TSC Group Holdings Limited

Stock Code: 206

Beyond Integration
Seamless Solutions™

Annual Report **2011**




CONTENTS

Global Products and Services to Onshore and Offshore Drilling Industry

Your Ultimate Total Solution Company

Sales, Service, Success,

Corporate Profile

TSC Group Holdings Limited (the "Company" or "TSC", formerly known as TSC Offshore Group Limited) is a product and service provider serving both onshore and offshore drilling industries worldwide. The Company was incorporated in the Cayman Islands and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company and its subsidiaries (collectively the "Group") develop, manufacture, market, install and service a comprehensive line of products for the onshore and offshore drilling industries. Through its products and services, the Group provides innovative solutions of various rig packages to its global customers.

Zhengzhou factory in China

Our Capital Equipment and Packages segment comprises a comprehensive line of highly engineered and automated drilling, mechanical handling, solids control, power control and drives, tensioning and compensation systems for various offshore drilling, completion, intervention and workover vessels for oil and gas wells. TSC also designs and manufactures jacking systems and rack materials for jack-up rigs, designs, builds and sells complete rig packages and deck cranes for jack-up rigs, semisubmersible rigs and platform modular rigs. Our value proposition lies in our engineering capabilities where we are able to integrate operations of our equipment to provide rig operators with innovative rig solutions and a high level of operational efficiency.

Macaé facility in Brazil

Qingdao factory I in China

Qingdao factory II in China

Xi'an factory I in China

Xi'an factory II in China

Dalian factory in China

Our Oilfeild Expandables and Supplies segment comprises the provision of maintenance, repair and operations spares ("MRO Supplies") for land and offshore rigs.

Our Engineering Services segment comprises the provision of maintenance, repair and operations services ("MRO Services") for land and offshore rigs.

To broaden the Group's future investment strategies, the name of the Company was changed from "TSC Offshore Group Limited" to "TSC Group Holdings Limited" on 4 March 2011.

Shipley office in UK

Houston office in USA

Corporate Milestones

1995

- TSC Group originated as EMER International in the State of Texas, USA to market and sell onshore and offshore drilling related products and equipment

2001

- Established in August 2001, in Xi'an (HHCT), our first manufacturing facility specialized in design and manufacture of electrical equipment for electric-driven onshore and offshore drilling rigs

2002

- Set up manufacturing facility in Qingdao, China in June 2002. TSC Qingdao engages in the design, manufacturing and sale of expendable parts for mudpumps used on drilling rigs
- Established the Group's global distribution center in Houston, Texas in August 2002 to serve and expand markets in North America

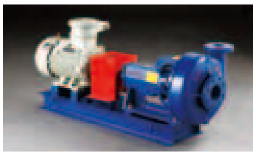
- Sales offices in Brazil, Singapore, Middle East and Russia were also established

2005

- Completed reorganization of EMER International Ltd and was listed on the GEM Board of The Stock Exchange of Hong Kong Limited ("HKEx")

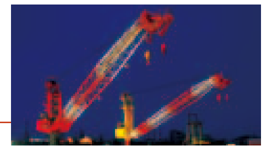
2007

- Acquired Zhengzhou production base (Highlight) to expand solids control system production line
- Acquired the manufacturing facility in Houston, Texas to manufacture drilling equipment, mechanical handling and deck cranes
- CIMC became TSC's strategic investor in May 2007



2008

- Successfully acquired London AIM Board Listed GME Group
- Expanded product lines to rig mechanical handling systems and deck cranes



- EMER International Ltd renamed TSC Offshore Group Ltd
- Acquired Second Zhengzhou production base (GEAR) and expanded jacking system product line

2009

- Second production base in Qingdao was opened in Qingdao (TSC OE) to manufacture offshore capital equipment in May 2009

- Transferred listing of the TSC Shares from GEM to the Main Board of HKEX in June 2009 with new stock code: 206

2010

- Acquired 51% of Jurun Ltd to expand range of services to include servicing of top drives
- Established manufacturing facility in Dalian for capital equipment

2011

- TSC Offshore Group Ltd was renamed TSC Group Holdings Ltd to broaden scope of future investment strategies
- CIMC Group increased shareholding interest in TSC to 13.63%
- Our manufacturing and trading of oilfield expendables and supplies segment was reorganized to operate as a Special Business Unit (SBU) for Maintenance, Repair and Operation (MRO) Supplies and our engineering services segment was reorganized to operate as a SBU for MRO Services. Organized as SBUs these segments will enable the Group to achieve its new business strategy

TSC Group Holdings Worldwide Locations

GLOBAL SOLUTIONS

Designing, Manufacturing and Packaging For The Onshore and Offshore Industry

Executive Chairman and Chief Executive Officer's Statement

Jiang Bing Hua
Executive Chairman

Zhang Menggui
Chief Executive Officer

Dear Shareholders,

1. 2011 - Forging Ahead, Executing our Strategy

2011 was another pivotal milestone year for TSC. We achieved significant progress in bringing together our broad and deep portfolio of products, technical, manufacturing and project execution capabilities. In 2011 we moved closer to our realization of our long term core value, which is to enable our customers achieve quantum leap growth in their own businesses by leveraging on the integrated solutions we provide at TSC. At the same time, we were able to develop and gain a strong foothold in the fast growing emerging markets. This transformation process began two years ago with the pieces of the jigsaw now coming together to complete a high definition picture of where TSC will be in the near future. This transformation of our diverse group is no mean-feat and has taken time as it involves integrating and aligning strategic and business units throughout the Group, whilst following closely to meet evolving market needs. We have had to make difficult decisions to sacrifice short term results in order to achieve long term sustainable success for TSC to grow into a sustainable billion-dollar business in the medium and long term.

2. Sound industry fundamentals - the demand and supply factors

Global oil demand is estimated to average at 89.9 million barrels per day for 2012. Recently the International Monetary Fund revised its forecast of the economic growth rate that underpins the worldwide oil demand outlook to increase 3.3% in 2012. The contraction in 2012 economic activity in the Euro zone countries is largely seen to be abated.

The strong growth in demand for oil of 1.2 million barrels per day comes mainly from the developing countries outside the Organization for Economic Cooperation and Development (OECD). Global energy demand is estimated to double by 2030, again driven mainly by growth in the developing countries, especially in the Asia Pacific Region.

At the same time, global oil production capacity is on the decline. Eight of the top 11 oil companies have already peaked in oil production. North Sea and Central America production are also on a downtrend as capital expenditure (CAPEX) had not kept up with the growing demand. Production capacity will diminish and demand for more equipment and services in the Exploration and Production (E&P) sector will grow over the next 5 years. Onshore oilfields are also depleting and offshore (developing fields and mature fields) are challenged to keep up the energy thirst from emerging countries and the recovering global economy. In addition, the instability in oil producing countries such as South Sudan, Libya, Syria and Iran are also causing unpredictability in the overall production of surplus stock.

A major investment bank has called this congruence of factors a 'super spike' as these national and macro indicators all point to Higher Sustainable Oil Prices which will drive higher E&P spending.

