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 2016

Financial Highlights

- Turnover increased by 9.57% to RMB721,614,000
- Gross profit decreased by 5.46% to RMB121,739,000
- Net profit attributable to owners of the Company decreased by 56.63% to RMB11,586,000
- Basic and diluted earnings per share were RMB0.0145
- The Board of the Directors do not recommend payment of any final dividend for the year ended 31 December 2016

The above are intended to be highlights to the salient aspects of the annual results of the Group for the year ended 31 December 2016 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 2016 together with the comparative figures for the year ended 31 December 2015.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	**2016** **RMB'000**	2015 RMB'000
Turnover	4	**721,614**	658,566
Cost of sales and services		**(599,875)**	(529,797)
Gross profit		**121,739**	128,769
Other income	5	**13,446**	29,621
Administrative expenses		**(123,615)**	(126,912)
Other operating expenses		**(15,375)**	(4,577)
(Loss)/profit from operations		**(3,805)**	26,901
Finance costs	7	**(8,547)**	(10,358)
Share of profit of an associate		**29,608**	17,872
Profit before tax		**17,256**	34,415
Income tax expense	8	**(5,670)**	(7,701)
Profit for the year	9	**11,586**	26,714
Attributable to:			
Owners of the Company		**11,586**	26,714
Earnings per share	11		
		RMB	RMB
Basic		**1.45 cents**	3.34 cents
Diluted		**1.45 cents**	3.34 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	2015
	RMB'000	RMB'000
Profit for the year	**11,586**	26,714
Other comprehensive income:		
Item that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**15,799**	9,654
Other comprehensive income for the year, net of tax	**15,799**	9,654
Total comprehensive income for the year	**27,385**	36,368
Attributable to:		
Owners of the Company	**27,385**	36,368

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016

	Note	**2016** **RMB'000**	2015 RMB'000
Non-current assets			
Property, plant and equipment		**528,970**	536,971
Prepaid land lease payments		**417**	482
Goodwill		**202,327**	191,084
Intangible assets		**2,974**	3,375
Investment in an associate		**337,794**	308,186
Deferred tax assets		**282**	765
		1,072,764	1,040,863
Current assets			
Inventories		**24,392**	25,618
Trade and bills receivables	12	**214,774**	164,587
Gross amount due from customers for contract work	13	**186,820**	189,967
Prepayments, deposits and other receivables		**49,420**	78,334
Derivative financial instruments		**176**	926
Due from directors		**2,710**	1,147
Due from an associate		**-**	398
Current tax assets		**1,086**	227
Pledged bank deposits		**43,527**	22,141
Bank and cash balances		**100,535**	58,486
		623,440	541,831
Current liabilities			
Trade and bills payables	14	**175,125**	141,290
Gross amount due to customers for contract work	13	**15,469**	16,483
Accruals and other payables		**49,490**	78,180
Derivative financial instruments		**-**	2,356
Warranty provisions		**1,866**	3,058
Bank borrowings		**213,628**	131,476
Current tax liabilities		**33**	154
		455,611	372,997
Net current assets		**167,829**	168,834
Total assets less current liabilities		**1,240,593**	1,209,697

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)
AT 31 DECEMBER 2016

	Note	**2016**	2015
		RMB'000	RMB'000
Non-current liabilities			
Deferred revenue		**24,629**	21,331
Deferred tax liabilities		**35,422**	30,871
		60,051	52,202
NET ASSETS		**1,180,542**	1,157,495
Capital and reserves			
Share capital		**7,506**	7,506
Reserves		**1,173,036**	1,149,989
TOTAL EQUITY		**1,180,542**	1,157,495

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 provision of technical supporting and related services for oil and gas industry and sales of equipment and materials, fabrication of oil and gas facilities and oil and gas processing skid equipment and provision of technical support services for shipbuilding industry.

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.

2. BASIS OF PREPARATION

The 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; Hong Kong Accounting Standards; and Interpretations. The 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 accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2015.

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

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2016. None of these 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.

