period	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 period	Number of options outstanding as at 31 December 2019	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Hong Kong Zhixin Financial News Agency Limited	29/05/2019	29/08/2019 to 28/05/2022	1.04	0.75	15,000,000	–	–	–	–	15,000,000	0.92%
Total					15,000,000	–		–	–	15,000,000	0.92%

DIRECTORS' REPORT

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	8 January 2020	Other job assignment
Mr. Wang Ningsheng	8 January 2020	–	–
Mr. Cao Yunsheng	24 November 2005	–	–
Mr. Liu Yunian	8 June 2018	–	–
Mr. Tang Hui	8 June 2018	–	–

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

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

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

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

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

The Group's emolument policies are as follows:

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

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

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

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

Other than as disclosed in note 14 and note 47 to the consolidated financial statements, no transaction, arrangements and contract of significance in relation to the Group's business to which the Company, its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REMUNERATION OF THE FIVE HIGHEST PAID DIRECTORS/EMPLOYEES

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

DIRECTORS' REPORT

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

At 31 December 2019, the interests and short positions of each Directors and chief executive in the shares, underlying shares and debentures of the company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" in the Listing Rules, were as follows:

Name of Directors	Capacity	Number of Shares *(Note 1)*	Approximate percentage of shareholding
Wang Lishan	Interest of a controlled corporation *(Note 2)*	396,911,278 (L)	24.29%
	Beneficial owner	6,000,000 (L)	0.37%
	Share options	12,300,000 (L)	0.75%
Cao Yunsheng	Interest of a controlled corporation *(Note 3)*	8,000,000 (L)	0.49%
	Beneficial owner	2,200,000 (L)	0.13%
	Share options	25,000,000 (L)	1.53%
Tang Hui	Beneficial owner	366,000 (L)	0.02%
	Share options	1,500,000 (L)	0.09%
Liu Yunian	Share options	1,500,000 (L)	0.09%
Qi Daqing	Beneficial owner	1,550,000 (L)	0.09%
	Share options	1,500,000 (L)	0.09%
Su Yang	Share options	1,500,000 (L)	0.09%
Zheng Yimin	Share options	1,500,000 (L)	0.09%

Notes:

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

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

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

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

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

At 31 December 2019, in addition to those of the Directors and chief executives already disclosed above, the register of substantial shareholders maintained by the Company pursuant to section 336 of Part XV of the SFO shows that the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name of Shareholder	Capacity	Number of Shares *(Note 1)*	Percentage of shareholding
Sanju Environmental Protection (Hong Kong) Limited	Beneficial owner *(Note 2)*	641,566,556 (L)	39.26%
Beijing Sanju Environmental Protection & New Materials Co., Ltd. (北京三聚環保新材料股份有限公司)	Interest of a controlled corporation *(Note 2)*	641,566,556 (L)	39.26%
Cheung Hing Investments Limited	Beneficial owner *(Note 3)*	396,911,278 (L)	24.29%
Wang Lishan	Interest of a controlled corporation *(Note 3)*	396,911,278 (L)	24.29%
	Beneficial owner	18,300,000 (L)	1.12%
Hong Man Chu	Interest of spouse *(note 4)*	161,995,555 (L)	9.91%
Lo Chun Yim	Interest of a controlled corporation *(Note 5)*	161,995,555 (L)	9.91%
Golden Talent (HK) Technology Co., Limited	Beneficial Owner *(Note 5)*	161,995,555 (L)	9.91%

Notes:

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

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

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

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

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

DIRECTORS' REPORT

MANAGEMENT CONTRACTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for 72.05% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 54.32% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 30% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 13% 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 2019 set out in note 47 to the consolidated financial statements constitute connected transactions as defined in chapter 14A of the Listing Rules and the Company has complied with the disclosure requirements in Chapter 14A of the Listing Rules.

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

On 14 November 2018, the Company entered into a master agreement ("Master Agreement") with Sanju (a connected person of the Company by virtue of its being an associate (as defined under the Listing Rules) of Sanju Environmental Protection (Hong Kong) Limited, a controlling shareholder (as defined under the Listing Rules) of the Company), pursuant to which Sanju, for itself and also as agent of its wholly-owned subsidiaries and controlling companies, agrees to engage the Group to provide: (i) purifying and refining device project contracting* (淨化及煉化相關的工程承包); (ii) special equipment/facilities manufacturing* (專用設備或裝置製造); and (iii) project management and labour outsourcing services* (項目管理或提供勞務派遣等服務) (the "Company Services"), and the Company also agrees to engage Sanju to provide products such as catalyst* (催化劑等物品的供貨) (the "Sanju Services") for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive) (the "Master Agreement Period").

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

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

The Independent Shareholders approved the Sanju CCT and the respective annual caps of Company Services and Sanju Services for the Master Agreement Period at the extraordinary general meeting held on 18 January 2019.

According to the Rule 14A.55 of the Listing Rules, the independent non-executive Directors had reviewed annually the continuing connected transactions with Sanju, and confirmed that the transactions contemplated thereunder have been entered into:

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

(2) on normal commercial terms; and

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

Further, in accordance with Rule 14A.56 of the Listing Rules, the Company's external auditor was requested and engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The external auditor has confirmed in writing to the Board that nothing has come to its attention that causes it to believe that the continuing connected transactions of the Group:

(1) have not been approved by the Board;

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

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

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

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

DIRECTORS' REPORT

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that the Company has maintained a sufficient public float of at least 25% throughout the year ended 31 December 2019.

PERMITTED INDEMNITY PROVISIONS

A permitted indemnity provision for the benefit of the Directors is currently in force throughout the year ended 31 December 2019. 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

31 March 2020

CORPORATE GOVERNANCE REPORT

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

In the opinion of the directors, the Company has complied with the Corporate Governance Code for the year ended 31 December 2019, save and except the Company provides the three board members, namely Mr. Liu Lei, Mr. Wang Lishan and Mr. Cao Yunsheng, with monthly internal financial statements, instead of all board members, because they are responsible for overseeing the financial affairs of the Company. The remaining Directors have accessed to the monthly internal financial statements as well. The reason for such deviation from the Code Provisions is to enhance the Company's cost-efficiency.

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

DIRECTORS' SECURITIES TRANSACTIONS

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

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

BOARD

The Board as at the date of this report comprises six executive Directors and three independent non-executive Directors.

Executive Directors

Mr. Liu Lei (Chairman), Mr. Wang Lishan, Mr. Wang Ningsheng, Mr. Cao Yunsheng, Mr. Liu Yunian, Mr. Tang Hui

Independent Non-executive Directors

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

In year 2019, Mr. Liu Lei and Mr. Cao Yunsheng were the chairman and the CEO of the Company respectively and the roles of chairman and the CEO are segregated and not exercised by the same individual. The biographical details of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

To the best knowledge of the Company, among the members of the Board, none of them has any financial, business and relative 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 their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that they are independent under Rule 3.13 of the Listing Rules.

In respect of the corporate governance functions, during the year 2019, the Board performed following corporate governance duties in accordance with the terms of reference on the corporate governance duties:

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

INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

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

ACCOUNTABILITY AND AUDIT

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

The statement of the external auditor of the Company on their reporting responsibilities on the consolidated financial statements of the Company is set out in the independent auditor's report on page 39.

RSM Hong Kong has been re-appointed as the Company's external auditor at the annual general meeting of 2019 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 2019 are as below:

	Fee paid/payable HK$
Audit services	1,500,000
Review of the interim report	350,000

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Company has established an audit committee with specific written terms of reference which deal clearly with its duties. The audit committee of the Company has three members, including the three independent non-executive Directors, which are Mr. Su Yang, Mr. Qi Daqing and Mr. Zheng Yimin. Mr. Su Yang is the chairman of the audit committee. The primary duties of the audit committee (inter alia) are to review the 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, three audit committee meetings were held to approve the renewed terms of reference of the Company's audit committee, discuss and approve the Company's consolidated financial statements and the dividend payment, renew the external auditor and the audit committee had meetings with the external auditor and adopted the auditor's suggestion and comments for improvement and made the management to implement. The audit committee also discussed the risk management and internal control systems with the management of the Company, and reviewed the effectiveness of these systems.

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

The audit committee reviewed and discussed with management and external independent auditors on the Company's consolidated financial statements for the year ended 31 December 2019. 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 2019. The audit committee also reviewed and recommended to the Board approval of the unaudited financial statements for the first six months of 2019, prior to public announcement and filing.

The audit committee recommended to the Board that the Shareholders be asked to re-appoint RSM Hong Kong as the Group's external independent auditor for year 2019.

REMUNERATION COMMITTEE

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

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

(1) annual salary review for 2019 for the Directors and the senior management; and

(2) 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, two nomination committee meetings were held in the year to:

(1) approve the renewal terms of reference of the Company's nomination committee

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

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

SUMMARY OF BOARD DIVERSITY POLICY

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

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

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

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

CORPORATE GOVERNANCE REPORT

THE DIRECTORS' ATTENDANCE AT THE MEETINGS

During the year 2019, the Board held 11 board meetings. The attendance record of each director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2019 is set out in the table below:

	Attendance/Number of meetings				
Name of Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Mr. Liu Lei	11/11	–	–	–	0/2
Mr. Wang Lishan	10/11	–	–	–	0/2
Mr. Lin Ke	11/11	–	–	–	0/2
Mr. Cao Yunsheng	11/11	–	–	–	1/2
Mr. Liu Yunian	9/11	–	–	–	0/2
Mr. Tang Hui	10/11	–	–	–	1/2
Mr. Su Yang	10/11	3/3	1/1	2/2	0/2
Mr. Zheng Yimin	11/11	3/3	1/1	2/2	0/2
Mr. Qi Daqing	8/11	3/3	1/1	2/2	0/2

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

COMPANY SECRETARY

Ms. Leung Fung Yee Alice was appointed as the Company Secretary in 2014. Her biographical details are set out in the section headed "Directors' and Senior Management". For the financial year ended 31 December 2019, Ms. Leung attended relevant professional training for not less than 15 hours pursuant to Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

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

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

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

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

Shareholders and investors are welcome to visit the Company's website and raise enquiries to our Board through our Investor Relations Department whose contact details are available on the website and in the "Corporate Information" of this annual report.

SIGNIFICANT CHANGES ON THE ARTICLES OF ASSOCIATION

During the year 2019, there is no significant change to the articles of association of the Company.