3. 'Encashing' from Strategic Locations

To sharpen focus and expedite strategy execution we had some low hanging fruits of success in several locations and business units, especially with the cash cow businesses relating to MRO supplies and MRO services. Starting in 4Q 2011, our MRO supplies (Oilfield Expendables and Supplies segment) and MRO services (Engineering Services segment) operates within the Group as SBUs instead of having to share resources with regional offices and other profit centers. This has resulted in higher efficiency and effectiveness in driving these businesses segments forward to achieve their high growth potential. Overall, oilfield expendables and supplies and engineering services contributed a total of 36% of the annual turnover, compared to 23% in 2010. Oilfield expendables and supplies turnover increased 18% whereas engineering services turnover increased 88% not taking into consideration the inclusion of Jurun Ltd, which is much in line with our targets for these segments, however, with the re-organization into business units we expect even higher growth rates in the coming years.

This reorganization will also remove conflicts over internal competition for limited resources and sharpened overall focus on our very wide range of capital equipment design and manufacturing capabilities - our key revenue drivers. Again we saw good progress with this strategy in the order book build up towards the end of 2011.

At the end of 2011, the MRO Supplies SBU established a new branch office at Kilgore in Texas. Although this had no impact on 2011 financial performance, the branch has immediately chalked up an impressive growth in orders during the two months of operations. Similarly, the MRO Services SBU is gearing up with additional personnel to meet demand for our range of offshore services and sales of spares with the increase in well intervention, field development, inspection, repair and maintenance (IRM) activities.

Whilst the MRO businesses provides the base for short term growth and our capital equipment capability will accelerate the pace of growth in the medium term, our focus ultimately is to shape the future direction of TSC around the Integrated Solutions business which encompasses all of our capabilities. The sum of all these parts of our diverse Group has the huge potential for offering a larger integrated whole unique value to our customers which is not available anywhere else. TSC has a unique and exceptional value proposition which will possess the transformative drive to bring TSC to an entirely new level at all segments as well as the whole of our business.

4. Emerging Market Opportunities

Much excitement has been created over discussion about the potential E&P investments to exploit the 'pre-salt' formation on the continental shelf off the Coast of Brazil to West Africa. The potential oil & gas reserves in this region are reported to be able to significantly increase Brazil's reserves alone and are believed to stretch over 122,000 square kilometers across to Africa. This offers another growth potential for deepwater and ultra-deepwater equipment which is within TSC's range of products.

Executive Chairman and Chief Executive Officer's Statement

In Brazil, TSC was recently successful in securing 8,000m^2 of land in Macaé which will enable us to expand our current facilities there to meet with the requirement for a minimum level of local content for future supply of equipment in Brazil. TSC is in position to participate in the newbuild orders for Petrobras and the drilling contractors operating in Brazil.

In addition to Brazil, there is also a significant amount of approvals for newbuild and refurbishment expenditure by the national oil companies in Latin America; Mexico, Colombia and parts of Asia. These are developing economies which have emphasized the need to accelerate E&P activities as production has dwindled over the past and existing equipment are out of date and inefficient. TSC has submitted several potential bids for supply of equipment in these regions working with established local partners.

Our establishment of the Aberdeen office has also shown excellent results as our presence there has led to several successful bid with customers located in the United Kingdom as well as in Norway and the Netherlands.

5. Enabling Integrated Solutions, Improving Core Products

Oil and gas related E&P expenditure is forecasted to be US$598 billion (Barclays) in 2012 as many projects were delayed by the recent financial crisis and ensuing economic recession. The bulk of this estimated E&P expenditure is focused on offshore deepwater projects. Over the next five years, deepwater CAPEX is forecasted to reach US$205 billion driven primarily by Latin America, Africa, North America, Eastern Europe and Former Soviet Union (FSU), of which US$72 billion (35%) would be related to drilling activities. TSC has strategies in place to enter and gain a foothold in these markets.

Over the years, TSC has invested a significant amount of resources in the development of drilling products to compete in the deepwater market segment. We have done this through internal research and development programs as well as from various acquisitions completed over the years.

For rig turnkey solutions, the supply of the four units of cantilever drilling packages on the Super M2 Jack Ups for CIMC Raffles Shipyard Ltd will be in operation by the end of 2012. This will be another milestone in our long term strategy. The performance of these drilling packages will significantly enhance our track record of having already provided equipment on about 10% of the rigs in operations worldwide. CIMC Raffles Shipyard Ltd awarded TSC a further two similar packages in the fourth quarter of 2011. This underscores the confidence that customers have in TSC's ability to deliver its promises.

Current key product development activities include:

- The jacking systems product center is working towards the development of a harsh environment deepwater jacking system, for the decommissioning activities in the North Sea Region.
- The Multi-service vessel (MSV) project, conceptualized based on operating parameters in several deepwater regions for well intervention, installation, repair and maintenance (IRM) and field development applications.
- Fast Moving Land Rigs, which are ultra-efficient and can bring about tremendous mobility and costs savings for the drilling contractors, based off the accumulated experience from TSC's management.
- Finalization of Workforce 2200/2400 series mud pumps, for deepwater rigs and vessels.
- Trial and evaluation stage for the hi-pressure fracturing pumps, expect to come online in 3Q 2012.

We believe the progressive product development will bring about a stronger value proposition in the deepwater segment in the short run.

The two MRO business segments are seeing good growth prospects as offshore operation and maintenance (O&M) expenditure is expected to exceed US$330 billion over the next five years. TSC is capitalizing on this opportunity with several of the modifications and refurbishment jobs already on hand for the older rigs.

6. Financial Performance

Overall in 2011, TSC achieved a net profit of US$4.03 million, a drop of 70.3% from the previous year of US$13.59 million. Revenue also decreased 3.5% from US$143.46 million in 2010 to US$138.42 million. The decrease in net profit was mainly due to the late commencement of two major projects which commenced late in the last quarter whilst having to maintain a high level of overhead to execute our long term strategies. R&D initiatives were similarly continued to position the company in availing ourselves to the potential opportunities in the market. While taking the cost impact into the current financial statements we are confident that the benefits will be presented in future years.

7. Way Ahead

For 2012, our goals are clear. We recognize the unique opportunity of the combination of continuing growth in economic recovery, demand for oil & gas, aging fleets, outdated equipment, emerging market government drive towards energy sufficiency and most importantly the demand for what TSC already has, is presented for TSC to grow exponentially over the next 5 years. A key factor to realizing our vision is that we have the people in place to execute the integration strategy which we are so committed to.

Over the last two years, we have been conservative on capital expenditure and funded long term capital expenditures with internal cash flows, including the last acquisition of Jurun Ltd. The Group continues to balance its overall cashflow between operating cashflows, project execution and the need to fund longer term strategies.

TSC will continue our dedication to the Environment, Health and Safety in all areas of our business.

8. Appreciation

We thank each and every member of staff for their tireless efforts, dedication and loyalty, working as a team to achieve our shared goals. Our appreciation and heartfelt thanks as well, for the keen support from our customers, business partners and shareholders.

Jiang Bing Hua	**Zhang Menggui**
Executive Chairman	*Chief Executive Officer*

Hong Kong, 28 March 2012

To Become A World Class Offshore Solutions Provider, By Catering To Client's

Needs Through Commitment, Excellence, Adaptability And Loyalty.

Management Discussion and Analysis

1. OVERVIEW

TSC is a global product and service provider serving both the offshore and land drilling rig industry worldwide. These principal activities remained unchanged for 2011.

Our Capital Equipment and Packages segment comprises the design, manufacture, installation and commissioning of capital equipment and packages on land and offshore rigs. Our equipment are highly engineered and automated for drilling, mechanical handling, solids control, power control and drives, tensioning and compensation systems for various offshore drilling rigs, completion, intervention and workover vessels for oil and gas wells as well as for land rigs.