(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 2016. 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 HKAS 7 Statement of Cash Flows: Disclosure initiative	1 January 2017
Amendments to HKAS 12 Income Taxes: Recognition of deferred tax assets for unrealised losses	1 January 2017
Amendments to HKFRS 4 Insurance Contracts: Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
HKFRS 9 Financial Instruments	1 January 2018
HKFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to HKFRS 15 Revenue from Contracts with Customers: Clarification to HKFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to HKFRS 2 Share-based Payment: Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 16 Leases	1 January 2019
Amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures : Sale or contribution of assets between an investor and its associate or joint venture	To be determined

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)

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course.

HKFRS 9 Financial Instruments

The standard replaces HKAS 39 Financial Instruments: Recognition and Measurement.

The standard introduces a new approach to the classification of financial assets which is based on cash flow characteristics and the business model in which the asset is held. A debt instrument that is held within a business model whose objective is to collect the contractual cash flows and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at amortised cost. A debt instrument that is held within a business model whose objective is achieved by both collecting the contractual cash flows and selling the instruments and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at fair value through other comprehensive income. All other debt instruments are measured at fair value through profit or loss. Equity instruments are generally measured at fair value through profit or loss. However, an entity may make an irrevocable election on an instrument-by-instrument basis to measure equity instruments that are not held for trading at fair value through other comprehensive income.

The requirements for the classification and measurement of financial liabilities are carried forward largely unchanged from HKAS 39 except that when the fair value option is applied changes in fair value attributable to changes in own credit risk are recognised in other comprehensive income unless this creates an accounting mismatch.

HKFRS 9 introduces a new expected-loss impairment model to replace the incurred-loss impairment model in HKAS 39. It is no longer necessary for a credit event or impairment trigger to have occurred before impairment losses are recognised. For financial assets measured at amortised cost or fair value through other comprehensive income, an entity will generally recognise 12-month expected credit losses. If there has been a significant increase in credit risk since initial recognition, an entity will recognise lifetime expected credit losses. The standard includes a simplified approach for trade receivables to always recognise the lifetime expected credit losses.

The de-recognition requirements in HKAS 39 are carried forward largely unchanged.

HKFRS 9 substantially overhauls the hedge accounting requirements in HKAS 39 to align hedge accounting more closely with risk management and establish a more principle based approach.

The new expected credit loss impairment model in HKFRS 9 may result in the earlier recognition of impairment losses on the Group's trade receivables and other financial assets. The Group is unable to quantify the impact until a more detailed assessment is completed.

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

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

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 replaces all existing revenue standards and interpretations.

The core principle of the standard is that an entity recognises revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to become entitled in exchange for those goods and services.

An entity recognises revenue in accordance with the core principle by applying a 5-step model:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies a performance obligation

The standard also includes comprehensive disclosure requirements relating to revenue.

The Group is currently assessing the impacts of adopting HKFRS 15 on the consolidated financial statements and has identified the following areas that are likely to be affected:

The Group currently recognises revenue from construction contracts over time by reference to the stage of completion of the contract activity in accordance with the requirements in HKAS 11 Construction Contracts. Under HKFRS 15 revenue is recognised over time only if specific criteria are met otherwise revenue is recognised at a point in time which may not be until completion.

HKFRS 15 also introduces new requirements on accounting for contract modifications (variations) and variable consideration (such as claims and incentive payments) which may impact the timing of revenue recognition over the contract period.

In addition, certain costs of obtaining construction contracts which are currently expensed may need to be capitalised.

The Group is unable to estimate the impact of the new standard on the consolidated financial statements until a more detailed analysis is completed.

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

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

HKFRS 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.

The Group's office property 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 properties amounted to approximately RMB15,887,000 as at 31 December 2016. The Group will need to perform a more detailed assessment in order to determine the new assets and liabilities arising from these operating leases commitments after taking into account the transition reliefs available in HKFRS 16 and the effects of discounting.

4. TURNOVER

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

	2016	2015
	RMB'000	RMB'000
Revenue from construction contracts	**623,205**	545,393
Sales of goods	**27,629**	37,810
Other services rendered	**70,780**	75,363
	721,614	658,566

5. OTHER INCOME

	2016	2015
	RMB'000	RMB'000
Government grants recognised	**7,677**	8,423
Interest income on bank deposits	**363**	842
Net foreign exchange gains	**3,193**	4,408
Reversal of allowance for trade and other receivables	**156**	3,075
Reversal of impairment loss on gross amount due from customers for contract work	**-**	5,970
Reversal of allowance for inventories	**-**	3,248
Others	**2,057**	3,655
	13,446	29,621

6. SEGMENT INFORMATION

The Group has three reportable segments as follows:

(a) Provision of technical support and related services for oil and gas industry and sales of related equipment and materials.
(b) Fabrication of oil and gas facilities and oil and gas processing skid equipment.
(c) Provision of technical support services for shipbuilding industry.