INDEPENDENT AUDITOR'S REPORT

RSM

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

OPINION

We have audited the consolidated financial statements of Jutal Offshore Oil Services Limited (the "Company") and its subsidiaries (the "Group") set out on pages 44 to 119, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

1. Goodwill impairment assessment

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

3. Expected loss allowance on trade and bills receivables

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 20 to the consolidated financial statements, a significant amount of the Group's goodwill of RMB52,444,000 has been allocated to the Group's offshore oil and natural gas exploration facilities fabrication business. Management has determined that there is no impairment in respect of this goodwill. This determination was based on a value in use model that required significant management judgement with respect to the discount rate and the assumptions underlying the forecast cash flows.	Our procedures in relation to management's impairment assessment of goodwill that has been allocated to the Group's offshore oil and natural gas exploration facilities fabrication business included: – Working with internal valuation specialists to assess the mathematical accuracy of the value in use model and the appropriateness of the discount rate used; – Challenging the reasonableness of key assumptions used in the cash flow projections based on our knowledge of the business and industry; and – Reconciling input data to supporting evidence, such as approved budgets and considering the historical accuracy of those budgets.
Recognition of revenue from construction contracts and other services contracts over time Refer to the key sources of estimation uncertainly in note 5(b) to the consolidated financial statements and the accounting policies set out in note 4(j) and 4(u) to the consolidated financial statements. The Group's business involves entering into contractual relationships with customers to provide fabrication and other technical support services. Revenue from construction contracts and other service contracts recognised over time amounted to approximately RMB1,673,280,000 and represents approximately 95% of the Group's turnover for the year ended 31 December 2019. For the revenue from construction contracts and other service contracts recognised over time, the Group recognise revenue of these contracts by using the percentage of completion method, depend on the nature of the contract works, measured by reference to the proportion of the actual costs incurred relative to the estimated total costs or to the percentage of certified work performed to date to the estimated total contract sum. Significant management estimates are required in relation to recognition of revenue from construction contracts and other service contracts over time including the determination of costs to complete and estimated total contract costs, the percentage of completion and the timing of revenue recognition.	Our procedures in relation to the significant estimates made by management regarding recognition of revenue from construction contracts and other services contracts over time included: – Evaluating and testing the effectiveness of internal controls over the calculation of contract revenues including those relating to (i) estimates of costs to complete and the total contract costs; (ii) the determination of the percentage of completion and timing of revenue recognition. – Performing substantive procedures on a sample basis including: (a) Examining signed contracts, statements of work, variation orders and certifications of work; (b) Assessing the reasonableness of management estimates of forecast costs to complete and total contract costs; and (c) Recalculating the percentage of completion for major contracts by reference to the proportion contract costs for work performed to date bear to the total estimated contract costs.

KEY AUDIT MATTERS (CONT'D)

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected loss allowance on trade and bills receivables Refer to note 24 to the consolidated financial statements and the accounting policies on note 4(cc) and note 5(e) to the consolidated financial statements. As at 31 December 2019, the Group recorded gross trade and bills receivables of RMB1,030,941,000 and loss allowance of RMB98,391,000, which were significant to the financial statements of the Group. The Group measures loss allowance on trade and bills receivables at amounts equal to lifetime expected credit losses. Expected credit losses ("ECL") on these financial assets are estimated using a provision matrix which involves significant management judgement in estimating the expected loss rate based on historical credit loss experience, adjusting factors that are specific to the debtors and assessment of both current and forecast general economic conditions. We identified the estimation of expected loss allowance of trade and bills receivables as a key audit matter because of the significance of the Group's trade and bills receivables balance to the consolidated financial statements, together with the significant degree of estimations made by the management in estimating ECL of trade and bills receivables which may affect their carrying values at the end of the reporting period.	Our procedures in relation to management's estimation of expected loss allowance of trade and bills receivables: – Obtained an understanding of how the management assesses the ECL of trade and bills receivables; – Tested the mathematical accuracy of the ECL model on trade and bills receivables prepared by the management; – Tested whether items in the ageing report were categorised appropriately on a sample basis; and – Assessed the reasonableness of the ECL by testing the accuracy of the historical default rate and examining the reasonableness of the forward looking information used by the management.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors are responsible for the Other Information. The Other Information comprises all the information included in Jutal Offshore Oil Services Limited's 2019 annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We communicate with the Audit Committee 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 Mr. Wong Tak Man, Stephen.

RSM Hong Kong
Certified Public Accountants
29th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong
31 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Turnover	*8*	1,760,624	1,485,964
Cost of sales and services		(1,440,330)	(1,305,459)
Gross profit		320,294	180,505
Other income	*9*	58,353	229,821
Impairment losses on trade and bills receivables		(70,912)	(18,939)
Impairment losses on other receivables		–	(8,756)
Reversal of impairment losses/(impairment losses) on contract assets		707	(1,416)
Administrative expenses		(220,684)	(230,105)
Other operating expenses		(39,168)	(69,686)
Profit from operations		48,590	81,424
Finance costs	*11*	(39,452)	(50,819)
Profit before tax		9,138	30,605
Income tax expense	*12*	(4,714)	(3,968)
Profit for the year	*13*	4,424	26,637
Attributable to:			
Owners of the Company		4,424	26,637
Earnings per share	*16*		
		RMB	RMB
Basic		0.27 cents	1.63 cents
Diluted		0.27 cents	1.62 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
Profit for the year	4,424	26,637
Other comprehensive income:		
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	24,084	54,935
Other comprehensive income for the year, net of tax	24,084	54,935
Total comprehensive income for the year	28,508	81,572
Attributable to:		
Owners of the Company	28,508	81,572

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Non-current assets			
Fixed assets	*17*	1,172,874	1,548,655
Prepaid land lease payments	*18*	–	287
Right-of-use assets	*19*	452,461	–
Goodwill	*20*	54,648	54,648
Intangible assets	*21*	6,509	5,758
Trade receivables, non-current	*24*	538	46,129
Other receivables, non-current	*27*	–	8,846
Deferred tax assets	*38*	29,323	4,014
		1,716,353	1,668,337
Current assets			
Inventories	*23*	194,251	80,669
Trade and bills receivables	*24*	932,012	543,712
Contract cost assets	*25*	69,654	56,316
Contract assets	*26*	161,777	406,382
Prepayments, deposits and other receivables	*27*	262,057	234,618
Derivative financial instruments	*28*	3,160	670
Due from directors	*29*	833	733
Current tax assets		751	2,285
Pledged bank deposits	*30*	56,813	69,040
Bank and cash balances	*30*	808,330	900,712
		2,489,638	2,295,137
Current liabilities			
Trade and bills payables	*31*	748,993	659,695
Contract liabilities	*26*	299,110	53,702
Accruals and other payables	*32*	108,731	112,763
Derivative financial instruments	*28*	769	390
Provisions	*34*	58,117	82,664
Bank and other borrowings	*35*	289,342	470,331
Deferred income	*37*	8,942	–
Lease liabilities	*33*	12,691	–
Current tax liabilities		–	12,525
		1,526,695	1,392,070
Net current assets		962,943	903,067
Total assets less current liabilities		2,679,296	2,571,404

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Deferred income	*37*	34,824	37,071
Lease liabilities	*33*	37,474	–
Bank and other borrowings	*35*	392,700	335,668
Deferred tax liabilities	*38*	63,305	65,649
		528,303	438,388
NET ASSETS		2,150,993	2,133,016
Capital and reserves			
Share capital	*39*	14,755	14,755
Reserves	*42(a)*	2,136,238	2,118,261
TOTAL EQUITY		2,150,993	2,133,016

Approved by the Board of Directors on 31 March 2020 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 2019

	Attributable to owners of the Company									
	Share capital (Note 39) RMB'000	Share premium account (Note 42(c)(i)) RMB'000	Special reserve (Note 42(c)(iii)) RMB'000	Convertible loan notes equity reserve (Note 42(c)(vi)) RMB'000	Foreign currency translation reserve (Note 42(c)(v)) RMB'000	Share-based payment reserve (Note 42(c)(ii)) RMB'000	Statutory reserves (Note 42(c)(iv)) RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total equity RMB'000
At 1 January 2018	14,739	1,730,346	(52,040)	2,951	(98,057)	8,199	40,275	371,884	40,637	2,058,934
Adjustment on initial application of										
– HKFRS 9	–	–	–	–	–	–	–	(827)	–	(827)
– HKFRS 15	–	–	–	–	–	–	–	(4,312)	–	(4,312)
Restated balance at 1 January 2018	14,739	1,730,346	(52,040)	2,951	(98,057)	8,199	40,275	366,745	40,637	2,053,795
Issue of shares on exercise of share options *(note 39(a))*	16	3,272	–	–	–	(695)	–	–	–	2,593
Total comprehensive income for the year	–	–	–	–	54,935	–	–	26,637	–	81,572
Share-based payments	–	–	–	–	–	35,743	–	–	–	35,743
Dividend paid	–	–	–	–	–	–	–	(50)	(40,637)	(40,687)
Proposed final dividend	–	–	–	–	–	–	–	(28,635)	28,635	–
Changes in equity for the year	16	3,272	–	–	54,935	35,048	–	(2,048)	(12,002)	79,221
At 31 December 2018 and 1 January 2019	14,755	1,733,618	(52,040)	2,951	(43,122)	43,247	40,275	364,697	28,635	2,133,016
Total comprehensive income for the year	–	–	–	–	24,084	–	–	4,424	–	28,508
Share-based payments	–	–	–	–	–	18,104	–	–	–	18,104
Share options forfeited	–	–	–	–	–	(359)	–	359	–	–
Dividend paid	–	–	–	–	–	–	–	–	(28,635)	(28,635)
Changes in equity for the year	–	–	–	–	24,084	17,745	–	4,783	(28,635)	17,977
At 31 December 2019	14,755	1,733,618	(52,040)	2,951	(19,038)	60,992	40,275	369,480	–	2,150,993

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	9,138	30,605
Adjustments for:		
Finance costs	39,452	50,819
Equity settled share-based payments	18,104	35,743
Interest income	(6,333)	(13,055)
Depreciation of fixed assets	103,322	121,848
Depreciation of right-of-use assets	23,478	–
Amortisation of prepaid land lease payments	–	65
Amortisation of intangible assets	1,079	780
Net loss on disposals of fixed assets	499	657
Written off of right-of-use assets	186	–
Reversal of allowances for inventories	(1,698)	(6,588)
Impairment losses on trade and bills receivables, net	70,912	18,939
Impairment losses on other receivables	–	8,756
(Reversal of impairment losses)/impairment losses on contract assets	(707)	1,416
Provisions of warranty, net	(24,547)	19,832
Reversal of provision for claim on construction contract	–	(158,018)
Fair value changes on derivative financial instruments	(3,287)	(4,904)
Government grants income	(16,484)	(14,707)
Operating profit before working capital changes	213,114	92,188
Increase in inventories	(111,884)	(16,813)
Increase in trade and bills receivables	(413,621)	(187,938)
Increase in contract cost assets	(13,338)	(56,316)
Decrease in contract assets	245,312	901
Increase in prepayments, deposits and other receivables	(18,594)	(93,837)
Increase in amounts due from directors	(99)	(322)
Increase/(decrease) in trade and bills payables	89,298	(295,740)
Increase in contract liabilities	245,408	16,178
Decrease in accruals and other payables	(4,032)	(13,952)
Provision for claim on construction contract used	–	(978)
Cash generated from/(used in) operations	231,564	(556,629)
Income taxes paid	(43,358)	(43,130)
Interest paid	(32,795)	(44,801)
Interest on lease liabilities	(1,510)	–
Other finance costs	(5,147)	(6,018)
Net cash generated from/(used in) operating activities	148,754	(650,578)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	6,333	13,055
Purchases of fixed assets	(141,428)	(51,809)
Proceeds from disposals of fixed assets	598	2,364
Purchase of intangible assets	(1,830)	(3,596)
Payments for right-of-use assets	(1,765)	–
Decrease in pledged bank deposits	10,813	219,401
Government grants received	23,179	11,908
Net receipt from settlement of derivative financial instruments	1,176	9,489
Net cash (used in)/generated from investing activities	(102,924)	200,812

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank borrowings raised		196,500	559,500
Repayment of bank borrowings		(320,457)	(599,273)
Dividend paid		(28,635)	(40,687)
Principal elements of lease payment	*43(a)/(b)*	(10,944)	–
Repayment of loan from ultimate holding company		–	(80,000)
Proceeds from issue of shares on exercise of share options	*39(a)*	–	2,593
Net cash used in financing activities		(163,536)	(157,867)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(117,706)	(607,633)
Effect of foreign exchange rate changes		23,910	54,930
CASH AND CASH EQUIVALENTS AT 1 JANUARY		902,562	1,455,265
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		808,766	902,562
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		808,330	900,712
Pledged bank deposits		436	1,850
		808,766	902,562

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

	2019 RMB'000	2018 RMB'000
Pledged bank deposits (mature in three months or less)	436	1,850
Pledged bank deposits (mature after three months)	56,377	67,190
	56,813	69,040

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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, and the People's Republic of China (the "PRC"). The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 22 to the consolidated financial statements.