Our MRO Supplies (Oilfield Expendables and Supplies) segment comprises the manufacture and sales of oilfield expendables and spares.

Our MRO Services (Engineering Services) segment provides a comprehensive range of engineering and maintenance services for our products as well as equipment manufactured by other suppliers.

The two factors that drive offshore rig activity are (i) new discoveries and (ii) oil prices. Both of which will influence the general level of business activity in the oil and gas industry worldwide and provide a positive impact on our business. In 2008, oil prices reached a high of US$147 per barrel in July 2008 but fell to US$36 per barrel at the end of 2008. Prices recovered to US$70 per barrel in 2009 and has since steadily risen to well above US$80 per barrel in 2010 and has remained steadily above US$100 throughout 2011. The financial and credit crisis that began in late 2007 which led to reduced capital expenditure budgets, is largely over. In 2011, the favourable oil price was conducive to more drilling activities and the high demand from emerging countries stimulated an increase in capital equipment expenditures globally.

Our strength lies in the comprehensive range of products, innovative technology and expertise which we integrate to offer our customers high value solutions, safe and high quality products and services at cost effective rates. These strengths are being applied on innovative strategies to leverage the company towards higher growth in the future as the price of oil recovers to a consistent sustainable price around US$100 per barrel. Demand is expected to continue to grow as discussed in the section below on outlook.

2. FINANCIAL REVIEW

	2011 US$000	2010 US$000	Increase/ (decrease) US$000	%
Turnover	**138,416**	143,455	(5,039)	(3.5)
Gross profit	**52,300**	52,266	34	0.1
Gross profit margin	**37.8%**	36.4%		
Profit from operations	**7,962**	16,426	(8,464)	(51.5)
Net margin	**5.8%**	11.5%		
Net profit for the year	**4,031**	13,591	(9,560)	(70.3)
Earnings per Share (Basic)	**US 0.51 cent**	US 2.05 cents		
Earnings per Share (Diluted)	**US 0.50 cent**	US 2.01 cents		

Turnover for the Group decreased by 3.5% to US$138.4 million. The net profit for 2011 was US$4.03 million, a drop of 70.3% from the previous year of US$13.59 million. The decrease in net profit was mainly due to the commencement of two major projects towards the end of the last quarter whilst having to maintain a high level of overhead to execute our long term strategies. Research and development initiatives were similarly continued to position the Group for potential opportunities in the market. We faced some delays at the Astrakhan shipyard in completion of the H195 Dragon Oil Project which also resulted in increase in cost to complete. These costs have been factored into the reduction in profit this year.

Management Discussion and Analysis

Segment Information by Business Segments

Turnover

	2011 US$'000	%	2010 US$'000	%	Increase/ (Decrease) %
Capital Equipment and Packages	**89,162**	**64.4**	110,596	77.1	(19.4)
Oilfield Expendables and Supplies	**25,953**	**18.8**	22,011	15.3	17.9
Engineering Services	**23,301**	**16.8**	10,848	7.6	114.8
	138,416	**100.0**	143,455	100.0	(3.5)

Capital Equipment and Packages

The turnover of the Capital Equipment and Packages segment decreased from US$110.6 million in year 2010 to US$89.2 million in year 2011. This was mainly due to lower number of new projects starting in the year whilst ongoing projects progressed close to completion where the rate of completion would typically decrease. The company secured two drilling package contracts close to the end of the Year.

Oilfield Expendables and Supplies

The increase of 17.9% from US$22.0 million in 2010 to US$26.0 million in 2011 in Oilfield Expendables and Supplies turnover came from the expansion of the Group's distribution network with established drilling contractors and the development of products for Original Equipment Manufacturers. The general improvement in drilling activity also provided the base for the good growth in this segment.

Engineering Services

The increase of 114.8% in Engineering Services turnover from US$10.8 million in 2010 to US$23.3 million in 2011 is in line with the Group's continuing strategy to provide high quality service personnel to customers.

Segment Information by Geographical Regions

Turnover

	2011 US$'000	%	2010 US$'000	%	Increase/ (decrease) %
Mainland China	**47,356**	**34.2**	40,952	28.5	15.6
North America	**31,736**	**22.9**	24,551	17.1	29.3
South America	**12,984**	**9.4**	4,372	3.0	196.9
Europe	**16,028**	**11.6**	22,014	15.4	(27.2)
Singapore	**23,341**	**16.9**	46,241	32.2	(49.5)
Others (other part of Asia, India, Russia, Middle East, etc.)	**6,971**	**5.0**	5,325	3.8	30.9
Total	**138,416**	**100.0**	143,455	100.0	(3.5)

Gross Profit and Gross Profit Margins

Gross Profit remained at US$52.3 million with the decrease of 3.5% in Group's turnover. Gross profit margin improved slightly to 37.8% in year 2011 which remains fairly consistent with the previous year's gross profit margin of 36.4%.

Other Revenue and net income

The increase by 42.4% in Other Revenue and net income from US$2.1 million to US$3.1 million is mainly due to the reversal of impairment losses of doubtful debts in 2011.

Operating Expenses and Profit Attributable to Equity Shareholders of the Company

Selling & Distribution Expenses

Selling & Distribution Expenses increased by US$1.2 million from US$5.5 million in 2010 to US$6.7 million in 2011 with implementation of marketing and sales strategies which involved extensive domestic and overseas travelling to emerging markets and development of sales strategies with our strategic alliance partners.

General & Administrative Expenses

General & Administration Expenses increased by 27.0% from US$28.0 million in 2010 to US$35.6 million in 2011. The increase of US$7.6 million came mainly from increased staff cost and research & development expenses.

Other Operating Expenses

The increase in Other Operating Expenses from US$4.4 million in 2010 to US$5.1 million in 2011 is mainly due to foreign exchange currency losses and increase in amortisation of intangible assets resulting from a full year amortisation of Jurun Ltd.'s intangible assets compared to amortization of four months in the previous year when Jurun Ltd. was acquired in September 2010.

Finance Costs

Finance Costs, primarily interest on bank loans, amounted to approximately US$1.7 million compared to US$1.4 million in the previous year for the Group. The increase resulted from bank loans increasing from US$18.0 million at the end of 2010 to US$25.5 million at the end of 2011 and a slight increase in the average interest rate.

Group's Liquidity and Capital Resources

As at 31 December 2011, the Group had other intangible assets of approximately US$16.0 million (2010: US$18.9 million). As at 31 December 2011, the Group carried fixed assets of approximately US$41.1 million (2010: US$32.7 million) being property, plant and equipment, property under development and interest in leasehold land held for own use under operating leases.

As at 31 December 2011, the Group had interest in associates and deferred tax assets of approximately US$2.2 million (2010: US$4.1 million) and approximately US$10.9 million (2010: US$13.1 million), respectively.

As at 31 December 2011, the Group had current assets of approximately US$171.2 million (2010: US$162.1 million). Current assets mainly comprised cash at bank and in hand of approximately US$34.1 million (2010: US$17.1 million), pledged bank deposits of approximately US$1.3 million (2010: US$3.7 million), inventories of approximately US$39.6 million (2010: US$33.3 million), trade and other receivables of approximately US$79.5 million (2010: US$64.9 million), gross amount due from customers for contract work of approximately US$16.5 million (2010: US$42.9 million), and amount due from a related company of approximately US$0.1 million (2010: US$0.1 million).