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

The Group's other operating segment represents provision of undersea maintenance services for industries other than oil and gas 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.

6. SEGMENT INFORMATION (CONT'D)

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

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

	Provision of technical support and related services for oil and gas industry and sales of related equipment and materials	Fabrication of oil and gas facilities and oil and gas processing skid equipment	Provision of technical support services for shipbuilding industry	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2016					
Turnover from external customers	**89,965**	**591,259**	**31,946**	**8,444**	**721,614**
Segment profit	**9,802**	**99,656**	**8,285**	**3,996**	**121,739**
Depreciation and amortisation	**2,642**	**29,528**	**470**	**-**	**32,640**
Other material non-cash items:					
Allowance for trade and other receivables	**13**	**1,900**	**578**	**-**	**2,491**
Impairment losses on gross amount due from customers for contract work	**-**	**6,204**	**485**	**-**	**6,689**
Additions to segment non-current assets	**1,325**	**24,838**	-	**-**	**26,163**
As at 31 December 2016					
Segment assets	**45,186**	**900,761**	**15,310**	**7,562**	**968,819**
Segment liabilities	**31,142**	**185,606**	**3,873**	**1,723**	**222,344**
Year ended 31 December 2015					
Turnover from external customers	113,172	501,139	44,255	-	658,566
Segment profit	22,954	101,656	4,159	-	128,769
Depreciation and amortisation	2,901	26,257	407	-	29,565
Other material non-cash items:					
Allowance for trade and other receivables	389	2,303	62	-	2,754
Reversal of impairment losses on gross amount due from customers for contract work	-	5,970	-	-	5,970
Reversal of allowance for trade receivables	-	3,075	-	-	3,075
Additions to segment non-current assets	1,933	40,127	21	-	42,081
As at 31 December 2015					
Segment assets	43,308	894,374	16,070	-	953,752
Segment liabilities	26,781	167,984	3,796	-	198,561

6. SEGMENT INFORMATION (CONT'D)

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

	2016	2015
	RMB'000	RMB'000
Profit or loss		
Total profit or loss of reportable segments	**121,739**	128,769
Unallocated amounts:		
Finance costs	**(8,547)**	(10,358)
Other income	**13,446**	29,621
Other corporate expenses	**(138,990)**	(131,489)
Share of profit of an associate	**29,608**	17,872
Consolidated profit before tax for the year	**17,256**	34,415
Assets		
Total assets of reportable segments	**968,819**	953,752
Unallocated amounts:		
Bank and cash balances	**100,535**	58,486
Pledged bank deposits	**43,527**	22,141
Derivative financial instruments	**176**	926
Current tax assets	**1,086**	227
Deferred tax assets	**282**	765
Investment in an associate	**337,794**	308,186
Goodwill	**202,327**	191,084
Other corporate assets	**41,658**	47,127
Consolidated total assets	**1,696,204**	1,582,694
Liabilities		
Total liabilities of reportable segments	**222,344**	198,561
Unallocated amounts:		
Bank borrowings	**213,628**	131,476
Derivative financial instruments	**-**	2,356
Current tax liabilities	**33**	154
Deferred revenue	**24,629**	21,331
Deferred tax liabilities	**35,422**	30,871
Other corporate liabilities	**19,606**	40,450
Consolidated total liabilities	**515,662**	425,199

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	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC except Hong Kong	**367,000**	377,576	**1,072,364**	1,039,882
Singapore	**187,143**	116,412	**-**	-
Portugal	**167,471**	51,453	**-**	-
Netherlands	**-**	91,539	**-**	-
Other Asian Countries	**-**	221	**-**	-
Others	**-**	21,365	**118**	216
Consolidated total	**721,614**	658,566	**1,072,482**	1,040,098

7. FINANCE COSTS

	2016	2015
	RMB'000	RMB'000
Interest on bank borrowings	**7,999**	9,933
Amount capitalised	**(178)**	(521)
	7,821	9,412
Others	**726**	946
	8,547	10,358

The weighted average capitalisation rate on funds borrowed generally is at a rate of 5.1% per annum (2015: 5.7%).

8. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Current tax - PRC Enterprise Income Tax		
Provision for the year	**209**	157
Under / (over) - provision in prior years	**427**	(589)
	636	(432)
Deferred tax	**5,034**	8,133
	5,670	7,701

(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 2016 and 2015.

(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 in the PRC since the year ended 31 December 2010 and until year ending 31 December 2018 (the "Period"). Zhuhai Jutal is therefore entitled to enjoy a reduced income tax rate of 15% throughout the Period.

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

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

9. PROFIT FOR THE YEAR

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

		2016	2015
		RMB'000	RMB'000
(a)	Staff costs (including directors' emoluments):		
	Salaries, wages and other benefits	**227,969**	272,595
	Retirement scheme contributions	**12,768**	11,565
	Share-based payments	**2,465**	991
		243,202	285,151
(b)	Others items:		
	Amortisation of intangible assets@	**1,150**	1,176
	Depreciation	**31,490**	28,389
	Net loss on disposals of property, plant and equipment*	**766**	91
	Net foreign exchange gains#	**(3,193)**	(4,408)
	Operating lease charges		
	- Plant and equipment	**9,574**	7,757
	- Land and buildings	**5,485**	8,608
	Research and development expenditure	**31,149**	25,633
	Auditor's remuneration	**1,097**	1,061
	Cost of inventories utilised in construction contracts and sold	**150,059**	112,973
	Allowance for inventories*	**598**	-
	Reversal of allowance for inventories#	**-**	(3,248)
	Allowance for trade and other receivables*	**2,491**	2,754
	Reversal of allowance for trade and other receivables#	**(156)**	(3,075)
	Impairment loss on gross amount due from customers for contract work*	**6,689**	-
	Reversal of impairment loss on gross amount due from customers for contract work#	**-**	(5,970)
	Fair value loss on derivative financial instruments*	**2,054**	667

* These amounts are included in "Other operating expenses"

\# These amounts are included in "Other income"

@ This amount is included in "Administrative expenses"

10. DIVIDENDS

	2016	2015
	RMB'000	RMB'000
2015 final dividend of HK$0.01 (2015: 2014 final dividend of HK$0.01) per ordinary share	**6,803**	6,403

The Board of the Directors does not recommend payment of any final dividend for the year ended 31 December 2016.

11. EARNINGS PER SHARE

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

	2016	2015
	RMB'000	RMB'000
Earnings		
Earnings for the purpose of calculating basic and diluted earnings per share	**11,586**	26,714

	2016	2015
Number of shares		
Issued ordinary shares at 1 January	**800,354,278**	800,154,278
Effect of shares issued on exercise of share options	**-**	135,890
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**800,354,278**	800,290,168
Effect of dilutive potential ordinary shares arising from share options	**-**	218,184
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**800,354,278**	800,508,352

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

	2016	2015
	RMB'000	RMB'000
Trade receivables	**211,030**	146,506
Allowance for doubtful debts	**(7,510)**	(5,019)
	203,520	141,487
Bills receivables	**11,254**	23,100
	214,774	164,587

The Group's trade receivables mainly represent progress billings receivables from contract customers.

The Group's trading terms with contract 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 the completion of the contracts. Application for progress payment of contract works is made on a regular basis. 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, and net of allowance, is as follows:

	2016	2015
	RMB'000	RMB'000
0 to 30 days	**80,655**	71,522
31 to 90 days	**47,481**	37,171
91 to 365 days	**50,121**	10,949
Over 365 days	**25,263**	21,845
	203,520	141,487

As at 31 December 2016, trade receivables aged over 90 days includes retentions receivables amounted to approximately RMB12,828,000 (2015: RMB12,610,000).

At 31 December 2016, bills receivables of RMB10,000,000 (2015: RMB18,600,000) were pledged to banks to secure certain bank borrowings.