In the opinion of the directors of the Company, as at 31 December 2019, Sanju Environmental Protection (Hong Kong) Limited, a company incorporated in Hong Kong, is the immediate parent of the Company; and Beijing Sanju Environmental Protection & New Materials Co., Limited ("Beijing Sanju"), a company incorporated in the 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 new HKFRS, HKFRS 16 Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 Leases, and the related interpretations, HK(IFRIC) 4 Determining whether an Arrangement contains a Lease, HK(SIC) 15 Operating Leases-Incentives and HK(SIC) 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. HKFRS 16 introduced a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

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

HKFRS 16 Leases (Cont'd)

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied the incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.9%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(a) elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(b) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in a similar economic environment. Specifically, discount rate for certain leases of leasehold lands and properties was determined on a portfolio basis;

(c) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension options;

(d) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

(e) relied on the assessment of whether leases are onerous by applying HKAS 37 as an alternative to an impairment review.

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

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

HKFRS 16 Leases (Cont'd)

(ii) Lessee accounting and transitional impact (Cont'd)

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

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

The following table reconciles the operating lease commitments as at 31 December 2018 as disclosed in note 46 to the opening balance for lease liabilities recognised as at 1 January 2019:

	RMB'000
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	8,380
Less: Commitments relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(827)
Add: Lease payments for leases entered into and commenced on 1 January 2019	41,658
	49,211
Less: Total future interest expenses	(11,410)
Lease liabilities recognised as at 1 January 2019	37,801
Of which are:	
Current lease liabilities	7,854
Non-current lease liabilities	29,947
	37,801

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of consolidated financial position at 31 December 2018.

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

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "Finance leases payables", these amounts are included within "Lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

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

HKFRS 16 Leases (Cont'd)

(ii) Lessee accounting and transitional impact (Cont'd)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16	*Note*	Carrying amount as at 31 December 2018 RMB'000	Effects of adoption of HKFRS 16: Reclassification RMB'000	Effects of adoption of HKFRS 16: Recognition of leases RMB'000	Carrying amount as at 1 January 2019 RMB'000
Assets					
Right-of-use assets		–	413,080	37,801	450,881
Fixed assets	*(a)*	1,548,655	(412,793)	–	1,135,862
Prepaid land lease payments	*(a)*	287	(287)	–	–
Liabilities					
Lease liabilities		–	–	37,801	37,801

Note:

(a) Upfront payments for leasehold lands in the PRC own used properties were classified as prepaid land lease payments as at 31 December 2018. Upon application of HKFRS 16, the prepaid land lease payments amounting to RMB413,080,000 were classified to right-of-use assets.

(iii) Impact of the financial results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their principal element and interest element (note 43(a)). These elements are classified as financing cash outflows and operating cash outflows respectively. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (note 43(b)).

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

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

HKFRS 16 Leases (Cont'd)

(iii) Impact of the financial results and cash flows of the Group (Cont'd)

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16 RMB'000	Add back: HKFRS 16 depreciation and interest expense RMB'000	Deduct: Estimated amounts related to operating lease as if under HKAS 17 *(note 1)* RMB'000	Hypothetical amounts for 2019 as if under HKAS 17 RMB'000	Compared to amounts reported for 2018 under HKAS 17 RMB'000
Financial result for year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	48,590	11,432	(12,454)	47,568	81,424
Finance costs	(39,452)	1,510	–	(37,942)	(50,819)
Profits before tax	9,138	12,942	(12,454)	9,626	30,605
Profit for the year	4,424	12,942	(12,454)	4,912	26,637

	2019			2018
	Amounts reported under HKFRS 16 RMB'000	Estimated amounts related to operating leases as if under HKAS 17 *(notes 1 & 2)* RMB'000	Hypothetical amounts for 2019 as if under HKAS 17 RMB'000	Compared to amounts reported for 2018 under HKAS 17 RMB'000
Line items in the consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from/(used in) operations	231,564	(12,454)	219,110	(556,629)
Interest element of lease rentals paid	(1,510)	1,510	–	–
Net cash generated from/(used in) operating activities	148,754	(10,944)	137,810	(650,578)
Capital element of lease rentals paid	(10,944)	10,944	–	–
Net cash (used in)/generated from financing activities	(163,536)	10,944	(152,592)	(157,867)

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For the year ended 31 December 2019

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

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

HKFRS 16 Leases (Cont'd)

(iii) Impact of the financial results and cash flows of the Group (Cont'd)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

(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 2019. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3 Definition of a Business	1 January 2020
Amendments to HKAS 1 and HKAS 8 Definition of Material	1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform	1 January 2020

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Consolidation (Cont'd)

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

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

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

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

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment loss, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(b) Business combination and goodwill

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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

(c) Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

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

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Foreign currency translation (Cont'd)

(iii) Translation on consolidation (Cont'd)

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

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

(d) Property, plant and equipment

Property, plant and equipment, including buildings and leasehold land (upon application of HKFRS 16 at 1 January 2019, the interest in leasehold land was reclassified to "Right-of-use assets", see note 3), 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.

(e) Intangible assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Leases

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

The Group as lessee

Policy applicable from 1 January 2019

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

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

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

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

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

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

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

The Group presents right-of-use assets that do not meet the definition of investment properties and lease liabilities separately in the consolidated statement of financial position.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Leases (Cont'd)

The Group as lessee (Cont'd)

Policy prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases, except for the property held under operating leases that would otherwise meet the definition of an investment property was classified as investment property on a property-by-property basis and, if classified.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset. Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

(g) Inventories

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

(h) Other contract costs

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Other contract costs (Cont'd)

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

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

(i) Contract assets and contract liabilities

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

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

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

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

(j) Construction contracts

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Construction contracts (Cont'd)

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

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

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

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

(k) Recognition and derecognition of financial instruments

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Financial assets

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

Debt investments

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

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

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

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

(m) Trade and other receivables

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

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

(n) Cash and cash equivalents

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

(o) Financial liabilities and equity instruments

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

(p) Borrowings

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Financial guarantee contract liabilities

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

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

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

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

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

(r) Trade and other payables

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

(s) Equity instruments

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

(t) Derivate financial instruments

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

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

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

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

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

(u) Revenue recognition

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(u) Revenue recognition (Cont'd)

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

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

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

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

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

(v) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

(iii) Termination benefits

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

(w) Share-based payments

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(x) Borrowing costs

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

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Effective at 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings.

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

(y) Government grants

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

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

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

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

(z) Taxation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(z) Taxation (Cont'd)

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

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

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

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

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

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

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

(aa) Research and development expenditure

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

(bb) Impairment of non-financial assets

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(cc) Impairment of financial assets and contract assets

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

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

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

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

Significant increase in credit risk

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

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

– an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

– significant deterioration in external market indicators of credit risk for a particular financial instrument;

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

– an actual or expected significant deterioration in the operating results of the debtor;

– significant increases in credit risk on other financial instruments of the same debtor;

– an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

Significant increase in credit risk (Cont'd)

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

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

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

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

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

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

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

Definition of default

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the counterparty;
- a breach of contract, such as a default or past due event;
- the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

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

Measurement and recognition of ECL

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(dd) Related parties

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

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

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

(ii) has significant influence over the Group; or

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

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

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

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

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(ee) Provisions and contingent liabilities

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

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

(ff) Events after the reporting period

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

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting polices

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

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

As stated in note 17 to the consolidated financial statements, a subsidiary of the Group, Penglai Jutal is still in the process of obtaining the land use right certificates of certain leasehold lands located in the PRC with carrying amount of approximately RMB10,338,000 (2018: RMB30,785,000) and obtaining the ownership certificates of certain building structures erected on these leasehold lands that were not yet obtain the land use right certificates with the carrying amount of approximately RMB55,981,000 (2018: RMB60,440,000).

In additional, Penglai Jutal is in the process of obtaining the ownership certificates of other building structures with carrying amounts of RMB20,820,000 (2018: RMB40,688,000). These building structures were erected on certain leasehold lands which Penglai Jutal has obtained the land use right certificates.

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

(b) *Significant increase in credit risk*

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

(c) *Other contract costs*

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

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

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

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For the year ended 31 December 2019

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 2019 was approximately RMB1,172,874,000 (2018: RMB1,548,655,000).

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

As explained in policy notes 4(j) and 4(u), revenue from technical support services and certain construction contracts are recognised over time. The Group recognise revenue of these contracts by using the percentage of completion method measured by reference to the proportion of the actual costs incurred relative to the estimated total costs or to the percentage of certified work performed. Significant judgements and estimations are required in determining the completeness of the estimated total costs and the accuracy of progress towards complete satisfaction of the performance obligations. As part of this process, the estimated total costs of each contract will be reviewed periodically. Changes in cost estimates in future periods can have effect on the Group's revenue recognised. During the year, approximately RMB514,181,000 (2018: RMB546,458,000) of revenue from these contracts (contracts which the percentage of completion is measured by reference to the actual costs incurred relative to the estimated total cost) was recognised.

(c) *Income taxes*

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the year, approximately RMB4,714,000 (2018: RMB3,968,000) of income tax was charged to profit or loss based on the Group's estimated profit for the year.

(d) *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the 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 (2018: RMB54,648,000).

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

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

As at 31 December 2019, the carrying amount of trade and bills receivables and contract assets is RMB1,094,327,000 (net of allowance for doubtful debts of RMB99,660,000) (2018: RMB996,223,000 (net of allowance for doubtful debts of RMB29,455,000)).

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$"). During the years ended 31 December 2019 and 2018, the Group entered into foreign exchange forward contracts to hedge the foreign currency risk arising from certain of its contract revenue and trade receivables denominated in Euro and US$. The Group currently does not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities.

At 31 December 2019, 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 RMB14,383,000 (2018: RMB5,191,000) 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 RMB14,383,000 (2018: RMB5,191,000) higher, arising mainly as a result of the foreign exchange gain on bank deposits and net position of trade receivables and trade payables denominated in US$.

As set out in note 28 of the consolidated financial statements, at the end of the reporting period, the Group had outstanding foreign currency forward contracts which also expose the Group to foreign currency risk.

At 31 December 2019 and 2018, all outstanding foreign currency forward contracts are used to hedge the risk of depreciation of US$ against RMB and depreciation of Euro against RMB. The directors of the Group consider that the foreign currency exposure in respect of the outstanding foreign currency forward contracts for the years ended 31 December 2019 and 2018 is insignificant to the Group and therefore no sensitivity analysis is presented thereon.

(b) Credit risk

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

Trade and bills receivables and contract assets

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

The Group measures loss allowances for trade and bills receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix.