As at 31 December 2011, the Group's current liabilities amounted to approximately US$85.2 million (2010: US$83.5 million), mainly comprising trade and other payables of approximately US$58.7 million (2010: US$62.2 million), bank loans of approximately US$20.5 million (2010: US$14.7 million), current taxation of approximately US$4.2 million (2010: US$4.4 million) and provisions of contract loss of approximately US$1.8 million (2010: US$2.3 million).

As at 31 December 2011, the Group had non-current liabilities of approximately US$6.3 million (2010: US$6.6 million), comprising bank loans of approximately US$4.9 million (2010: US$3.3 million) and deferred tax liabilities of approximately US$1.3 million (2010: US$3.2 million). Gearing ratio, being the Group's total liabilities to equity shareholders' funds as at 31 December 2011 was 55%, as compared to 56% as at 31 December 2010.

Significant Investments and Disposals

There were no other significant investments or disposals during the Year.

Capital Structure

At the beginning of the year at 1 January 2011, there were 678,563,804 shares in issue (the "Shares") and the Company carried a share capital of approximately US$8,727,000.

During the Year, the Company issued 3,328,400 shares to option holders who exercised their options under the Company's employee share option schemes. At 31 December 2011, the Company had 681,892,204 shares in issue, and a paid up capital of approximately US$8,770,000.

Charges on Assets

To secure the loans from banks, the Group agreed to charge certain assets to banks. Details are set out as follows:

(i) Interest in leasehold land held for own use under operating leases, buildings, plant and machinery, inventories and trade receivables of six subsidiaries namely TSC (Qingdao) Manufacture Co., Limited ("TSCQD"), TSC-HHCT (Xian) Control Technologies Limited (TSC-HHCT), TSC Manufacturing and Supply, LLC, Qingdao TSC Offshore Equipment Co., Ltd. ("TSCOE"), Tianjin Shengli Petroleum Equipment Co. Ltd and Golden Spike, LLC, with aggregate net book value of assets pledged amounted to US$56,045,000 (2010: interest in leasehold land held for own use under operating leases, buildings, plant an equipment of four subsidiaries namely TSC (Qingdao), Golden Spike, Tianjin Shengli Petroleum Equipment Co., Ltd and TSC-HHCT, with aggregate net book value of assets pledged amounted to US$12,927,000).

(ii) Corporate guarantees given by Zhengzhou TSC Offshore Equipment Co., Ltd TSCQD and TSCOE to the extent of banking facilities outstanding of US$8,387,000 (2010: US$7,433,000) as at 31 December 2011.

(iii) Guarantees given by the directors of the Company to the extent of banking facilities outstanding of US$4,928,000 (2010: US$3,641,000) as at 31 December 2011.

Certain bank loans of the Group are subject to the fulfillment of covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down loan balances would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2011, none of the covenants relating to the Group's bank loans had been breached, except that the Group did not fulfil the financial covenants of a short term bank loan of $2,199,400. Subsequent to 31 December 2011, the Group has obtained a letter from the bank to waive the strict compliance with the financial covenants for the year ended 31 December 2011.

Foreign Currency Exchange Exposures

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The Group has foreign exchange exposure resulting from most of the Group's subsidiaries in the PRC carried out production locally with RMB as functional currency while approximately 45% of the Group's turnover was denominated in United States dollars. As at 31 December 2011, no related hedges were made by the Group.

In order to mitigate that foreign exchange exposure, we have entered into a non-deliverable foreign exchange instrument to better match the currency of our revenues and associated costs in the future. However, we do not use the foreign exchange instrument for trading or speculative purposes. The Group will actively explore ways to hedge or reduce currency exchange risk in future.

Non-Exempt Continuing Connected Transactions

The Group conducted the following continuing connected transactions with connected parties of the Company, namely CIMC Raffles Offshore (Singapore) Limited ("CIMC Raffles"):

In February 2010, the Group conducted the following continuing connected transactions with connected parties of the Company, namely CIMC Raffles. CIMC Raffles is a substantial shareholder of the Company, which through its wholly-owned subsidiary, CIMC Raffles Investments Limited ("CRIL"), owns approximately 6.51% of the issued share capital of the Company.

On 26 May 2011, the Company was informed by China International Marine Containers (Hong Kong) Limited ("CIMC HK"), CIMC HK was already the beneficial owner of 50,000,000 shares of the Company and a wholly-owned subsidiary of China International Marine Containers (Group) Co., Limited ("CIMC Group"), that they acquired 42,800,000 Shares at HK$2.28 each in the Company from CRIL, a wholly-owned subsidiary of CIMC Raffles. CIMC Raffles is held as to 83.55% by CIMC Offshore Holdings Limited. Mr. Brian Chang, a non-executive director of the Company, through his wholly-owned companies held 38.24% of the issued shares in CIMC Offshore Holdings Limited. Mr. Brian Chang is deemed to be interested in 42,800,000 shares held by CRIL as he held 31.94% attributable interest in CRIL and he currently serves as deputy chairman of CIMC Raffles and serves as director of certain subsidiaries of CIMC Raffles group.

As of the date of this report, Mr. Brian Chang continues to have deemed interested in aggregate 66,072,800 shares, representing approximately 9.69% of the Company by virtue of his interests in Asian Infrastructure Limited and Windmere International Limited. CIMC Group, through CIMC HK, is deemed to be interested in 92,800,000 shares, representing approximately 13.61% of the issued share capital of the Company.

The Supply of Drilling Packages and Electrical Power Packages

Category of transaction	Continuing Connected Transactions
Transaction Date	10 February 2010
Transaction with	CIMC Raffles
Purpose of transaction	The master agreement with CIMC Raffles by which the Group can provide the Equipment under the Turnkey Project(s) to CIMC Raffles for two years ended 31 December 2011.
Contract values and other details	The annual caps under the master agreement for two years ended 31 December 2011 are approximately US$200 million each year.
Detailed announcement and shareholder approval	Details of the transaction were announced on 10 February 2010 which was published on the websites of the Stock Exchange and the Company. The master agreement was approved by independent shareholders at extraordinary general meeting on 18 March 2010.

During the Year, the Group transacted contracts with CIMC Raffles under the continuing connected transactions mandate approved by the Company's independent shareholders at extraordinary general meeting held on 18 March 2010. The above-mentioned contracts cover the supply of drilling packages, electrical power packages and a submersible pump with a total contract value of approximately US$66.5 million, which is within the cap of US$200 million for the year ended 31 December 2011 approved by the independent shareholders of the Company. The actual sales amount of these continuing connected transactions between the Group and CIMC Raffles was approximately US$7.8 million for the year ended 31 December 2011.

In addition, the actual sales amount of the supply contracts with CIMC Raffles signed during 2010 was approximately US$2.9 million for the year ended 31 December 2011 (2010: US$29.1 million).

Employees and Remuneration Policy

As at 31 December 2011, the Group had approximately 1,122 full-time staff in the United States ("USA"), the United Kingdom ("UK"), Brazil, United Arab Emirates, Russia, Singapore, Hong Kong and the People's Republic of China ("PRC"). The Group's remuneration policy is basically determined by the performance of individual employee and the market condition. The Group also provides other benefits to its employees, including medical schemes, pension contributions and share option schemes.