12. TRADE AND BILLS RECEIVABLES (CONT'D)

As at 31 December 2016, an allowance was made for estimated irrecoverable trade receivables of approximately RMB7,510,000 (2015: RMB5,019,000). The reconciliation of allowance for trade receivables is as follows:

	2016	2015
	RMB'000	RMB'000
At 1 January	**5,019**	7,463
Allowance for the year	**2,491**	2,754
Reversal	**-**	(3,065)
Amounts written off	**-**	(2,133)
At 31 December	**7,510**	5,019

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

	2016	2015
	RMB'000	RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	**973,091**	1,059,068
Less: Progress billings	**(806,273)**	(885,777)
Add: Exchange differences	**4,533**	193
	171,351	173,484
Gross amount due from customers for contract work	**186,820**	189,967
Gross amount due to customers for contract work	**(15,469)**	(16,483)
	171,351	173,484

In respect of construction contracts in progress at the end of the reporting period, retentions receivables included in trade and bills receivables amounted to approximately RMB13,918,000 (2015: RMB12,931,000). Retentions receivables expected to be recovered after more than twelve months amounted to approximately RMB6,816,000 (2015: Nil).

Advances received in respect of construction contracts amounted to approximately RMB720,000 at 31 December 2016 (2015: RMB8,369,000) and is included in accruals and other payables.

14. TRADE AND BILLS PAYABLES

	2016	2015
	RMB'000	RMB'000
Trade payables	**175,125**	115,833
Bills payables	**-**	25,457
	175,125	141,290

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

	2016	2015
	RMB'000	RMB'000
0 to 30 days	**63,842**	64,535
31 to 90 days	**39,708**	21,423
91 to 365 days	**57,991**	20,835
Over 365 days	**13,584**	9,040
	175,125	115,833

BUSINESS REVIEW

During the past two years, the down cycle of oil prices has dealt a severe blow to companies within the oil and gas industry. During the last year, the business opportunities that we could seize were fewer than before. To cope with the sluggish trend within the industry, in addition to exploring new businesses, we also continued to reduce capital expenses through measures such as downscaled investment and stringent cost control with a series of reform.

Based on the existing facilities and technology capability, we established a department which is specifically responsible for business development in energy saving and environmental protection sectors. In view of the business requirements in oil and gas field in the East China Sea, we built a new Eastern China team to develop the service business focusing on the aforesaid area.

During the year, we have adjusted our management structure with a purpose to optimize the coordination in management, to increase efficiency as well as to reduce costs. We relocated different functional departments of the headquarters and the production workshop in Shenzhen to the Group's production base in Zhuhai.

Under the influence of the overall industry trend, our customers and end users in the industry have adopted strategies to reduce their capital expenditure, which led to a drop in business demand in the industry. This, coupled with the intensifying market competition, made us to lower our expectation on the gross profit margin of our projects.

During the year, the production base in Zhuhai has successfully completed and delivered several large-scale projects, including our maiden E-House project, massive jumper & spool project for deep-water gas field and another Floating Production Storage and Offloading ("FPSO") topside modules production project taken up in 2015. The successive completion of a series of key projects demonstrated that Jutal is becoming more mature in terms of safety, quality, design, construction and project management standard of high-end module production. Building on our well-established traditional onshore and offshore oil and gas equipment businesses, Jutal has again made further step in the business transformation towards FPSO topside module production, which laid a solid foundation for implementing the strategy of developing high-end offshore engineering equipment manufacturing business. In 2016, in view of the overall stagnant offshore engineering market, we also tried to set foot in the manufacturing and services businesses of various emerging industries and succeeded in exploring some new clients.

During the year, our associate, Penglai Jutal Offshore Engineering Heavy Industries Company Limited ("Penglai Jutal"), operated and completed several projects; the projects in progress operated stably, in line with schedule and achieved overall growth during the year. Besides striving to perform well in building projects, Penglai Jutal also adopted various measures to cut cost and increase efficiency as well as formulating corporate management improvement plans to lay a solid foundation for future business development which focuses on internationalised, large-scale and modular projects.

PROSPECTS

Looking into the year ahead, the industry will still face a difficult environment and the existing business operation of the Company will still encounter huge challenges. The industrial trend under the dynamic global environment and the shift in market opportunities under the cyclical fluctuation of the industry are the uncertainty risks and opportunities we will possibly face in the future.