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For the year ended 31 December 2019

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

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

For the year ended 31 December 2019, the Group assessed that trade and bills receivables arising from entering business with Small and medium-sized enterprises (Group 2) and with those larger size enterprises (Group1) (e.g. state-owned enterprises; well-established or listed companies) are subject to different loss patterns and therefore determined to segment those trade and bills receivables into two different groups which would better reflect the shared credit risk characteristics of the customers in each grouping.

For the year ended 31 December 2018, the Group 's loss allowance based on past due status had not distinguished between the Group's different customer bases.

The following tables provide information about the Group's exposure to credit risk and ECLs for trade and bills receivables as at 31 December 2019:

As at 31 December 2019

	Current	Not more than 90 days past due	More than 90 days past due	More than 180 days past due	More than 1 year past due	More than 2 years past due	Total
Trade and bills receivables							
Expected loss rate							
– Collectively assessed							
• Group 1	0.11%	0.66%	3.47%	5.13%	8.01%	100%	
• Group 2	1.39%	2.23%	11.73%	16.31%	16.72%	100%	
Gross carrying amount							
– Collectively assessed							
• Group 1 (RMB'000)	726,309	45,401	3,537	45,826	59,035	7,336	887,444
• Group 2 (RMB'000)	10,701	2,503	4,043	6,408	2,792	–	26,447
– Specifically assessed (RMB'000)	32,134	1,306	12,030	9,180	53,342	9,058	117,050
Total	769,144	49,210	19,610	61,414	115,169	16,394	1,030,941
Loss allowance							
– Collectively assessed							
• Group 1 (RMB'000)	774	300	123	2,353	4,731	7,336	15,617
• Group 2 (RMB'000)	149	56	474	1,045	467	–	2,191
– Specifically assessed (RMB'000)	14,042	815	7,504	6,077	44,189	7,956	80,583
Total	14,965	1,171	8,101	9,475	49,387	15,292	98,391

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

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

As at 31 December 2018

	Current	Not more than 90 days past due	More than 90 days past due	More than 180 days past due	More than 1 year past due	More than 2 years past due	Total
Trade and bills receivables							
Expected loss rate	0.39%	1.20%	6.51%	14.78%	19.16%	100%	
Gross carrying amount							
– Collectively assessed (RMB'000)	488,618	62,376	13,512	7,909	4,639	1,396	578,450
– Specifically assessed (RMB'000)	–	–	–	28,944	6,454	3,472	38,870
Total	488,618	62,376	13,512	36,853	11,093	4,868	617,320
Loss allowance							
– Collectively assessed (RMB'000)	1,926	751	880	1,169	1,035	1,396	7,157
– Specifically assessed (RMB'000)	–	–	–	17,373	2,520	429	20,322
Total	1,926	751	880	18,542	3,555	1,825	27,479

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

Expected loss rate of contract assets is assessed to be 0.78% (2018: 0.48%). As at 31 December 2019, the loss allowance provision for contract assets amounted to RMB1,269,000 (2018: RMB1,976,000).

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables and contract assets.

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

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

	Trade and bills receivables RMB'000	**Contract assets** RMB'000	**Total** RMB'000
At 1 January 2018	8,540	560	9,100
Impairment losses recognised for the year	18,939	1,416	20,355
At 31 December 2018 and 1 January 2019	27,479	1,976	29,455
Impairment losses/(reversal of impairment losses) recognised for the year	70,912	(707)	70,205
At 31 December 2019	**98,391**	**1,269**	**99,660**

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For the year ended 31 December 2019

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk (Cont'd)

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

The following changes in the gross carrying amounts of trade and bills receivables and contract assets contributed to the increase in the loss allowance during 2019:

- origination of new trade receivables net of those settled resulted in an increase in loss allowance of RMB9,048,000; and
- increase in days past due over 90 days resulted in an increase in loss allowance of RMB59,736,000.

Other receivables and amount due from directors

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

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

	Other receivables RMB'000
At 1 January 2018	2,846
Impairment losses recognised for the year	8,756
At 31 December 2018 and 1 January 2019	11,602
Impairment losses recognised for the year	–
At 31 December 2019	**11,602**

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

(c) Liquidity risk

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

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

	On demand or less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2019					
Trade and bills payables	**748,993**	**–**	**–**	**–**	**748,993**
Accruals and other payables	**108,731**	**–**	**–**	**–**	**108,731**
Bank and other borrowings *(note)*	**318,752**	**77,752**	**346,683**	**–**	**743,187**
At 31 December 2018					
Trade and bills payables	659,695	–	–	–	659,695
Accruals and other payables	112,763	–	–	–	112,763
Bank and other borrowings	492,880	205,853	165,113	–	863,846

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (Cont'd)

Note:

Bank borrowings with a repayment on demand clause are included in the 'on demand or less than 1 year' time band in the above maturity analysis. As at 31 December 2019, the undiscounted aggregate principal amounts of these bank borrowings amounted to approximately RMB99,800,000 (2018: RMB151,164,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the bank will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank borrowings will be repaid in two (2018: two) years after the end of the reporting period in accordance with the scheduled repayment dates or conditions set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to approximately RMB105,249,000 (2018: RMB164,976,000).

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2019					
Derivative – gross settlement					
Foreign exchange forward contracts					
– Inflow	91,610	29,612	–	–	121,222
– Outflow	(90,223)	(28,565)	–	–	(118,788)
	1,387	1,047	–	–	2,434
At 31 December 2018					
Derivative – gross settlement					
Foreign exchange forward contracts					
– Inflow	53,439	41,613	28,222	–	123,274
– Outflow	(53,551)	(41,223)	(28,220)	–	(122,994)
	(112)	390	2	–	280

(d) Interest rate risk

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

At 31 December 2019, if interest rates had been 100 basis points lower with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB3,727,000 (2018: RMB2,718,000) lower, arising mainly as a result of lower interest income on bank deposits. If interest rates had been 100 basis points higher, with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB3,727,000 (2018: RMB2,718,000) higher, arising mainly as a result of higher interest income on bank deposits.

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

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6. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) Categories of financial instruments at 31 December

	2019 RMB'000	2018 RMB'000
Financial assets:		
Financial assets measured at amortised cost	1,950,446	1,694,192
Derivative financial instruments – held for trading	3,160	670
Financial liabilities:		
Financial liabilities at amortised cost	1,539,766	1,578,457
Derivative financial instruments – held for trading	769	390

(f) Fair values

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

7. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

	Fair value measurements as at	
Description	31 December 2019 using level 2 RMB'000	31 December 2018 using level 2 RMB'000
Recurring fair value measurements:		
Financial assets		
Derivatives		
Foreign currency forward	3,160	670
Financial liabilities		
Derivatives		
Foreign currency forward	769	390

7. FAIR VALUE MEASUREMENTS (CONT'D)

(b) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2019:

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 2019.

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			
			2019		2018	
Description	Valuation technique	Key inputs	RMB'000		RMB$'000	
			Assets	Liabilities	Assets	Liabilities
Derivatives – foreign currency forward	Discounted cash flows	Forward exchange rate; Contract forward rates; and Discount rate	3,160	(769)	670	(390)

There were no changes in the valuation techniques used for the years ended 31 December 2019 and 2018.

8. TURNOVER

(a) Disaggregation of revenue

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

Revenue from contracts with customers within the scope of HKFRS 15	2019 RMB'000	2018 RMB'000
Disaggregated by type of contract		
– Revenue from construction contracts	1,536,767	914,932
– Trading of oil and gas, chemical and other energy products	52,628	507,083
– Technical support services	171,229	63,949
	1,760,624	1,485,964

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

For the year ended 31 December	Revenue from construction contracts		Trading of oil and gas, chemical and other energy products		Technical support services		Total	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Timing of revenue recognition								
Goods and services transferred at a point in time	34,716	88,113	52,628	507,083	–	–	87,344	595,196
Goods and services transferred over time	1,502,051	826,819	–	–	171,229	63,949	1,673,280	890,768
Total	1,536,767	914,932	52,628	507,083	171,229	63,949	1,760,624	1,485,964

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8. TURNOVER (CONT'D)

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

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 and the expected timing of recognising revenue as follows:

	Construction contracts		Trading of oil and gas, chemical and other energy products		Technical support services	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Within one year	2,625,506	1,505,126	–	30,665	42,620	6,971
More than one year but not more than two years	2,236,205	732,506	–	–	–	–
More than two years	148,016	284,913	–	–	–	–
	5,009,727	2,522,545	–	30,665	42,620	6,971

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

9. OTHER INCOME

	2019 RMB'000	2018 RMB'000
Reversal of provision of claim	–	158,018
Compensation income	9,017	12,647
Reversal of allowance for inventories	1,698	6,588
Government grants recognised *(note a)*	16,484	14,707
Interest income on bank deposits	6,333	13,055
Fair value gains on derivative financial instruments	3,287	4,904
Reversal of other receivable previously written off	5,000	5,000
Others	16,534	14,902
	58,353	229,821

Note:

(a) For the year ended 31 December 2019, government grants of approximately RMB3,179,000 (2018: RMB9,895,000) 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 RMB13,305,000 (2018: RMB4,812,000) are recognised in relation to certain research and development activities.

10. SEGMENT INFORMATION

The Group has three reportable segments as follows:

(a) Fabrication of facilities and provision of integrated services for oil and gas industries

(b) Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries

(c) Provision of technical support services for shipbuilding industry

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

10. SEGMENT INFORMATION (CONT'D)

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

	Fabrication of facilities and provision of integrated services for oil and gas industries RMB'000	Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries RMB'000	Provision of technical support services for shipbuilding industry RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2019					
Turnover from external customers	**1,616,399**	**126,480**	**14,120**	**3,625**	**1,760,624**
Segment profit/(loss)	**328,989**	**(7,649)**	**395**	**(1,441)**	**320,294**
Depreciation and amortisation	**127,743**	**106**	**30**	**–**	**127,879**
Other material non-cash items:					
Impairment losses on trade and other receivables, net	**24,735**	**45,789**	**286**	**102**	**70,912**
Reversal of impairment losses on contract assets	**(166)**	**(523)**	**(18)**	**–**	**(707)**
Additions to segment non-current assets	**168,341**	**69**	**76**	**–**	**168,486**
As at 31 December 2019					
Segment assets	**2,938,814**	**270,657**	**7,626**	**9,523**	**3,226,620**
Segment liabilities	**1,122,920**	**129,071**	**4,754**	**2,215**	**1,258,960**
Year ended 31 December 2018					
Turnover from external customers	983,112	485,334	13,012	4,506	1,485,964
Segment profit/(loss)	105,830	78,343	(1,329)	(2,339)	180,505
Depreciation and amortisation	121,522	1,146	25	–	122,693
Other material non-cash items:					
Impairment losses on trade and other receivables, net	26,493	1,033	104	65	27,695
Impairment losses on contract assets	985	409	22	–	1,416
Additions to segment non-current assets	55,374	31	–	–	55,405
As at 31 December 2018					
Segment assets	2,475,898	375,913	22,934	12,277	2,887,022
Segment liabilities	720,290	157,393	18,033	2,438	898,154