3. BUSINESS AND MARKET REVIEW

Although the recovery of the oil and gas industry in 2011 was not as strong as it was in 2010, oil prices averaged above US$100 per barrel which is a good level for supporting Capital Equipment investment decisions affecting TSC businesses. The combination of economic concerns in developed countries and lower growth in emerging countries dampened the pace of recovery in 2011. However, tight supply exacerbated by unrest in oil producing countries in the Middle East maintained sufficient pressure on oil prices to set new records. With high oil prices where they are today, mature basins are set to drive rig demand. The two factors that drive offshore rig activity are (i) new discoveries and (ii) oil prices. Both of which will provide a positive impact on our business. So far, attention in the offshore drilling markets has been focused on new discoveries in regions like Brazil and West Africa as well as in mature offshore drilling markets like the North Sea, mid-water Gulf of Mexico, parts of Asia, the Middle East and the Caspian Sea region. In USA, the market for pressure pumping and land drilling continues to develop even though faced with environmental and equipment supply constraints relating to pressure pumping equipment. Market conditions are favourable to TSC's business strategies.

4. FUTURE PLANS FOR MATERIAL INVESTMENTS, CAPITAL ASSETS AND CAPITAL COMMITMENT

We will be opening further 2 branches in the Texas and Louisiana region in USA and Colombia to meet with growing demand for our expendables and supplies in these regions. The facilities were rented and will be able to stock sufficient supplies to provide immediate response to customers in that region.

Our Brazil office recently secured a 15 year lease for 8,000m^2 of land in Macaé which includes an option to purchase the land at the end of the lease period. This facility will enable us to expand operations in Brazil to expand our Engineering Services segment business and to some extent meet with requirements for a minimum level of local content for future supply of equipment in Brazil.

Future plans include developments of:

- Jacking systems for harsh environment deepwater jack up rigs
- Multi-service vessels (MSV) conceptualized based on operating parameters in several deepwater regions for well intervention, installation, repair and maintenance (IRM) and field development applications
- Fast Moving Land Rigs which are ultra-efficient and mobile with significant costs savings features for the drilling contractors, based off the accumulated experience from TSC's management
- Finalization of Workforce 2200/2400 series mud pumps.
- Trial and evaluation of the hi-pressure fracturing pumps, expect to come online in 3Q 2012.

TSC continues to explore plans to acquire expertise and expand capabilities by way of purchasing assets or acquisition of equity interest in companies with such expertise and or capability.

Change of company name

Pursuant to a special resolution passed by the shareholders of the Company at its extraordinary general meeting held on 4 March 2011, the name of the Company was changed from "TSC Offshore Group Limited" to "TSC Group Holdings Limited" (with "TSC集團控股有限公司" being adopted as its new Chinese name for identification purpose only) under the laws of the Cayman Islands. The certificate of incorporation on change of name was issued by the Registrar of Companies in the Cayman Islands on 4 March 2011. The Company obtained the "Certificate of Registration of Change of Corporate Name of Non-Hong Kong Company" with the Registrar of Companies in Hong Kong and change the English and Chinese stock short name. The stock code of "206" of the Company remains unchanged.

Appointment of non-executive Director

In January 2011, Mr. Yu Yuqun was recommended by the Company's nomination committee to be appointed as non-executive Director of the Company. Subsequently, the Company convened the meeting of the Board and resolved to appoint Mr. Yu Yuqun as non-executive Director of the Company with effect from 15 March 2011. As at the date of this report, the Board of the Company comprised of Mr. Jiang Bing Hua and Mr. Zhang Menggui as executive Directors; Mr. Jiang Longsheng, Mr. Brian Chang and Mr Yu Yuqun as non-executive Directors; Mr. Chan Ngai Sang, Kenny, Mr. Bian Junjiang, Mr. Guan Zhichuan and Mr. Robert William Fogal Jr. as independent non-executive Directors. Mr. Yu Yuqun (non-executive Director) was newly appointed.

5. STRATEGY, PROSPECTS AND ORDER BOOK

Strategies

TSC adopts a 3-tier business strategy which can be visualized as a pyramid where the base comprises our 'cash cow' business of Oilfield Expendables and Supplies and Engineering Services (which incorporates maintenance, repair and operations), Rack Cutting, Solids Control and other developed range of equipment. The mid section of the pyramid which we call 'revenue boosters' comprises our individual sales of a wide range of products such as Deck Cranes, Mechanical Handling, Mud Pumps, Jacking Systems, Jack-up Rack and Chord, Electrical Controls and Drives. These are equipment which we design and supply individually. The top section of our strategy pyramid, our 'growth engine', where we tailor our range of products as an 'Integrated Solution', addressing customers needs by leveraging TSC's product range, engineering capability, project execution and financial needs taken together as one product offering.

This 3-tier business strategy is complemented with marketing and operational strategies which as a whole serves to meet our vision to transform TSC into a formidable player in the global oil and gas service and equipment industry. We also adopt a "3D" approach where our teams are Customer-Driven, Service-Driven and Solution-Driven in everything we do. This enables us to achieve the penetration into the markets that we want to win as well as to deliver our products and services on time, on quality and within budget.

Prospects

TSC strategies are also tied in with the strategies of our partners and alliances with synergistic and complementary capabilities to form the bigger picture that TSC needs in order to scale the growth path we have set. As execution of this long term strategy unfolds, we are witnessing the successful transformation of TSC's business profile to higher level of penetration and participation in the global demand for our products. The feedback that we have received from prospective customers are encouraging. Our customers, in the emerging markets with whom we choose to establish our presence, highly appreciate our approach which is unique compared to what is available in the market. We are optimistic about our long term prospects.

Order Book

As at 31 December 2011, the Group as a whole carried an order backlog of approximately US$121.5 million for capital equipment and packages, expendables and engineering services. Subsequent to 31 December 2011, the Group has secured further new orders amounting to US$17.2 million up to the date of this report.

Subsequent Events

On 10 January 2012, EMER International Limited, a subsidiary of the Company, transacted a contract variation order (the "Contract Variation Order") with Yantai CIMC Raffles Offshore Ltd, a subsidiary of CIMC Raffles Offshore (Singapore) Limited ("CIMC Raffles"). The Contract Variation Order is related to the supply of a submersible pump valued at US$125,000 (approximately HK$975,000) which was excluded from the initial purchase contract value in 2011. For the period between 19 March 2010 and 31 December 2011 (the "Period"), the Group transacted actual sales amount of US$38.5 million and US$66.5 million respectively with CIMC Raffles, which were within the cap of US$200 million for each of these two years ended 31 December 2011 under the continuing connected transactions mandate approved by the Company's independent shareholders at extraordinary general meeting held on 19 March 2010. The Contract Variation Order is for 2012 so it is not covered in the Period. As of the date of this report, it was a de minimis connected transaction on normal commercial terms where each of the percentage ratios was less than 0.1% and the total consideration was less than HK$1,000,000. Therefore, this connected transaction would be exempt from all the reporting, announcement and independent shareholders' approval requirements stated in the Listing Rule 14A.31(2).

Save as disclosed in this report, no subsequent events occurred after 31 December 2011 which may have significant effects on the assets and liabilities of future operations of the Group.

