JUTAL

巨濤海洋石油服務有限公司

Jutal Offshore Oil Services Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03303)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

Financial Highlights

- Turnover increased by 105% to RMB1,485,964,000
- Gross profit increased by 102% to RMB180,505,000
- Net profit attributable to owners of the Company decreased by 52% to RMB 26,637,000
- Basic and diluted earnings per share were RMB0.0163 and RMB0.0162
- The Board of the Directors recommend the payment of a final dividend of HK$0.02 per share for the year ended 31 December 2018

The above are intended to be highlights to the salient aspects of the annual results of the Group for the year ended 31 December 2018 only. In order to acquire a comprehensive understanding of the Group's state of affairs and results of its operations, general investors are encouraged to refer to the body of this announcement for details.

The board of directors (the "Board") of Jutal Offshore Oil Services Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018 together with the comparative figures for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 RMB'000	2017 RMB'000
Turnover	4	**1,485,964**	724,469
Cost of sales and services		**(1,305,459)**	(635,043)
Gross profit		**180,505**	89,426
Other income	5	**229,821**	67,886
Impairment losses on trade and bills receivables		**(18,939)**	(705)
Impairment losses on other receivables		**(8,756)**	(673)
Impairment losses on contract assets/gross amount due from customers for contract work		**(1,416)**	(3,110)
Administrative expenses		**(230,105)**	(122,014)
Other operating expenses		**(69,686)**	(2,011)
Profit from operations		**81,424**	28,799
Finance costs	7	**(50,819)**	(10,749)
Share of profit of an associate		**-**	37,931
Profit before tax		**30,605**	55,981
Income tax expense	8	**(3,968)**	(400)
Profit for the year	9	**26,637**	55,581
Attributable to:			
Owners of the Company		**26,637**	55,581
Earnings per share	11	**RMB**	RMB
Basic		**1.63 cents**	4.32 cents
Diluted		**1.62 cents**	4.27 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Fixed assets		**1,548,655**	1,621,710
Prepaid land lease payments		**287**	352
Goodwill		**54,648**	54,648
Intangible assets		**5,758**	2,942
Trade receivables, non-current	12	**46,129**	-
Other receivables, non-current		**8,846**	-
Deferred tax assets		**4,014**	2,268
		1,668,337	1,681,920
Current assets			
Inventories		**80,669**	57,268
Trade and bills receivables	12	**543,712**	424,799
Contract cost assets	13	**56,316**	-
Contract assets	14	**406,382**	-
Gross amount due from customers for contract work	14	**-**	410,882
Prepayments, deposits and other receivables		**234,618**	158,565
Derivative financial instruments		**670**	4,865
Due from directors		**733**	411
Current tax assets		**2,285**	613
Pledged bank deposits		**69,040**	298,554
Bank and cash balances		**900,712**	1,443,302
		2,295,137	2,799,259
Current liabilities			
Trade and bills payables	15	**659,695**	955,435
Contract liabilities	14	**53,702**	-
Gross amount due to customers for contract work	14	**-**	37,524
Accruals and other payables		**112,763**	126,715
Derivative financial instruments		**390**	-
Loan from ultimate holding company		**-**	80,000
Provisions	16	**82,664**	221,828
Bank and other borrowings		**470,331**	567,772
Current tax liabilities		**12,525**	44,167
		1,392,070	2,033,441
Net current assets		**903,067**	765,818
Total assets less current liabilities		**2,571,404**	2,447,738

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)
AT 31 DECEMBER 2018

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

NOTES:

1. GENERAL INFORMATION

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

The Company is an investment holding company. The 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.

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).

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

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

(a) Application of new and revised HKFRSs

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

(i) HKFRS 9 Financial Instruments; and
(ii) HKFRS 15 Revenue from Contracts with Customers

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

HKFRS 9 Financial instruments

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

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

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

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

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

HKFRS 9 Financial instruments (cont'd)

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

(i) Classification

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

- those to be measured subsequently at FVTOCI or FVTPL, and
- those to be measured at amortised cost.

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

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

(ii) Measurement

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

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

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

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

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment losses are presented as separate line item in the statement of profit or loss.
- FVTPL: Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

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

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

HKFRS 9 Financial instruments (cont'd)

(ii) Measurement (cont'd)

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

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

(iii) Impairment

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

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

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

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

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

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

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

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

HKFRS 9 Financial instruments (cont'd)

(iii) Impairment (cont'd)

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

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

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

Note:

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

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

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

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

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

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

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

HKFRS 9 Financial instruments (cont'd)

(iii) Impairment (cont'd)

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

HKFRS 15 Revenue from contracts with customers

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

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

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

Revenue from construction contracts

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

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

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

HKFRS 15 Revenue from contracts with customers (cont'd)

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

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

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

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

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

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

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

Significant financing component

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

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

Costs to fulfil a contract

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

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

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

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

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

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

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

HKFRS 15 Revenue from contracts with customers (cont'd)