There is still a necessity for us to take an active step in developing our business. We will impose stringent control on capital expenditure, adopt measures to reduce fees and costs and strengthen management. We will also allocate more resources to new business and new customers and strengthen our performance in commercial and marketing initiatives. We have been watching closely to the potential markets and opportunities for new projects around the world and dispatch dedicated staff to follow up. For existing clients, we will beef up our sales efforts and expand our services both in terms of product mix and geographical spread. At the same time, we will leverage our existing design and manufacturing qualification and capability to actively develop manufacturing businesses in various markets, including wind power market, environmental protection market and refinery market, to offset the drop in the existing business volume due to the anaemic offshore engineering market.

On 15 March 2017, we entered into a share subscription agreement with two independent subscribers, Sanju Environmental Protection (Hong Kong) Limited (三聚環保（香港）有限公司) and Golden Talent (HK) Technology Co., Ltd. (金華信（香港）科技有限公司) (the "Subscribers"), pursuant to which the Subscribers will conditionally subscribe for an aggregate of 803,562,111 subscription shares of the Company at subscription price of HK$1.2 per subscription share. Upon completion, Sanju Environmental Protection (Hong Kong) Limited will become the controlling shareholder of the Company.

We expect that after the completion of the transaction, the newly introduced strategic investors with solid backgrounds will not only improve the Group's financial position and liquidity by providing the capital for business development, but also enhance the Group's operation and financial performance through additional resources, technical and investment opportunities brought about by the new markets and customers acquired with the resulting synergistic effects and complementary strength.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Financial and business review

Turnover

In year 2016, the Group recorded turnover of approximately RMB721,614,000, representing an increase of 9.57% or RMB63,048,000 as compared with year 2015. Turnover from the provision of technical support and related services for oil and gas industry and sales of related equipment and materials decreased by 20.51% or RMB23,207,000 as compared with year 2015. Turnover from the fabrication of oil and gas facilities and oil and gas processing skid equipment business increased by 17.98% or RMB90,120,000 as compared with year 2015. Turnover from the provision of technical support services for shipbuilding industry decreased by 27.81% or RMB12,309,000 as compared with year 2015. The fabrication business of oil and gas facilities and oil and gas processing skid equipment recorded growth in turnover, mainly due to the completion of major portions of several large-scale projects taken up in the second half of year 2015. On the other hand, turnover from the provision of technical support and related services for oil and gas industry and sales of related equipment and materials and the provision of technical supporting services for shipbuilding industry both showed a decrease as compared to last year mainly due to the substantial drop in investment activities within the industry as a result of the fall in investment in global oil and gas industry and the depressed shipbuilding market, which in turn led to the decrease in volume of work and service prices of the Group in these two businesses.

The table below sets out the analysis of turnover by business segments for the years 2016, 2015 and 2014:

		For the financial year ended 31 December					
		2016		2015		2014	
	Business Segments	RMB'000	Percentage to total turnover (%)	RMB'000	Percentage to total turnover (%)	RMB'000	Percentage to total turnover (%)
1	**Provision of technical support and related services for oil and gas industry and sales of related equipment and materials**	**89,965**	**13**	113,172	17	122,742	13
2	**Fabrication of oil and gas facilities and oil and gas processing skid equipment**	**591,259**	**82**	501,139	76	769,340	81
3	**Provision of technical support services for shipbuilding industry**	**31,946**	**4**	44,255	7	58,799	6
4.	**Others**	**8,444**	**1**	-	-	-	-
	Total	**721,614**	**100**	658,566	100	950,881	100

Cost of sales and services

Cost of sales and services of the Group amounted to approximately RMB599,875,000 in year 2016, representing an increase of 13.23% or RMB70,078,000 as compared with year 2015. Cost of sales and service comprised direct costs and manufacturing overheads. Direct costs in the current period amounted to approximately RMB527,420,000, representing 87.92% of total cost of sales and service, and an increase of RMB64,547,000 or a rise of 13.94% from RMB462,873,000 in last year. The Group calculates the cost of sales and service of projects on an order-by-order basis. Since the composition of cost differs for each project, the composition of cost of sales and service varies from project to project. Manufacturing overheads has increased by RMB5,531,000 or a growth of 8.26% from RMB66,924,000 in last year to approximately RMB72,455,000 in current reporting period.