Profiles of Directors and Senior Management

Executive Directors

Non-Executive Directors

Mr. JIANG Bing Hua, age 61, is the co-founder of the Group. He is the executive Chairman and an executive Director of the Group. Mr. Jiang is responsible for the Group's overall strategy planning and business development. He obtained his bachelor degree in offshore structure engineering from the Tianjin University (天津大學) in the PRC in 1980 and acquired his master degree in business administration from the University of Dallas in the U.S.A. in 1993. Mr. Jiang has 38 years of experience in the oil and gas industry. Prior to founding the Group, he worked for the Sinopec group, the CNPC group and China National Offshore Oil Corporation (CNOOC) in various positions such as driller, drilling superintendent, drilling manager, operation manager and company representative.

Mr. ZHANG Menggui, age 53, is the co-founder of the Group. He is the chief executive officer and an executive Director of the Group. Mr. Zhang is responsible for the Group's overall performance, strategy implementation and day-to-day operations. He obtained his bachelor degree majoring in drilling engineering from the China University of Petroleum (中國石油大學) in 1982 and acquired his master degree in petroleum engineering from the University of Alaska-Fairbanks in the U.S.A. in 1989. Mr. Zhang has 29 years of experience in the oil and gas industry. Prior to founding the Group, he worked for a subsidiary of the CNPC group in China and for Cook Inlet Region Inc. in Alaska. Mr. Zhang currently is a member of several oil industry associations and professional organizations including the Society of Petroleum Engineers and the American Drilling Engineers. He is the elder brother of Mr. Zhang Mengzhen, group vice president and also the president of TSC Manufacturing and Supply, LLC. ("TSCMS"), a subsidiary of the Group.

Mr. JIANG Longsheng, age 67, has been non-executive Director of the Company since May 2006. Mr. Jiang is a veteran in the offshore oil industry in China and has over 39 years of experience in the onshore and offshore oil industry in China. He received a bachelor of science degree from the Beijing Petroleum Institute (北京石油學院) in China in 1969. He was an executive director of CNOOC Limited ("CNOOC") (a company listed on the Main Board of the Stock Exchange) from 2000 to 2005 and has held the position of vice president of CNOOC from 1998 to 2005. From 1994 to 1998, he was the general manager of China Offshore Oil Southern Drilling Company. From 1991 to 1994, Mr. Jiang served as the deputy chief drilling engineer and was later appointed as the chief drilling engineer of China Offshore Oil Western South China Sea Corporation. Mr. Jiang presently serves as an independent non-executive director of Metallurgical Corporation of China Limited, a company listed on the Main Board of the Stock Exchange.

Mr. Brian CHANG, age 69, has been non-executive Director of the Company since July 2009. Mr. Chang has over 40 years of experience in the marine and offshore industry. He graduated with an honours degree in electrical engineering from City University, London, U.K. in 1965. He is Chairman of Brian Chang Holdings Limited, and the founder of Promet Berhad in Singapore/Malaysia (now known as PPL) and Yantai Raffles in China (now known as CIMC Raffles). Mr. Chang is a shareholder and Board member of various marine and offshore companies including TrollDrilling & Services, Calm Oceans Pte Ltd and Bergen Group ASA, a company listed at Oslo Stock Exchange with ticker BERGEN.

Mr. YU Yuqun, age 46, was appointed non-executive Director on 15 March 2011. Mr. Yu obtained a bachelor's degree and a master's degree in Economics, both from the Peking University. Mr. Yu worked in the State Bureau of Commodity Price of the People's Republic of China before joining China International Marine Containers (Group) Limited ("CIMC") in 1992. He is currently the secretary to the board of directors of CIMC, responsible for investor relations and financial management. He is the director of CIMC Enric Holdings Limited, whose shares are listed on the Main Board of the Stock Exchange and CIMC Raffles Offshore (Singapore) Limited.

Independent Non-Executive Directors

Mr. CHAN Ngai Sang Kenny, age 47, is an independent nonexecutive Director since October 2005. Mr. Chan is a partner and founder of Kenny Chan & Co., a firm of Certified Public Accountants. Mr. Chan has over twenty years experience in accounting, taxation, auditing and corporate finance and has involved in several merger and acquisition and initial public offering projects. Mr. Chan holds a Bachelor of Commerce degree from the University of New South Wales and is a member of the Institute of Chartered Accountants of New Zealand, The Association of International Accountants, CPA Australia, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. Mr. Chan served as the District Governor of Lions Clubs International District 303 – Hong Kong & Macao, China in 2009/2010. Mr. Chan also serves on several tribunals of the HKSAR Government which includes The Administration Appeals Board, The Mandatory Provident Fund Schemes Appeal Board and The Solicitors Disciplinary Tribunal Panel. He also serves as vice president of the Association of International Accountants Hong Kong Branch. Mr. Chan is an independent non-executive director of Combest Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange.

Profiles of Directors and Senior Management

Independent Non-Executive Directors

Mr. BIAN Junjiang, age 69, is an independent non-executive Director since October 2005. Mr. Bian previously held the position of chairman of CGC Overseas Construction Company Limited and was an independent Director of CITIC Securities Co., Ltd. He has many years of working experience in accounting and economic analysis in petroleum organisations.

Mr. GUAN Zhichuan, age 53, is an independent non-executive Director since October 2005. Mr. Guan obtained a doctorate in engineering from the University of Petroleum (Beijing) (石油大學) in 1995 and pursued his research in the field of oil and gas drilling engineering and fluid mechanics. He presently serves as a Professor at the College of Petroleum Engineering of the China University of Petroleum (中國石油大學石油工程學院).

Mr. Robert William FOGAL JR, age 76, has been an independent non-executive Director of the Company since July 2009. Mr. Fogal Jr has over 50 years of experience in the offshore industry having worked in engineering, planning, estimating, production, marketing, sales, project management, contract administrator and yard management in various listed and multinational companies. He obtained a degree in mechanical engineering from Lamar University in the United States in 1957. He was the vice president in marketing, sales and business development at Friede & Goldman Ltd and was responsible for developing over 20 offshore rigs being built in 6 shipyards and various countries. He also served as vice president of Jackup Structures Alliance, Inc. from 2008 to 2011. Currently, Mr. Fogal Jr serves as director of business development for Zentech Incorporation of Houston, USA.

Senior Management

Mr. ZHANG Menggui, age 53, is the co-founder of the Group. He is the chief executive officer and an executive Director of the Group. Mr. Zhang is responsible for the Group's overall performance, strategy implementation and day-to-day operations. He obtained his bachelor degree majoring in drilling engineering from the China University of Petroleum (中國石油大學) in 1982 and acquired his master degree in petroleum engineering from the University of Alaska-Fairbanks in the U.S.A. in 1989. Mr. Zhang has 29 years of experience in the oil and gas industry. Prior to founding the Group, he worked for a subsidiary of the CNPC group in China and for Cook Inlet Region Inc. in Alaska. Mr. Zhang currently is a member of several oil industry associations and professional organizations including the Society of Petroleum Engineers and the American Drilling Engineers. He is the elder brother of Mr. Zhang Mengzhen, the president of TSCMS, a subsidiary of the Group.

Mr. LIM Joo Heng, Paul, age 56, is the chief financial officer and a vice president of the Group. He is responsible for financial management of the Group and manages the Group's office in Hong Kong. Mr. Lim is a fellow of the Association of Chartered and Certified Accountants. He was appointed chief financial officer in June 2009 and has a distinguished career of over 26 years in finance and accounting. He started his career with KPMG as a professional accountant and has held senior management positions in several public listed companies in Malaysia. Prior to joining TSC he held the position of VP finance at Yantai Raffles Shipyard Ltd.