10. SEGMENT INFORMATION (CONT'D)

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

	2019 RMB'000	2018 RMB'000
Profit or loss		
Total profit or loss of reportable segments	320,294	180,505
Unallocated amounts:		
Finance costs	(39,452)	(50,819)
Impairment losses on trade and bills receivables	(70,912)	(18,939)
Impairment losses on other receivables	–	(8,756)
Reversal of impairment losses/(impairment losses) on contract assets	707	(1,416)
Other income	58,353	229,821
Other corporate expenses	(259,852)	(299,791)
Consolidated profit before tax for the year	9,138	30,605
Assets		
Total assets of reportable segments	3,226,620	2,887,022
Unallocated amounts:		
Bank and cash balances	808,330	900,712
Pledged bank deposits	56,813	69,040
Derivative financial instruments	3,160	670
Current tax assets	751	2,285
Deferred tax assets	29,323	4,014
Goodwill	54,648	54,648
Other corporate assets	26,346	45,083
Consolidated total assets	4,205,991	3,963,474
Liabilities		
Total liabilities of reportable segments	1,258,960	898,154
Unallocated amounts:		
Bank and other borrowings	682,042	805,999
Derivative financial instruments	769	390
Current tax liabilities	–	12,525
Deferred income	43,766	37,071
Deferred tax liabilities	63,305	65,649
Other corporate liabilities	6,156	10,670
Consolidated total liabilities	2,054,998	1,830,458

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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	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
PRC except Hong Kong	586,442	905,369	1,687,030	1,664,323
United States	1,029,943	234,822	–	–
Switzerland	45,713	118,490	–	–
Sweden	–	49,595	–	–
Singapore	41,891	26,807	–	–
Portugal	–	113,150	–	–
France	28,115	8,185	–	–
United Kingdom	3,325	22,260	–	–
Netherlands	22,001	–	–	–
Others	3,194	7,286	–	–
Consolidated total	1,706,624	1,485,964	1,687,030	1,664,323

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 2019					
Customer A	927,043	–	–	–	927,043
Customer B	5,074	–	–	–	5,074
Year ended 31 December 2018					
Customer A	160,631	–	–	–	160,631
Customer B	139,127	–	–	–	139,127

11. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on bank borrowings	32,795	44,671
Interest on lease liabilities	1,510	–
Interest on loan from ultimate holding company	–	130
Others	5,147	6,018
	39,452	50,819

12. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax – PRC Enterprise Income Tax		
Provision for the year	24,992	30,389
Under/(over)-provision in prior years	7,375	(20,572)
	32,367	9,817
Deferred tax *(note 38)*	(27,653)	(5,849)
	4,714	3,968

(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 2019 and 2018.

(b) PRC Enterprise Income Tax

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

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

Penglai Jutal was approved to recognise as a new and high technology enterprise since 15 December 2016 to 14 December 2019. During the year, Penglai Jutal has applied and being approved to continue recognise as a new and high technology enterprise for other three years until 27 November 2022.

During the year ended 31 December 2019, Penglai Jutal has met all required conditions and is therefore entitled to enjoy a reduced income tax rate of 15%.

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

Chengdu Jutal was approved to recognise as a new and high technology enterprise since 29 August 2017 to 28 August 2020.

During the year ended 31 December 2019, Chengdu Jutal has met all required conditions and is therefore entitled to enjoy a reduced income tax rate of 15%.

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

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

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12. INCOME TAX EXPENSE (CONT'D)

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

	2019 RMB'000	2018 RMB'000
Profit before tax	9,138	30,605
Tax at the PRC enterprise income tax rate of 25% (2018: 25%)	2,285	7,651
Tax effect of income that is not taxable	(2,656)	(1,674)
Tax effect of expenses that are not deductible	13,577	21,225
Tax effect of tax losses not recognised	1,204	3,168
Tax effect of utilisation of tax losses not previously recognised	–	–
Deferred tax on undistributed earnings of the PRC subsidiaries	3,262	1,809
Tax benefit for qualifying research and development expenses	(3,825)	(2,694)
Under/(over)-provision in prior years	7,375	(20,572)
Effect of different tax rates of subsidiaries	(16,508)	(4,945)
Income tax expense	4,714	3,968

13. PROFIT FOR THE YEAR

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

		2019 RMB'000	2018 RMB'000
(a)	Staff costs (including directors' emoluments):		
	Salaries, wages and other benefits	356,027	339,948
	Retirement scheme contributions	33,393	31,369
	Share-based payments	17,352	35,743
		406,772	407,060
(b)	Others items:		
	Amortisation of intangible assets	1,079	780
	Amortisation of prepaid land lease payments	–	65
	Depreciation on fixed assets	103,322	121,848
	Depreciation on right-of-use assets	23,478	–
	Net loss on disposals of fixed assets*	499	657
	Written off of right-of-use assets*	186	–
	Net foreign exchange losses*	26,702	49,289
	Operating lease charges		
	– Plant and equipment	–	1,971
	– Land and buildings	–	6,221
	Research and development expenditure	61,456	55,570
	Auditor's remuneration	1,629	1,223
	Share-based payments paid to a consultant	752	–
	Cost of inventories utilised in construction contracts and sold	443,295	622,462
	Reversal of allowance for inventories	(1,698)	(6,588)
	Impairment losses on trade and bills receivables	70,912	18,939
	Impairment losses on other receivables	–	8,756
	(Reversal of impairment losses)/impairment losses on contract assets	(707)	1,416
	Fair value changes on derivative financial instruments	(3,287)	(4,904)

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

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments of every director are set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking					
	Fees	Salaries and allowances	Discretionary bonus	Share-based payments	Retirement benefits scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Mr. Wang Lishan	–	2,113	–	797	26	2,936
Mr. Cao Yunsheng	–	1,427	–	2,357	53	3,837
Mr. Tang Hui *(note a)*	–	745	–	376	53	1,174
Mr. Liu Lei	–	2,958	–	–	–	2,958
Mr. Lin Ke	–	1,268	–	–	–	1,268
Mr. Liu Yunian *(note a)*	–	722	–	376	59	1,157
	–	9,233	–	3,906	191	13,330
Independent non-executive directors						
Mr. Su Yang	120	–	–	376	–	496
Mr. Qi Daqing	120	–	–	376	–	496
Mr. Zheng Yimin	120	–	–	376	–	496
	360	–	–	1,128	–	1,488
Total for 2019	360	9,233	–	5,034	191	14,818
Executive directors						
Mr. Wang Lishan	–	2,025	–	1,913	56	3,994
Mr. Cao Yunsheng	–	1,123	–	5,230	60	6,413
Mr. Tang Hui *(note a)*	–	428	–	753	33	1,214
Mr. Liu Lei	–	2,834	–	–	–	2,834
Mr. Lin Ke	–	1,215	–	–	–	1,215
Mr. Liu Yunian *(note a)*	–	407	–	425	33	865
Mr. Cao Huafeng *(note b)*	–	45	–	–	–	45
Mr. Sergey Alexandrovich Borovskiy *(note b)*	–	44	–	215	–	259
	–	8,121	–	8,536	182	16,839
Independent non-executive directors						
Mr. Su Yang	120	–	–	753	–	873
Mr. Qi Daqing	120	–	–	753	–	873
Mr. Zheng Yimin	120	–	–	753	–	873
	360	–	–	2,259	–	2,619
Total for 2018	360	8,121	–	10,795	182	19,458

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

(a) Directors' emoluments (Cont'd)

Notes:

(a) Mr. Tang Hui and Mr. Liu Yunian were appointed as an executive director on 8 June 2018.

(b) Mr. Cao Huafeng and Mr. Sergey Alexandrovich Borovskiy were resigned as executive directors on 6 June 2018.

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 2019 and 2018.

(b) Employees' emoluments

The five highest paid individuals in the Group during the year included three (2018: four) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two individual (2018: one individual) is set out below:

	2019 RMB'000	2018 RMB'000
Basic salaries and allowances	7,510	1,082
Discretionary bonus	–	–
Share-based payments	–	753
Retirement benefits scheme contributions	24	40
	7,534	1,875

The emoluments of this remaining two individual (2018: one individual) fell within the following bands:

	Number of individuals	
	2019	2018
HK$2,000,001 to HK$2,500,000 (approximately RMB1,740,001 to RMB2,175,000)	–	1
HK$2,500,001 to HK$3,000,000 (approximately RMB2,175,001 to RMB2,610,000)	–	–
HK$3,000,001 to HK$3,500,000 (approximately RMB2,610,001 to RMB3,045,000)	–	–
HK$3,500,001 to HK$4,000,000 (approximately RMB3,045,001 to RMB3,480,000)	1	–
HK$4,000,001 to HK$4,500,000 (approximately RMB3,480,001 to RMB3,915,000)	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 agreement dated 14 November 2018 made between the Company and Beijing Sanju, Beijing Sanju, for itself and also as agent of its wholly owned subsidiaries and controlling companies, agrees to engage the Group to provide: (i) purifying and refining device project contracting* (淨化及煉化相關的工程承包); (ii) special equipment/facilities manufacturing* (專用設備或裝置製造); and (iii) project management and labour outsourcing services* (專案管理或提供勞務派遣等服務) for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive), and the Company also agrees to engage Beijing Sanju to provide products such as catalyst* (催化劑等物品的供貨) for a term of 36 months from 1 January 2019 to 31 December 2021 (both days inclusive). Contract revenue and other sales income received/receivable from Beijing Sanju and its wholly owned subsidiaries was amounted to approximately RMB67,534,000 for the year ended 31 December 2019 (2018: RMB123,046,000). Mr. Liu Lei and Mr. Lin Ke are regarded as having a material interest in the Master Agreement.

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. No contract revenue or other sales income was received/receivable from Dalian Shipbuilding Offshore for the year ended 31 December 2019 (2018: RMB14,550,000). Mr. Wang Lishan, an executive director of the Company, is interested in this transaction to the extent that Dalian Shipbuilding Offshore is an associate of Prospering Investments Limited, a Company beneficially wholly-owned by Mr. Wang Lishan.

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

15. DIVIDENDS

	2019 RMB'000	2018 RMB'000
2018 final dividend of HK$0.02 (2018: 2017 final dividend of HK$0.03) per ordinary share	28,635	40,687

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2019.