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

	Note	Amounts reported in accordance with HKFRS 15	Hypothetical amounts under HKASs 18 and 11	Estimated impact of adoption of HKFRS15
As at 31 December 2018		RMB'000	RMB'000	RMB'000
Consolidated statement of financial position (extract)				
Trade and bills receivables	(b)	589,841	515,706	(74,135)
Contract cost assets	(a)	56,316	-	(56,316)
Gross amount due from customers for contract work	(c)	-	557,164	557,164
Contract assets	(c)	406,382	-	(406,382)
Gross amount due to customers for contract work	(c)	-	(35,496)	(35,496)
Contract liabilities	(c)	(53,702)	-	53,702
Accruals and other payables	(c)	(112,763)	(130,969)	(18,206)
Deferred tax liabilities	(a) & (b)	(65,649)	(69,427)	(3,778)
Retained earnings		(393,332)	(409,885)	(16,553)
For the year ended 31 December 2018				
Consolidated statement of profit or loss (extract)				
Revenue	(a) & (b)	1,485,964	1,540,806	54,842
Cost of sales and services	(a)	(1,305,459)	(1,343,834)	(38,375)
Other income	(b)	229,821	228,431	(1,390)
Income tax expenses	(a) & (b)	(3,968)	(6,804)	(2,836)

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

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

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

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

Previously, contract balances relating to construction contracts in progress were presented in the statement of consolidated financial statement under "Gross amount due from customers for contract work" or "Gross amount due to customers for contract work". To reflect these changes in presentation, the Group has made the following reclassification adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

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

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

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

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

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2018. These new and revised HKFRSs include the following which may be relevant to the Group.

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

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

HKFRS 16 Leases

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

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

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

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

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

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

HK (IFRIC) 23 Uncertainty over Income Tax Treatments

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

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

4. TURNOVER

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

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

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

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

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

5. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Reversal of provision of claim	**158,018**	-
Compensation income	**12,647**	-
Reversal of allowance for inventories	**6,588**	-
Gain on deemed disposal of an associate	**-**	28,266
Government grants recognised	**14,707**	19,224
Interest income on bank deposits	**13,055**	4,878
Net foreign exchange gains	**-**	14,693
Fair value gains on derivative financial instruments	**4,904**	62
Others	**19,902**	763
	229,821	67,886

6. 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.

Segment profits or losses do not include other income, administrative expenses, other operating expenses, finance costs, share of profit of an associate and income tax expense. Segment assets do not include goodwill, derivative financial instruments, current and deferred tax assets, pledged bank deposits, bank and cash balances and other corporate assets. Segment liabilities do not include bank and other borrowings, derivative financial instruments, current and deferred tax liabilities, deferred revenue, loan from ultimate holding company and other corporate liabilities.

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

6. SEGMENT INFORMATION (CONT'D)

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

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

6. SEGMENT INFORMATION (CONT'D)

Geographical information:

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

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

7. FINANCE COSTS

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

8. INCOME TAX EXPENSE

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

(a) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax is required since the Group has no assessable profits arising in Hong Kong for the years ended 31 December 2018 and 2017.

(b) PRC Enterprise Income Tax

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

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

Zhuhai Jutal was approved to recognise as a new and high technology enterprise since 30 November 2016 to 29 November 2019 (the "Period"). Zhuhai Jutal is therefore entitled to enjoy a reduced income tax rate of 15% throughout the Period.

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

Penglai Jutal was approved to recognise as a new and high technology enterprise since 15 December 2016 to 14 December 2019 (the "Period"). Penglai Jutal is therefore entitled to enjoy a reduced income tax rate of 15% throughout the Period.

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

Chengdu Jutal was approved to recognise as a new and high technology enterprise since 29 August 2017 to 28 August 2020 (the "Period"). Chengdu Jutal is therefore entitled to enjoy a reduced income tax rate of 15% throughout the Period.

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

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

9. PROFIT FOR THE YEAR

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

		2018	2017
		RMB'000	RMB'000
(a)	Staff costs (including directors' emoluments):		
	Salaries, wages and other benefits	**339,948**	161,736
	Retirement scheme contributions	**31,369**	10,114
	Share-based payments	**35,743**	3,359
		407,060	175,209
(b)	Others items:		
	Amortisation of intangible assets	**780**	1,302
	Amortisation of prepaid land lease payments	**65**	65
	Depreciation	**121,848**	31,105
	Net loss on disposals of fixed assets*	**657**	184
	Net foreign exchange losses/(gains)	**49,289**	(14,693)
	Gain on deemed as disposal of an associate	**-**	(28,266)
	Operating lease charges		
	- Plant and equipment	**1,971**	561
	- Land and buildings	**6,221**	2,458
	Research and development expenditure	**55,570**	24,440
	Auditor's remuneration	**1,181**	1,238
	Cost of inventories utilised in construction contracts and sold	**622,462**	323,711
	Reversal of allowance for inventories	**(6,588)**	-
	Allowance for inventories*	**-**	1,480
	Impairment losses on trade and bills receivables	**18,939**	2,756
	Reversal of impairment losses on trade receivables	**-**	(2,051)
	Impairment losses on other receivables	**8,756**	673
	Impairment losses on contract assets/gross amount due from customers for contract work	**1,416**	3,110
	Fair value changes on derivative financial instruments	**(4,904)**	(62)