Gross profit

The total gross profit of the Group for the year 2016 amounted to approximately RMB121,739,000, representing a decrease of 5.46% or RMB7,030,000 as compared with RMB128,769,000 in year 2015. The overall gross profit margin decreased from 19.55% in year 2015 to 16.87%. The gross profit margin of the provision of technical support and related services for oil and gas industry and sales of related equipment and materials business decreased from 20.28% in year 2015 to 10.90%, and the gross profit margin of the fabrication of oil and gas facilities and oil and gas processing skid equipment business decreased from 20.28% in year 2015 to 16.85%, whereas the gross profit margin of the provision of technical support services for shipbuilding industry business recorded an increase from 9.40% in year 2015 to 25.93%. Changes in business structure resulted in various changes in the gross profit margin of our different business segments. With respect to the businesses of the provision of technical support and related services for oil and gas industry and sales of related equipment and materials and the fabrication of oil and gas facilities and oil and gas processing skid equipment, under the impact of the continuous lukewarm investment in the global oil and gas industry and in response to the fierce market competition, the Group has taken the proactive stance to adopt a bidding proposal with lower expected profit, which led to the overall drop in gross profit of these two businesses of the Group.

The following shows the breakdown of gross profit by business segments for the years 2016, 2015 and 2014:

		For the financial year ended 31 December								
		2016			2015			2014		
	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	**Provision of technical support and related services for oil and gas industry and sales of related equipment and materials**	**9,802**	**11**	**8**	22,954	20	18	29,403	24	16
2	**Fabrication of oil and gas facilities and oil and gas processing skid equipment**	**99,656**	**17**	**82**	101,656	20	79	149,302	19	80
3	**Provision of technical support services for shipbuilding industry**	**8,285**	**26**	**7**	4,159	9	3	7,472	13	4
4	**Others**	**3,996**	**47**	**3**	-	-	-	-	-	-
	Total	**121,739**		**100**	128,769		100	186,177		100

Other income

Other income of the Group was recognised mainly represents government grants recognised and net foreign exchange gains during the year. Other income has been decreased significantly by 54.61% or RMB16,175,000 as compared with year 2015, mainly due to the significantly decrease in the recognition of reversal of allowance for trade and other receivables. In addition, no reversal of impairment loss on gross amount due from customers for contract work and the reversal of allowance for inventories have been recognised in the year.

Administrative and other operating expenses

Administrative and other operating expenses in aggregate increased by 5.70% or RMB7,501,000 as compared with year 2015 to approximately RMB138,990,000, primarily due to the increase of the impairment loss on gross amount due from contract works and the allowance for inventories as compared to last year.

Finance costs

Finance costs reached approximately RMB8,547,000 in year 2016, which was mainly comprised of interests from bank borrowings of approximately RMB7,821,000 and bank charges and other finance costs of approximately RMB726,000.

Share of profit of an associate

The Group held 30% of equity interest in Penglai Jutal. In year 2016, Penglai Jutal recorded net profit of approximately RMB98,693,000. The Group's share of profit from Penglai Jutal amounted to approximately RMB29,608,000 under the equity method of accounting.

Profit attributable to owners of the Company and earnings per share

In year 2016, profit attributable to owners of the Company amounted to approximately RMB11,586,000, which represented a decrease of 56.63% or RMB15,128,000 as compared to that of RMB26,714,000 in year 2015. Basic and diluted earnings per share attributable to owners of the Company for year 2016 were RMB0.0145.

2. Liquidity and financial resources

As at 31 December 2016, the working funds (cash on hand and bank deposits) of the Group amounted to approximately RMB122,280,000 (2015: RMB74,641,000). During the year, net cash inflow from operating activities amounted to approximately RMB2,195,000, net cash outflow from investing activities amounted to RMB34,452,000, and net cash inflow from financing activities amounted to approximately RMB75,349,000.

At 31 December 2016, the Group had approximately RMB217,459,000 (2015: RMB417,856,000) of available undrawn banking facilities. Available undrawn banking facilities include bank loans, letters of credit, bank guarantees, etc.

As at 31 December 2016, the Group had obtained bank guarantees under performance bonds for construction contracts of approximately RMB77,508,000 (2015: RMB44,118,000).