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For the year ended 31 December 2019

16. EARNINGS PER SHARE

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

	2019 RMB'000	2018 RMB'000
Earnings		
Earnings for the purpose of calculating basic and diluted earnings per share	4,424	26,637

	2019	2018
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,634,016,389	1,633,649,266
Effect of dilutive potential ordinary shares arising from share options	1,162,978	13,689,823
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,635,179,367	1,647,339,089

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

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

17. FIXED ASSETS

	Property, plant and equipment							
	Buildings, pier and other infrastructure RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Leasehold land RMB'000	Total RMB'000
Cost								
At 1 January 2018	972,276	294,730	61,541	20,616	729	1,349,892	453,282	1,803,174
Additions	95	1,656	7,909	747	41,378	51,785	24	51,809
Reclassification	875	130	–	–	(1,005)	–	–	–
Write off/disposals	(3,409)	(870)	(1,320)	(785)	–	(6,384)	–	(6,384)
Exchange realignment	–	3	(2)	9	–	10	–	10
At 31 December 2018 and 1 January 2019	969,837	295,649	68,128	20,587	41,102	1,395,303	453,306	1,848,609
Reclassification due to adoption of HKFRS 16 *(note 3)*	–	–	–	–	–	–	(453,306)	(453,306)
Additions	12,760	16,321	12,272	–	100,075	141,428	–	141,428
Reclassification	113,192	–	4,839	–	(118,031)	–	–	–
Write off/disposals	(200)	(3,375)	(2,055)	(1,258)	–	(6,888)	–	(6,888)
Exchange realignment	–	10	4	15	–	29	–	29
At 31 December 2019	1,095,589	308,605	83,188	19,344	23,146	1,529,872	–	1,529,872
Accumulated depreciation								
At 1 January 2018	60,291	53,577	20,652	16,831	–	151,351	30,113	181,464
Charge for the year	48,520	47,954	13,246	1,728	–	111,448	10,400	121,848
Write off/disposals	(537)	(733)	(1,308)	(785)	–	(3,363)	–	(3,363)
Exchange realignment	–	2	(2)	5	–	5	–	5
At 31 December 2018 and 1 January 2019	108,274	100,800	32,588	17,779	–	259,441	40,513	299,954
Reclassification due to adoption of HKFRS 16 *(note 3)*	–	–	–	–	–	–	(40,513)	(40,513)
Charge for the year	49,037	39,423	13,733	1,129	–	103,322	–	103,322
Write off/disposals	(94)	(2,652)	(1,787)	(1,258)	–	(5,791)	–	(5,791)
Exchange realignment	–	9	5	12	–	26	–	26
At 31 December 2019	157,217	137,580	44,539	17,662	–	356,998	–	356,998
Carrying amount								
At 31 December 2019	938,372	171,025	38,649	1,682	23,146	1,172,874	–	1,172,874
At 31 December 2018	861,563	194,849	35,540	2,808	41,102	1,135,862	412,793	1,548,655

At 31 December 2019 the carrying amount of fixed assets pledged as security for the Group's bank and other borrowings amounted to approximately RMB105,686,000 (2018: RMB124,423,000).

At 31 December 2019, the Group is still in the process of obtaining the land use rights certificates of certain leasehold lands with the carrying amounts of approximately RMB10,338,000 (2018: RMB30,785,000).

At 31 December 2019, the Group has certain building structures with carrying amounts of approximately RMB55,981,000 (2018: RMB60,440,000) 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 2019, the Group is still in the process of obtaining the ownership certificates of other building structures with carrying amounts of approximately RMB20,820,000 (2018: RMB40,688,000).

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18. PREPAID LAND LEASE PAYMENTS

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

	RMB'000
At 1 January 2018	352
Amortisation	(65)
At 31 December 2018 and 1 January 2019	287
Reclassification due to adoption of HKFRS 16 *(note 3)*	(287)
Restated balance at 1 January 2019	–

19. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Leased properties RMB'000	Total RMB'000
At 1 January 2019 *(note 3)*	–	37,801	37,801
Reclassification due to adoption HKFRS 16 *(note 3)*	413,080	–	413,080
Additions	1,765	23,463	25,228
Depreciation	(12,046)	(11,432)	(23,478)
Termination of contracts	–	(186)	(186)
Exchange differences	–	16	16
At 31 December 2019	402,799	49,662	452,461

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

	2019 RMB'000
Depreciation expenses on right-of-use assets	23,478
Interest expense on lease liabilities (included in finance cost)	1,510
Expenses relating to short-term lease (included in cost of goods sold and administrative)	5,602
Expenses relating to leases of low value assets (included in administrative expenses)	86

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

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

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

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

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

	Lease liabilities recognised as at 31 December 2019 (discounted) RMB'000	Potential future lease payments under extension options not included in lease liabilities (undiscounted) RMB'000
Fabrication site – PRC	22,683	31,593

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2019, there has been no such triggering event.

20. GOODWILL

	RMB'000
Cost and carrying amount	
At 31 December 2018, 1 January 2019 and 31 December 2019	54,648

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

	2019 RMB'000	2018 RMB'000
Offshore oil and natural gas exploration facilities fabrication business	52,444	52,444
Undersea maintenance services	2,204	2,204
At 31 December	54,648	54,648

As at 31 December 2019 and 31 December 2018, 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% (2018: 3%) and 3% (2018: 3%) for the Group's offshore oil and natural gas exploration facilities fabrication business and undersea maintenance services respectively. These rates do not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from the Group's offshore oil and natural gas exploration facilities fabrication business and undersea maintenance services activities are 18.49% (2018: 18.73%) and 20.40% (2018: 20.40%) respectively.

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21. INTANGIBLE ASSETS

	Patents and computer software RMB'000
Cost	
At 1 January 2018	11,558
Additions	3,596
At 31 December 2018 and 1 January 2019	15,154
Additions	1,830
At 31 December 2019	16,984
Accumulated depreciation	
At 1 January 2018	8,616
Amortisation for the year	780
At 31 December 2018 and 1 January 2019	9,396
Amortisation for the year	1,079
At 31 December 2019	10,475
Carrying amount	
At 31 December 2019	6,509
At 31 December 2018	5,758

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 6.2 years (2018: 8.1 years).

22. SUBSIDIARIES

List of subsidiaries

Particulars of the Group's major subsidiaries as at 31 December 2019 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing Direct	Indirect	Principal activities
Directly held:					
Jutal Investment Limited	British Virgin Islands	5 ordinary shares of US$1 each	100%	–	Investment holding
Indirectly held:					
Jutal Engineering Company Limited	Hong Kong	2 ordinary shares	–	100%	Provision of integrated services for oil and gas industries
Jutal Holdings Limited	British Virgin Islands	2 ordinary shares of US$1 each	–	100%	Investment holding
Hong Kong Jutal Holdings Limited	Hong Kong	157,045,432 ordinary shares	–	100%	Investment holding
Sanju Biofuel International Limited	Hong Kong	1,000,000 ordinary shares	–	100%	Trading of biofuel products
Stand Success Resources Limited	British Virgin Islands	1 ordinary share of US$1	–	100%	Investment holding
巨濤油田服務(天津)有限公司* (Jutal Oilfield Services (Tianjin) Company Limited)	PRC	Registered capital of HK$10,000,000	–	100%	Provision of integrated services for oil and gas industries and other energy and refining and chemical industries
深圳巨濤機械設備有限公司* (Shenzhen Jutal Machinery Equipment Company Limited)	PRC	Registered capital of RMB200,000,000	–	100%	Provision of integrated services for oil and gas industries and other energy and refining and chemical industries
珠海巨濤海洋石油服務有限公司 (Zhuhai Jutal Offshore Oil Services Company Limited)	PRC	Registered capital of RMB700,000,000	–	100%	Provision of integrated services for oil and gas industries and other energy and refining and chemical industries

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For the year ended 31 December 2019

22. SUBSIDIARIES (CONT'D)

List of subsidiaries (Cont'd)

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
			Direct	Indirect	
巨濤海洋船舶工程服務(大連)有限公司# (Jutal Offshore Shipbuilding Services (Dalian) Company Limited)	PRC	Registered capital of HK$33,330,000	–	100%	Provision of technical support services for shipbuilding industry
成都巨濤油氣工程有限公司 (Chengdu Jutal Oil and Gas Engineering Co., Ltd.)	PRC	Registered capital of RMB10,000,000	–	100%	Provision of integrated services for oil and gas industries and other energy and refining and chemical industries
深圳市藍海潛水工程有限公司 (Shenzhen Marine Diving Engineering Co., Ltd.)	PRC	Registered capital of RMB20,000,000	–	100%	Provision of undersea maintenance services
蓬萊巨濤海洋工程重工有限公司# (Penglai Jutal)	PRC	Registered capital of US$94,500,000	–	100%	Sales and construction of offshore oil and natural gas exploration facilities; quayside machineries and chemical engineering facilities; design, fabrication, installation and repair of steel formation structures; and provision of other quayside and warehouse services
蓬萊巨濤商貿有限公司 (Penglai Jutal Shangmao Co.Ltd)	PRC	Registered capital of RMB30,000,000	–	100%	Trading of biofuel products

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

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

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

23. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	194,251	80,669

24. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	1,009,021	521,135
Allowance for doubtful debts	(98,391)	(27,479)
	910,630	493,656
Bills receivables	21,920	96,185
	932,550	589,841

	2019 RMB'000	2018 RMB'000
Classified as:		
Trade receivables, non-current	538	46,129
Trade and bills receivables, current	932,012	543,712
	932,550	589,841

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

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

	2019 RMB'000	2018 RMB'000
Billed		
0 to 30 days	367,948	50,318
31 to 90 days	63,156	76,619
91 to 365 days	77,880	78,036
Over 365 days	134,464	36,162
	643,448	241,135
Unbilled *(note a)*	365,573	280,000
	1,009,021	521,135

Note a: The unbilled balance mainly in relation to provision of construction and other services which will be billed in accordance with the payment terms stipulated in the relevant contracts entered into between the Group and the contract customers. As at 31 December 2019, unbilled balance of RMB538,000 (2018: RMB46,129,000) will be billed after one year from the end of the reporting date.

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For the year ended 31 December 2019

24. TRADE AND BILLS RECEIVABLES (CONT'D)

As at 31 December 2019, trade receivables aged over 90 days includes retentions receivables amounted to approximately RMB24,664,000 (2018: RMB12,727,000).

As at 31 December 2019, collateral which represents fixed assets, inventories, equity interests and personal guarantee are obtained by the Group against certain trade receivables balance of RMB242,308,000 (2018: RMB157,355,000).

At 31 December 2019, no trade and bills receivables was pledged to a bank (2018: RMB34,642,000 were pledged to banks to secure banking facilities granted to two subsidiaries of the Group).

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

	2019 RMB'000	2018 RMB'000
RMB	795,288	473,447
US$	89,463	83,286
Euro	1,509	1,510
HK$	46,290	31,598
Total	932,550	589,841

25. CONTRACT COST ASSETS

	2019 RMB'000	2018 RMB'000
Contract cost assets	69,654	56,316

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

	2019 RMB'000	2018 RMB'000
At 1 January	56,316	–
Additions	24,545	56,316
Amortisation for the year	(11,207)	–
Impairment loss on contract cost assets	–	–
At 31 December	69,654	56,316

26. CONTRACT ASSETS/CONTRACT LIABILITIES

Contract assets	2019 RMB'000	2018 RMB'000
Arising from performance under construction contracts	105,578	398,249
Arising from performance under technical support services	56,199	8,133
	161,777	406,382
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables"	932,550	589,841

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

During the reporting period, significant decrease in the contract assets balance mainly because the right to consideration of certain contracts become unconditional and the related contract assets balance reclassified to trade receivables.

The amount of revenue recognised during the year from performance obligations satisfied (or partially satisfied) in previous period is RMB28,000 (2018: RMB172,000), mainly due to the changes in the final transaction price of certain construction and service contracts.

The amount of contract assets that is expected to be recovered after more than one year is RMB881,000 (2018: RMB42,042,000).

Contract liabilities	2019 RMB'000	2018 RMB'000
Billings in advance of performance obligation		
– Construction contracts	290,057	49,633
– Technical support services	9,053	–
– Trading of oil and gas, chemical and other energy products	–	4,069
	299,110	53,702

Contract liabilities relating to construction contracts/technical support services are balances due to customers under construction contracts/technical support services. These arise if a particular milestone payment exceeds the revenue recognised to date under the percentage of completion method.