Dr. SUN Yuanhui, age 55, is chief technology officer, Group vice president in charge of Engineering. Dr. Sun has over 21 years of extensive experience in deepwater drilling engineering, marketing and project management in the offshore industry. Prior to joining the Group, Dr. Sun held various technical and management positions in Noble Drilling Corporation where he played a major role in most of the deepwater semi conversions and new build deepwater drilling unit projects, including the company's first set of deepwater semi conversion projects started in 1995, as well as in Noble's business development in Asia-Pacific. Prior to joining Noble Drilling, Dr. Sun worked with PMB/Bechtel Offshore, where he was involved in the Amoco-Liuhua semisubmersible conversion project which was the first in China. Dr. Sun holds a Ph.D. and a master degree in Civil Engineering from Rice University, USA and a Bachelor of Science in Engineering Mechanics from Tsinghua University in China where he had served as an assistant professor for three years. He is a registered Professional Engineer in the State of Texas, USA.

Profiles of Directors and Senior Management

Mr. Robert Stuart SHINFIELD, age 41, joined the company as general manager for TSC Offshore Ltda (Brazil), a wholly-owned subsidiary of the Company in August 2004 and was promoted to Group vice president in January 2010. He is responsible for the companies in South American operations and business development. Mr. Shinfield graduated from Derby University with an ONC in mechanical engineering in 1992. He has over 17 years experience in the oil and gas industry and held various technical and management positions with NOV.

Mr. CHEN Yunqiang, age 46, is the Group vice president and the managing director of TSC Offshore China Limited, in charge of China Region operations including marketing and sales of the Group's products in China. Mr. Chen studied industrial enterprise management at the Hangzhou University of Electronic Science and Technology (杭州電子科技大學). Mr. Chen joined the Group in August 2001 as general manager of TSC-HHCT, a subsidiary of the Group, in Xi'an, China till 2005. Prior to joining the Group, Mr. Chen worked with Xi'an Petroleum Exploration Instrument Complex (西安石油勘探儀器總廠) for 14 years in various positions including assistant factory head, supervisor of electric driven production lines and manager of its sales branch for drilling rigs.

Mr. ZHANG Mengzhen, age 45, is the Group vice president and the president of TSCMS. Mr. Zhang is responsible for sales and marketing of the Group's Oilfield Supply Division in international markets and overall management of TSCMS. Mr. Zhang graduated from Xi'an Institute of Metallurgy & Construction Engineering (西安冶金建築學院) in 1989. Previously, Mr. Zhang worked as the engineer for Emer International for three years and then joined TSCMS as vice president on 20 August 2002. He is the younger brother of Mr. Zhang Menggui, an executive Director.

Mr. Robert James REAM, age 64, is senior vice president of TSC Offshore Corp. Mr. Ream is responsible for the Group's offshore crane division. Mr. Ream holds a bachelor of science in mechanical engineering and a masters in business administration from Marquette University. Mr. Ream has 39 years of working experiences, of which 33 years is in the offshore crane business working in various positions in engineering, senior management and sales. Prior to joining the Group, Mr. Ream had worked for UNIT Mariner Crane, AmClyde and NOV.

Mr. William Richard LEWIS, age 41, is General Manager of Integrated Solutions. He is responsible for Capital Equipment Sales for the Group and the New Product Center "INTEGRATED SOLUTIONS." Mr. Lewis received his bachelor degree in Business Management. After serving 9 years in the US Navy as a nuclear submarine mechanic, he has worked in the oil and gas industry. Prior to joining the Group, Mr. Lewis worked for NOV in several positions including Product Development Manager and Project Manager, and Aker Solutions MH as Business Development Manager. He is an active member in several industry organizations, such as International Association of Drilling Contractors, Society of Petroleum Engineers, and the American Association of Drilling Engineers.

Mr. Scott FULLERTON, age 58, is vice president of Global Operations and deputy general manager of Integrated Solutions of TSC Offshore Corp. He joined TSC in February 2011. His career has spanned four decades, with 35 years of experience in field and senior level management in the international petroleum and drilling industry and having worked for Santa Fe, Noble, Global Marine, Pride international and Weatherford Drilling, LUKoil and Max Petroleum. He graduated from the University of Southern California in 1977 with a BS degree in Geological Sciences. Mr. Fullerton has a wide range of equipment experience including drilling with trailer-mounted land drilling and workover rigs, and land drilling rigs rated to 35,000 ft depth. Offshore, he has worked with inland, posted and cantilever barges, jack-ups, semi-submersibles and drill ships with water depth ratings to 10,000 feet. He has assisted in design and fabrication of complex equipment systems, both new builds and refurbishment of mature land, marine drilling units and production installations.

Mr. Charles SMITH, age 38, joined TSC in February 2011 as vice president, Project Management of TSC Offshore Corp. Mr. Smith has over 15 years experience in the oil and gas industry specializing in Project Asset and Operations Management. He was most recently an Asset Manager with Hercules Offshore working for Saudi Aramco. Mr. Smith has served in numerous roles as Drilling Manager and Superintendent on many Semi- Submersibles and Jack-up projects during his former career with Noble Corporation. He was selected as Drilling Superintendent for the Noble Roger Lewis Rig, which was one of the first new build jack-up rigs for Noble Corporation in 25 years.

Report of the Directors

The board of the Directors (the "Board") is pleased to present their report and the audited financial statements of the Group for the Year.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Year.

Change of Company Name

Pursuant to a special resolution passed at an extraordinary general meeting held on 4 March 2011, the name of the Company was changed from "TSC Offshore Group Limited" to "TSC Group Holdings Limited" and "TSC集團控股有限公司" was adopted as its Chinese name for identification purposes.

Results and Dividends

The Group's profit for the year ended 31 December 2011 is set out in the financial statements on pages 51 to 58.

The Directors do not recommend the payment of any dividends in respect of the Year.

Financial Summary

A summary of the published results and assets and liabilities of the Group for the five financial years ended 31 December 2011, are extracted from the audited financial statements of the relevant annual reports of the Company, and are set out on page 140. This summary does not form part of the audited financial statements of the Group for the Year.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 11 to the financial statements.

Share Capital and Share Options

The movements in the Company's authorised and issued share capital during the Year are set out in note 28(b) to the financial statements. Details of the Company's share option schemes are set out in note 27 to the financial statements.

Pre-Emptive Rights

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

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year.

Reserves

Details of movements in the reserves of the Company and of the Group during the Year are set out in note 28(a) to the financial statements and in the consolidated statement of changes in equity on page 56, respectively.

Distributable Reserves

The Company had no reserves available for cash distribution and/or distribution in specie to shareholders of the Company as at 31 December 2011 (2010: Nil), as computed in accordance with the Companies Law of the Cayman Islands. The details are set in note 28(a) to the financial statements. The Company's share premium account, with a balance of approximately US$120,043,000 (2010: US$119,744,000), may be distributed in the form of fully paid bonus Shares.

Major Customers and Suppliers

In the Year under review, sales to the Group's five largest customers accounted for approximately 37% of the Group's total sales for the Year and sales to the largest customer included therein accounted for approximately 21% of the Group's total sales.