* These amounts are included in "Other operating expenses"

10. DIVIDENDS

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

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

11. EARNINGS PER SHARE

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

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

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

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

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

12. TRADE AND BILLS RECEIVABLES

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

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

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

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

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

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

12. TRADE AND BILLS RECEIVABLES (CONT'D)

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

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

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

13. CONTRACT COST ASSETS

	2018	2017
	RMB'000	RMB'000
Contract cost assets	**56,316**	-

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

	2018	2017
	RMB'000	RMB'000
At 1 January	-	-
Change in contract cost assets	**56,316**	-
Impairment loss on contract cost assets	-	-
At 31 December	**56,316**	-

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

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

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

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

Amounts relating to contract assets are balances due from customers under construction contracts that arise when the Group receives payments from customers in line with a series of performance related milestones. Payment for technical support services is 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.

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

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

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

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

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

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

Movements in contract liabilities:

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

15. TRADE AND BILLS PAYABLES

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

15. TRADE AND BILLS PAYABLES (CONT'D)

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

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

16. PROVISIONS

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

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

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

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

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

BUSINESS REVIEW

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

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

In mid-2018, Penglai Jutal Offshore Engineering Heavy Industries Company Limited* (蓬萊巨濤海洋工程重工有限公司) ("Penglai Jutal"), a subsidiary of the Company, was awarded a major construction contract, in relation to providing core process modules and relevant ancillaries of nearly total 100,000 tonnes for olefin cracking facilities of a natural gas chemical plant in the U.S.A, with an investment amount of several billion USD. As the project is primarily at the preparation stage during the year, and the other projects successfully bid for and conducted by the two construction sites of the Group in Penglai and Zhuhai are relatively small in scale, generally, the Group's construction sites were not in full operation during the year.

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

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

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

PROSPECTS

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

1. Financial and business review

Turnover

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

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

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

Cost of sales and services

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

Gross profit

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

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

		For the financial year ended 31 December								
		2018			2017			2016		
	Business Segments	**RMB′ 000**	**Gross profit margin (%)**	**Percentage to total gross profit (%)**	RMB′ 000	Gross profit margin (%)	Percentage to total gross profit (%)	RMB′ 000	Gross profit margin (%)	Percentage to total gross profit (%)
1	**Fabrication of facilities and provision of integrated services for oil and gas industries**	**105,830**	**11**	**59**	38,207	8	43	109,458	16	90
2	**Fabrication of facilities and provision of integrated services for other energy and refining and chemical industries**	**78,343**	**16**	**43**	46,745	21	52	-	-	-
3	**Provision of technical support services for shipbuilding industry**	**(1,329)**	**(10)**	**(1)**	(2,453)	(14)	(3)	8,285	26	7
4	**Others**	**(2,339)**	**(52)**	**(1)**	6,927	34	8	3,996	47	3
	Total	**180,505**		**100**	89,426		100	121,739		100

Other income

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

Administrative and other operating expenses

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

Finance costs

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

Profit attributable to owners of the Company and earnings per share

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

2. Liquidity and financial resources

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

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

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

3. Capital structure

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

4. Significant investment

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

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

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

5. Foreign exchange risk

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

6. Assets pledged by the Group

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

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

7. Contingent liabilities

As at 31 December 2018, the Group did not have any significant contingent liabilities.

8. Capital management

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

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

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

The gearing ratios at 31 December 2018 and at 31 December 2017 were as follows:

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

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

9. Employees and remuneration policy

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

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

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

DIVIDEND

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

AUDIT COMMITTEE

The Audit Committee of the Company comprises of three independent non-executive directors. The Audit Committee has reviewed the consolidated results of the Group for the year ended 31 December 2018.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the Corporate Governance Codes set out in Appendix 14 of the Listing Rules for the year ended 31 December 2018, save and except the Company provides the three board members, namely Mr. Liu Lei, Mr. Wang Lishan and Mr. Cao Yunsheng, with monthly internal financial statements, instead of all board members, because they are responsible for overseeing the financial affairs of the Company. The remaining directors have accessed to the monthly internal financial statements as well. The reason for such deviation from the Corporate Governance Code as set out in Appendix 14 of the Listing Rules is to enhance the Company's cost-efficiency.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, the directors have complied with the standard set out in the Model Code for the year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed interest in any of the Company's listed securities during the year ended 31 December 2018.

PUBLICATION OF FINAL RESULTS

This results announcement will be published on the website of the Stock Exchange and the Company's website (www.jutal.com). The annual report for the year ended 31 December 2018 containing all the information required under Appendix 16 to the Listing Rules will be dispatched to shareholders and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Jutal Offshore Oil Services Limited
Liu Lei
Chairman

Hong Kong, 29 March 2019

** For identification purposes only*

As at the date of this announcement, the executive Directors are Mr. Liu Lei (Chairman), Mr. Wang Lishan, Mr. Lin Ke, Mr. Cao Yunsheng, Mr. Liu Yunian and Mr. Tang Hui; and the independent non-executive Directors are Mr. Su Yang, Mr. Zheng Yimin and Mr. Qi Daqing.