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

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

Movements in contract liabilities:

	2019 RMB'000	2018 RMB'000
Balance at 1 January	53,702	39,929
Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the period	(28,162)	(22,016)
Increase in contract liabilities as a result of billing in advance of construction activities/technical support services/trading of oil and gas, chemical and other energy products	273,570	35,789
Balance at 31 December	299,110	53,702

No billings in advance of performance received that is expected to be recognised as income after more than one year for the years ended 31 December 2019 and 2018.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Prepayments	107,134	101,277
Deposits	22,928	23,142
Other receivables	143,597	130,647
	273,659	255,066
Less: Allowance for other receivables	(11,602)	(11,602)
	262,057	243,464

	2019 RMB'000	2018 RMB'000
Classified as:		
Non-current	–	8,846
Current	262,057	234,618
	262,057	243,464

At 31 December 2019, deposit of RMB9,507,000 (2018: RMB8,846,000) were pledged as security for the Group's bank and other borrowings.

28. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 RMB'000	2018 RMB'000
Financial assets		
Derivatives not under hedge accounting:		
Foreign currency forward	3,160	670
Financial liabilities		
Derivatives not under hedge accounting		
Foreign currency forward	769	390

At 31 December 2019, the Group had outstanding foreign currency forward contracts mainly to hedge the foreign currency risk arising from certain of its contract revenue and trade receivables denominated in Euro and US$ (2018: Euro and US$). The maximum notional principal amounts of these outstanding foreign currency forward contracts at the end of the reporting period were as follows:

	2019 RMB'000	2018 RMB'000
Sell US$ for RMB	51,367	24,761
Sell Euro for RMB	69,856	98,534

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

The Group did not fulfill the conditions of hedging relationship under the stringent and comprehensive documentation requirements as defined in HKFRS 9 "Financial Instruments: Recognition and Measurement" and the foreign currency forward contracts are measured at fair value through profit or loss.

The net change in the fair value of all of the non-hedging foreign currency forward contracts amounting to approximately RMB3,287,000 was credited to the profit or loss for the year ended 31 December 2019 (2018: RMB4,904,000).

29. DUE FROM DIRECTORS

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

Name	Terms	Balance at 31 December 2019 RMB'000	Balance at 1 January 2019 RMB'000	Maximum amount outstanding during the year RMB'000
Mr. Cao Yunsheng	Unsecured, interest-free and no fixed repayment terms	633	583	633
Mr. Tang Hui	Unsecured, interest-free and no fixed repayment terms	200	150	200
		833	733	

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

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30. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group as set out in notes 35 and 36 to the consolidated financial statements.

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

	2019 RMB'000	2018 RMB'000
RMB	574,507	726,193
HK$	5,205	18,107
US$	283,207	216,161
Euro	1,557	9,218
Others	667	73
	865,143	969,752

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

31. TRADE AND BILLS PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	718,583	606,042
Bills payables	30,410	53,653
	748,993	659,695

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

	2019 RMB'000	2018 RMB'000
0 to 30 days	514,017	348,720
31 to 90 days	26,727	20,257
91 to 365 days	77,058	84,819
Over 365 days	100,781	152,246
	718,583	606,042

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

	2019 RMB'000	2018 RMB'000
RMB	709,790	612,232
US$	8,622	46,892
HK$	150	571
EUR	21	–
Total	718,583	659,695

32. ACCRUALS AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Accrued staff salaries	43,271	49,631
Payables for purchases of fixed assets and construction fees	50,535	47,738
Others	14,925	15,394
	108,731	112,763

33. LEASE LIABILITIES

	Minimum lease payments		Present value of minimum lease payments	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Within one year	14,960	–	12,691	–
In the second to fifth years, inclusive	23,965	–	18,676	–
After five years	23,678	–	18,798	–
	62,603	–	50,165	–
Less: Future finance charges	(12,438)	–	N/A	N/A
Present value of lease obligations	50,165	–	50,165	–
Less: Amount due for settlement within 12 months (shown under current liabilities)			(12,691)	–
Amount due for settlement after 12 months			37,474	–

The lease liabilities are denominated in the following currencies:

	2019 RMB'000	2018 RMB'000
RMB	49,589	–
HK$	576	–
	50,165	–

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 3.

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34. PROVISIONS

	Warranty provision *(note (i))*		Provision for claim on construction contract *(note (ii))*		Total	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
At 1 January	82,664	62,832	–	158,996	82,664	221,828
Additional provisions	11,292	35,689	–	–	11,292	35,689
Provisions used	(2,177)	(287)	–	(978)	(2,177)	(1,265)
Unused provisions reversed	(33,662)	(15,570)	–	(158,018)	(33,662)	(173,588)
At 31 December	58,117	82,664	–	–	58,117	82,664

Notes:

(i) 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.

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

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

35. BANK AND OTHER BORROWINGS

	2019 RMB'000	2018 RMB'000
Bank borrowings	659,600	740,632
Borrowing from a financial institution	22,442	65,367
	682,042	805,999

The bank and other borrowings are repayable as follows:

	2019 RMB'000	2018 RMB'000
Within one year	189,542	319,168
More than one year, but not exceeding two years	60,500	138,468
More than two years, but not more than five years	332,200	197,200
	582,242	654,836
Portion of bank borrowings that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	99,800	151,163
	682,042	805,999
Less: Amount due for settlement within 12 months (shown under current liabilities)	(289,342)	(470,331)
Amount due for settlement after 12 months	392,700	335,668

35. BANK AND OTHER BORROWINGS (CONT'D)

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

The average interest rate of the Group's bank and other borrowings at 31 December 2019 was 5.16% (2018: 5.07%) per annum.

Bank borrowings of approximately RMB310,000,000 (2018: RMB208,000,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Other bank and other borrowings were arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

As at 31 December 2019, bank and other borrowings of approximately RMB634,041,000 (2018: RMB475,699,000) are secured by the followings:

i. a charge over the Group's fixed assets (note 17), pledged bank deposits (note 30) and other receivables (note 27);

ii. corporate guarantee executed by ultimate holding company and three subsidiaries of the Group (2018: ultimate holding company, the Company and four subsidiaries of the Group.); and

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

36. BANKING FACILITIES

At 31 December 2019, the Group had approximately RMB570,323,000 (2018: RMB630,523,000) of available undrawn banking facilities. Available undrawn banking facilities include bank loans, letters of credit, bank guarantees, etc. The Group's banking facilities are secured by the followings:

i. a charge over the Group's fixed assets (note 17), pledged bank deposits (note 30) and other receivables (note 27);

ii. corporate guarantees executed by ultimate holding company, the Company and four (2018: five) subsidiaries of the Group;

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

iv. corporate guarantee executed by a financial institution.

As at 31 December 2019, the Group had obtained bank guarantees under performance bonds for construction contracts of approximately RMB497,632,000 (2018: RMB171,699,000).

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37. DEFERRED INCOME

	Note	2019 RMB'000	2018 RMB'000
At 1 January		37,071	39,870
Addition during the year		20,000	2,013
Recognised as income and included in the Group's other income		(13,305)	(4,812)
At 31 December		43,766	37,071
Represented by:			
Government grant A	*(i)*	9,746	10,396
Government grant B	*(ii)*	34,020	26,675
At 31 December		43,766	37,071
Classified as:			
Current liabilities		8,942	–
Non-current liabilities		34,824	37,071
		43,766	37,071

Notes:

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

The grant is recognised as deferred income and a portion of the deferred income will be credited to profit or loss on a straight-line basis over the useful lives of the related assets when the assets are ready for management's intended used. The remaining portion of the grant will be credited to profit or loss when the related research and development activities are successfully completed. deferred income of approximately RMB650,000 was transferred to profit or loss for the year ended 31 December 2019 (2018: RMB650,000).

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

These grants are recognised as deferred income and the deferred income will be credited to profit or loss on a straight-line basis over the useful lives of the related assets when the assets are ready for management's intended used. Deferred income of approximately RMB12,655,000 was transferred to profit or loss for the year ended 31 December 2019 (2018: RMB4,162,000).

38. DEFERRED TAX

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

	Accelerated tax depreciation RMB'000	Recognition of contracting income RMB'000	Undistributed earnings of the PRC subsidiaries RMB'000	Provisions RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	80,644	8,172	12,407	(10,040)	(2,337)	(20,180)	68,666
Adjustment on initial application of							
– HKFRS 9	–	–	–	–	–	(240)	(240)
– HKFRS 15	–	(942)	–	–	–	–	(942)
Restated balance at 1 January 2018	80,644	7,230	12,407	(10,040)	(2,337)	(20,420)	67,484
Charge to profit or loss for the year *(note 12)*							
– Changes in temporary differences	573	1,248	1,809	5,041	(11,541)	(2,979)	(5,849)
At 31 December 2018 and 1 January 2019	81,217	8,478	14,216	(4,999)	(13,878)	(23,399)	61,635
Charge to profit or loss for the year *(note 12)*							
– Changes in temporary differences	(4,234)	9,992	3,262	4,999	(20,423)	(21,249)	(27,653)
At 31 December 2019	76,983	18,470	17,478	–	(34,301)	(44,648)	33,982

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

	2019 RMB'000	2018 RMB'000
Deferred tax liabilities	63,305	65,649
Deferred tax assets	(29,323)	(4,014)
	33,982	61,635

At the end of reporting period the Group has unused tax losses of approximately RMB237,750,000 (2018: RMB137,067,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB224,200,000 (2018: RMB85,024,000). No deferred tax asset has been recognised in respect of the remaining approximately of RMB13,550,000 (2018: RMB52,043,000) due to the unpredictability of future profit streams. These unrecognised tax losses may be carried forward indefinitely.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately RMB13,552,000 (2018: RMB3,750,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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39. SHARE CAPITAL

	Number of Shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.01 (2018: HK$0.01) each		
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	**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 (2018: HK$0.01) each				
At 1 January 2018		1,632,016,389	16,321	14,739
Exercise of share options	*(a)*	2,000,000	20	16
At 31 December 2018, 1 January 2019 and 31 December 2019		**1,634,016,389**	**16,341**	**14,755**

Note:

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

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 2019 is as follows:

	2019 RMB'000	2018 RMB'000
Bank and other borrowings	**682,042**	805,999
Total equity	**2,150,993**	2,133,016
Gearing ratio	**31.71%**	37.79 %

39. SHARE CAPITAL (CONT'D)

The decreases in gearing ratio from year 2019 resulted primarily from decrease in bank and other borrowings. The Group adjusts the amount of bank and other borrowings from time to time to meet the Group's working capital needs.

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

The Group receives a report from the share registrars weekly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2019, 35.34% (2018: 35.34%) of the shares were in public hands.