3. Capital structure

As at 31 December 2016, the share capital of the Company comprises 800,354,278 ordinary shares (2015: 800,354,278 ordinary shares). As at 31 December 2016, net assets of the Group amounted to approximately RMB1,180,542,000 (2015: RMB1,157,495,000), comprising non-current assets of approximately RMB1,072,764,000 (2015: RMB1,040,863,000), net current assets of approximately RMB167,829,000 (2015: RMB168,834,000) and non-current liabilities of approximately RMB60,051,000 (2015: RMB52,202,000).

4. Significant investment

For the year ended 31 December 2016, the Group did not have any significant investment.

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$”). During the years ended 31 December 2016 and 2015, the Group has entered into foreign exchange forward contracts to hedge the foreign currency risk arising from certain of its contract revenue and trade receivables denominated in Euro and US$. 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 2016, approximately RMB43,527,000 of the bank deposits were pledged as security deposits for the issuance of performance bonds, letter of credits and bank acceptance. In addition, the Group has pledged bill receivables of RMB10,000,000 in favor of a commercial bank in China to obtain loans in more favorable terms.

At 31 December 2016, the carrying amount of property, plant and equipment pledged as security for the Group's bank borrowings amounted to approximately RMB11,596,000 (2015: Nil).

7. Contingent liabilities

As at 31 December 2016, the Group did not have any significant contingent liabilities.

8. Capital management

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

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

The Group monitors capital using a gearing ratio, which is bank 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 2016 and at 31 December 2015 were as follows:

	2016	2015
	RMB'000	RMB'000
Bank borrowings	**213,628**	131,476
Total equity	**1,180,542**	1,157,495
Gearing ratio	**18.10%**	11.36%

The increase in gearing ratio during year 2016 resulted primarily from increase of bank borrowings. The group adjusts the amount of bank loans from time to time to meet the group's working capital needs.

9. Employees and remuneration policy

As at 31 December 2016, the Group had total 2,174 employees (2015: 2,969), of which 474 (2015: 596) were management and technical staff, and 1,700 (2015: 2,373) 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 including pension fund, medical, unemployment and industrial accident insurances for employees in the PRC, and contributes to mandatory provident fund for employees in Hong Kong according to corresponding laws and regulations.

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

In order to encourage employees, directors, substantial shareholders and any other persons involved or concerned in the business of the Group in specific classes to continue to contribute to the long-term success of the business of the Group, the Board proposed the adoption of a new share option scheme ("Share Option Scheme") by way of the Company's circular dated 29 April 2016. In the annual general meeting of the Company convened on 8 June 2016, resolution in relation to the adoption of the Share Option Scheme was passed and as a result the Share Option Scheme has been adopted.

On 14 October 2016, an aggregate of 13,000,000 options to subscribe for ordinary shares in the share capital of the Company were granted to directors of the Company. Each of such grants was approved by the independent non-executive Directors.

For details in relation to the Share Option Scheme and the grant of the options, please refer to the relevant announcements and circulars of the Company.

DIVIDEND

The directors do not recommend the payment of final dividend for the year ended 31 December 2016.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three independent non-executive directors. The Audit Committee has reviewed the consolidated results of the Group for the year ended 31 December 2016.

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 2016, save and except the Company provides the three board members, namely Mr. Cao Yunsheng, Mr. Tang Hui and Mr. Li Jing, 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 2016.

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 2016.

EVENTS AFTER THE REPORTING PERIOD

On 15 March 2017, the Company and two independent subscribers (the "Subscribers") entered into a subscription agreement pursuant to which the Company has conditionally agreed to allot and issue and the Subscribers have conditionally agreed to subscribe for an aggregate of 803,562,111 subscription shares of the Company at subscription price of HK$1.2 per subscription share (the "Subscription").

As at the date of this announcement, the Subscription has not yet been completed. The completion of the Subscription is subjected to certain conditions and subjected to the approval from the independent shareholders of the Company at the extraordinary general meeting. Details of the Subscription are set out in the Company's announcement of 21 March 2017.

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 2016 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
Wang Lishan
Chairman

Hong Kong, 31 March 2017

As at the date of this announcement, the executive directors are Mr. Wang Lishan, Mr. Cao Yunsheng, Mr. Tang Hui and Mr. Li Jing, the independent non-executive directors are Mr. Su Yang, Mr. Xiang Qiang and Mr. Qi Daqing.