40. SHARE-BASED PAYMENTS

Equity-settled share option scheme

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

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

The General Scheme Limit has been refreshed and approved by shareholder's resolution at the Company's Annual General Meeting on 8 June 2018. The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue on the date of the said Annual General Meeting. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue on the date of the said Annual General Meeting. Any further grant of shares options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

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

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40. SHARE-BASED PAYMENTS (CONT'D)

Equity-settled share option scheme (Cont'd)

Details of the specific categories of options are as follows:

	Date of grant	Vesting period	Exercise period	Exercise price HK$
2007A	16 March 2007	16 March 2007 to 15 March 2008	16 March 2008 to 15 March 2018	1.68
2007B	16 March 2007	16 March 2007 to 15 March 2009	16 March 2009 to 15 March 2018	1.68
2008A	12 March 2008	12 March 2008 to 11 March 2009	12 March 2009 to 11 March 2019	1.62
2008B	12 March 2008	12 March 2008 to 11 March 2010	12 March 2010 to 11 March 2019	1.62
2009A	14 August 2009	14 August 2009 to 13 August 2010	14 August 2010 to 13 August 2019	0.92
2009B	14 August 2009	14 August 2009 to 13 August 2011	14 August 2011 to 13 August 2019	0.92
2010A	27 May 2010	27 May 2010 to 26 May 2013	27 May 2013 to 26 May 2020	0.93
2010B	27 May 2010	27 May 2010 to 26 May 2014	27 May 2014 to 26 May 2020	0.93
2010C	27 May 2010	27 May 2010 to 26 May 2015	27 May 2015 to 26 May 2020	0.93
2011A	23 May 2011	23 May 2011 to 22 May 2013	23 May 2013 to 22 May 2021	1.06
2011B	23 May 2011	23 May 2011 to 22 May 2014	23 May 2014 to 22 May 2021	1.06
2015A	29 July 2015	29 July 2015 to 28 July 2017	29 July 2017 to 28 July 2025	0.86
2015B	29 July 2015	29 July 2015 to 28 July 2018	29 July 2018 to 28 July 2025	0.86
2016A	14 October 2016	14 October 2016 to 13 October 2018	14 October 2018 to 13 October 2026	0.68
2016B	14 October 2016	14 October 2016 to 13 October 2019	14 October 2019 to 13 October 2026	0.68
2018A	9 January 2018	9 January 2018 to 8 January 2019	9 January 2019 to 8 January 2028	2.14
2018B	9 January 2018	9 January 2019 to 8 January 2020	9 January 2020 to 8 January 2028	2.14
2019A	29 May 2019	29 May 2019 to 28 August 2019	29 August 2019 to 28 May 2022	1.04
2019B	29 May 2019	29 May 2019 to 28 November 2019	29 November 2019 to 28 May 2022	1.04
2019C	29 May 2019	29 May 2019 to 28 May 2020	29 May 2020 to 28 May 2022	1.04
2019D	29 May 2019	29 May 2019 to 28 November 2020	29 November 2020 to 28 May 2022	1.04

40. SHARE-BASED PAYMENTS (CONT'D)

Equity-settled share option scheme (Cont'd)

For share options granted in 2019, if the options remain unexercised after a period of 3 years from the date of grant, the options expire. For other share options granted, if the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group.

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

	2019		2018	
	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	95,350,000	1.74	30,350,000	0.84
Granted during the year	15,000,000	1.04	67,000,000	2.14
Forfeited during the year	(2,400,000)	1.43	–	–
Exercised during the year	–	–	(2,000,000)	1.62
Outstanding at the end of the year	107,950,000	1.64	95,350,000	1.74
Exercisable at the end of the year	60,250,000	1.52	21,850,000	0.82

The options outstanding at the end of the year have a weighted average remaining contractual life of 7.5 years (2018: 8.3 years) and the exercise price ranges from HK$0.68 to HK$2.14 (2018: HK$0.68 to HK$2.14).

In 2019, options were granted on 29 May 2019. The estimated fair value of the options on this date is approximately HK$4,333,000 (equivalent to RMB3,378,000). This estimated fair value was calculated using the Binomial Option-pricing model. The inputs into the model are as follows:

	2019
Number of share options granted	15,000,000
Grant date share price	HK$0.74
Expected volatility	59.44%
Expected life	3 years
Risk free rate	1.66%
Expected dividend yield	1.39%

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

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

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41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2019 RMB'000	2018 RMB'000
Non-current assets			
Investments in a subsidiary		536,840	515,714
Current assets			
Prepayments, deposits and other receivables		1,070	1,082
Due from subsidiaries		1,342,242	1,361,188
Due from a director		2,834	2,772
Bank and cash balances		3,609	2,268
		1,349,755	1,367,310
Current liabilities			
Accruals and other payables		2,500	2,434
Due to subsidiaries		40,582	39,756
Financial guarantee contract liability		8,440	3,278
		51,522	45,468
Net current assets		1,298,233	1,321,842
NET ASSETS		1,835,073	1,837,556
Capital and reserves			
Share capital		14,755	14,755
Reserves	*42(b)*	1,820,318	1,822,801
TOTAL EQUITY		1,835,073	1,837,556

The Company's statement of financial position was approved by the Board of Directors on 31 March 2020 and signed on its behalf by:

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

42. RESERVES

(a) Group

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

(b) Company

	Share premium account RMB'000	Convertible loan notes equity reserve RMB'000	Foreign currency translation reserve RMB'000	Share-based payment reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2018	1,730,346	2,951	(108,938)	8,199	83,335	40,637	1,756,530
Adjustment on initial application of HKFRS 9	–	–	–	–	(3,186)	–	(3,186)
Restated balance at 1 January 2018	1,730,346	2,951	(108,938)	8,199	80,149	40,637	1,753,344
Issue of shares on exercise of share options	3,272	–	–	(695)	–	–	2,577
Share-based payments	–	–	–	35,743	–	–	35,743
Total comprehensive income for the year	–	–	96,833	–	(25,009)	–	71,824
Dividend paid	–	–	–	–	(50)	(40,637)	(40,687)
Proposed final dividend	–	–	–	–	(28,635)	28,635	–
At 31 December 2018 and 1 January 2019	1,733,618	2,951	(12,105)	43,247	26,455	28,635	1,822,801
Share options forfeited	–	–	–	(359)	359	–	–
Share-based payments	–	–	–	18,104	–	–	18,104
Total comprehensive income for the year	–	–	40,226	–	(32,178)	–	8,048
Dividend paid	–	–	–	–	–	(28,635)	(28,635)
At 31 December 2019	1,733,618	2,951	28,121	60,992	(5,364)	–	1,820,318

(c) Nature and purpose of reserves

(i) Share premium account

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

(ii) Share-based payment reserve

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

(iii) Special reserve

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

(iv) Statutory reserves

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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42. RESERVES (CONT'D)

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

(v) Foreign currency translation reserve

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

(vi) Convertible loan notes equity reserve

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

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) 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 2019 RMB'000	Impact on initial application of HKFRS 16 (note 3) RMB'000	Restated balance at 1 January 2019 RMB'000	Addition RMB'000	Cash flows RMB'000	Interest expenses RMB'000	Effect of foreign exchange rate changes RMB'000	31 December 2019 RMB'000
Lease liabilities *(note 33)*	–	37,801	37,801	23,463	(12,454)	1,510	(155)	50,165
Bank and other borrowings *(note 35)*	805,999	–	805,999	–	(123,957)	–	–	682,042

	1 January 2018 RMB'000	Addition RMB'000	Cash flows RMB'000	Interest expenses RMB'000	Effect of foreign exchange rate changes RMB'000	31 December 2018 RMB'000
Loan from ultimate holding company	80,000	–	(80,000)	–	–	–
Bank and other borrowings *(note 35)*	845,772	–	(39,773)	–	–	805,999

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

(b) Total cash outflow for leases

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

	2019 RMB'000	2018 RMB'000
Within operating cash flows	7,198	8,192
Within investing cash flows	1,765	–
Within financing cash flows	10,944	–
	19,907	8,192

These amounts relate to the following:

	2019 RMB'000	2018 RMB'000
Lease rental paid	18,142	8,192
Payments for right-of-use assets	1,765	–
	19,907	8,192

44. CONTINGENT LIABILITIES

The Group is a defendant in a lawsuit brought during the year ended 2018 claiming approximately RMB8.2 million together with interest relating to subcontracting services rendered by a subcontractor (the "Plaintiff"). The Group has filed a counterclaim against the Plaintiff for approximately RMB3.7 million. The lawsuit is now being proceeded and has not been completed up to the date of this report.

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

Save as disclosed above, as at 31 December 2019 and 31 December 2018, the Group did not have other significant contingent liabilities.

45. CAPITAL COMMITMENTS

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

	2019 RMB'000	2018 RMB'000
Property, plant and equipment	35,771	67,677

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46. OPERATING LEASE ARRANGEMENTS

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

	2018 RMB'000
Within one year	5,069
In the second to fifth years, inclusive	2,795
After five years	516
	8,380

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 years and rentals are fixed over the lease terms and do not include contingent rentals.

The Group regularly entered into short-term leases for office equipment and certain staff quarters. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in note 19.

47. RELATED PARTY TRANSACTIONS

(A) Transaction

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

	Note	**2019 RMB'000**	2018 RMB'000
Revenue received/receivable from a related company, Dalian Shipbuilding Offshore	*(a)*	**–**	14,550
Revenue received/receivable from the ultimate holding company	*(b)*	**45,291**	52,341
Revenue received/receivable from fellow subsidiaries	*(c)*	**22,243**	70,705
Interest expenses payable/paid to the ultimate holding company		**–**	130

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.

(b) The related party transactions with the ultimate holding company constitute as continuing connected transactions as defined in Chapter 14A of the Listing Rules, further details of which are included in the Directors' Report on pages 30 to 31.

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

The related party transactions with these fellow subsidiaries constitute as continuing connected transactions as defined in Chapter 14A of the Listing Rules, further details of which are included in the Directors' Report on pages 30 to 31.

47. RELATED PARTY TRANSACTIONS (CONT'D)

(B) Balance

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

	2019 RMB'000	2018 RMB'000
Contract assets from a related party, Dalian Shipbuilding Offshore	–	157
Trade receivables due from a related party, Dalian Shipbuilding Offshore	–	9,459
Trade receivables due from the ultimate holding company	16,688	1,246
Contract assets from the ultimate holding company	20,995	8,165
Contract liabilities to the ultimate holding company	50	–
Trade receivables due from fellow subsidiaries	21,980	55,353
Contract assets from fellow subsidiaries	6,679	5,287
Trade payables due to a fellow subsidiary	5,052	–
Contract liabilities to a fellow subsidiary	46,682	4,401
Other receivables due from fellow subsidiaries	390	–
Interest payable to the ultimate holding company	–	130

48. EVENTS AFTER THE REPORTING PERIOD

After the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe. The Group is paying close attention to the development of, and the disruption to business and economic activities caused by, the COVID-19 outbreak and evaluate its impact on the financial position, cash flows and operating results of the Group. Given the dynamic nature of the COVID-19 outbreak, it is not practicable to provide a reasonable estimate of its impacts on the Group's financial position, cash flows and operating results at the date on which these financial statements are authorised for issue.

49. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 31 March 2020.

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				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
Turnover	658,566	721,614	724,469	1,485,464	**1,760,624**
Profit for the year attributable to owners of the Company	26,174	11,586	55,581	26,637	**4,424**

ASSETS AND LIABILITIES

	As at 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019** **RMB'000**
Total assets	1,582,694	1,696,204	4,481,179	3,963,474	**4,205,991**
Total liabilities	(425,199)	(515,662)	(2,422,245)	(1,830,458)	**(2,054,998)**
Total equity	1,157,495	1,180,542	2,058,934	2,133,016	**2,150,993**

LIQUIDITY AND GEARING RATIO

	As at 31 December				
	2015	2016	2017	2018	**2019**
Current Ratio[(1)]	1.45	1.37	1.38	1.65	**1.63**
Quick Ratio[(2)]	1.38	1.31	1.35	1.59	**1.50**
Gearing Ratio[(3)]	11.36%	18.10%	44.96%	37.79%	**31.71%**

Notes:

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

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

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

(4) Current ratio and Quick ratio as at 31 December 2019 decreased compared to that as at 31 December 2018, which is mainly attribute to a increase of current liability.

(5) Gearing ratio as at 31 December 2019 decreased compared to that as at 31 December 2018, which is mainly attribute to a decline of total borrowings.