In the Year under review, the sales to CIMC Raffles Group amounted to US$29 million, accounting for approximately 21% of the total sales of the Group.

Purchases from the Group's five largest suppliers accounted for approximately 14% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 4% of the Group's total purchases.

Save as disclosed under the paragraph headed "RELATED PARTY TRANSACTIONS" and notes 31(b) to the Financial Statement, none of the Directors, or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest customers or suppliers.

Significant Event

During the Year, the Group acquired a building in Qingdao, PRC for a total consideration of approximately US$4,294,000 (approximately RMB26,402,000) for the establishment of research and development centre for own use.

Details of this and other movements in property, plant and equipment during the Year are set out in note 11 to the financial statements.

Directors

The Directors who held office during the Year and up to the date of this annual report were:

Executive Directors:

Mr. Jiang Bing Hua
Mr. Zhang Menggui

Non-executive Directors:

Mr. Jiang Longsheng
Mr. Brian Chang
Mr. Yu Yuqun (appointed on 15 March 2011)

Independent non-executive Directors:

Mr. Chan Ngai Sang, Kenny
Mr. Bian Junjiang
Mr. Guan Zhichuan
Mr. Robert William Fogal Jr

In accordance with Article 87 of the Company's Articles, Mr. Zhang Menggui, Mr. Chan Ngai Sang, Kenny and Mr. Bian Junjiang will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Company Secretary

The company secretary of the Group, Ms. Cheung Wai Sze, is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

Directors' Service Contracts

Each of the executive Director has entered into a service contract with the Company for a term of three years commencing from 28 November 2005 and expiring on 27 November 2008, renewable automatically for successive terms of three years from 28 November 2008 and 28 November 2011 respectively unless terminated by giving either party to the other not less than three months' prior written notice.

Each of the independent non-executive Director (except Mr. Robert William Fogal Jr.) has entered into a service contract with the Company for a term of three years commencing from 20 October 2005 and expiring on 19 October 2008, renewable automatically for successive terms of three years from 20 October 2008 and 20 October 2011 respectively unless terminated by giving either party to the other not less than three months' prior written notice. Mr. Robert William Fogal Jr. has entered into a letter of appointment with the Company for a term of three years commencing from 10 July 2009 subject to the retirement by rotation and re-election in accordance with the Articles, unless and until terminated by not less than 3 months' prior notice in writing served by either party on the other.

The non-executive Directors: Mr. Jiang Longsheng has entered into a service contract with the Company for a term of three years commencing from 1 May 2006 and expiring on 30 April 2009, renewable automatically for successive terms of three years from 1 May 2009 unless terminated by giving either party to the other not less than three months' prior written notice. Mr. Brian Chang and Mr. Yu Yuqun has entered into a letter of appointment with the Company for a term of three years commencing from 10 July 2009 and 15 March 2011 respectively subject to the retirement by rotation and re-election in accordance with the Articles, unless and until terminated by not less than 3 months' prior notice in writing served by either party on the other.

Save as disclosed in note 7 to the financial statements, there were no other emoluments, pension and any compensation arrangements for the Directors and past Directors as are specified on Sections 161 and 161A of the Companies Ordinance.

The Company confirms that it has received from each of its independent non-executive Directors a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers the independent non-executive Directors to be independent.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.

Directors' Interests in Contracts

No Director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party during or at the end of the Year under review.

Share Option Schemes

The purpose of the Pre-IPO Share Option Scheme (the "Pre-IPO Scheme"), Post-IPO Share Option Scheme (the "Post-IPO Scheme") and the New Share Option Scheme (the "New Scheme") are to create incentive to the employees, Directors and other eligible participants.

Pursuant to written resolutions of all shareholders of the Company on 19 and 20 October 2005, the Company adopted a Pre-IPO Scheme and a Post-IPO Scheme respectively.

The Pre-IPO Scheme ceased to be effective on 21 November 2005 save for the unexercised portion of the options granted and accepted during its life time, of which a total of 432,000 share options remain valid and outstanding as at 31 December 2011.

Pursuant to the Post-IPO Scheme, the Directors granted (i) 7,280,000 share options at HK$2.43 each to 14 employees of the Group on 10 May 2007, (ii) 9,700,000 share options at HK$5.60 each to 51 employees and 2 consultants of the Group on 12 November 2007, (iii) 2,000,000 share options at HK$5.23 each to 3 employees of the Group on 15 January 2008, (iv) 5,000,000 share options at HK$2.32 each to 6 employees of the Group on 12 August 2008 and (v) 16,050,000 share options at HK$0.54 each to 8 Directors and 38 employees of the Group on 29 December 2008.

Based on a valuation report done by an independent valuer of Jones Lang LaSalle Sallmanns, the value of the options granted on 10 May 2007, 12 November 2007, 15 January 2008, 12 August 2008 and 29 December 2008 under the Post-IPO Scheme were HK$7,252,000, HK$21,812,000, HK$4,166,000, HK$4,736,000 and HK$3,499,200 respectively.

The closing prices of the Company's Shares on the preceding option granted on 9 May 2007, 9 November 2007, 14 January 2008, 11 August 2008 and 24 December 2008 under the Post-IPO Scheme were HK$2.50, HK$5.58, HK$5.18, HK$2.22 and HK$0.50 respectively.

On 4 November 2008, the refreshed scheme mandate limit of 54,890,800 Shares in respect of the granting of share options under the Post-IPO Scheme (the "Refreshment") was approved at the extraordinary general meeting duly convened and held. On 13 November 2008, the Stock Exchange has granted the listing of, and permission to deal in, the Shares which may fall to be issued and allotted upon the exercise of any options that may be granted under the Refreshment.

The Post-IPO Scheme including the Refreshment, was conditionally terminated by the Board on 6 May 2009. Upon the transfer of the listing of shares of the Company from the GEM to the Main Board on 5 June 2009, the termination of the Post-IPO Scheme became effective. Thereafter, no further option had been offered or granted under the Post-IPO Scheme. Pursuant to the Post-IPO Scheme, options previously granted but unexercised under the Post-IPO Scheme will remain valid and exercisable in accordance with their terms of issue, of which a total of 26,512,000 share options remain valid and outstanding as at 31 December 2011.

On 5 August 2009, the adoption of the New Scheme up to 56,254,040 Shares which complies with the Listing Rules was approved at the extraordinary general meeting duly convened and held. On 10 August 2009, the Stock Exchange has granted the listing of, and permission to deal in, the Shares which may fall to be issued and allotted upon the exercise of any options that may be granted under the New Scheme. Pursuant to the New Scheme, the Directors granted (i) 20,295,000 share options at HK$2.06 each to 82 employees of the Group on 18 September 2009, (ii) 9,070,000 share options at HK$1.27 each to 29 employees of the Group on 1 September 2010, and (iii) 2,400,000 share options at HK$1.97 each to 2 employees of the Group on 21 February 2011. Based on a valuation report done by an independent valuer of Jones Lang LaSalle Sallmanns, the value of the options granted on 18 September 2009, 1 September 2010 and 21 February 2011 under the New Scheme were HK$18,701,000, HK$4,602,100 and HK$1,973,100 respectively. The closing price of the Company's Shares on the preceding option granted on 17 September 2009, 31 August 2010 and 18 February 2011 under the New Scheme were HK$1.85, HK$1.23 and HK$1.92 respectively. Save as disclosed above, no option had been granted or agreed to be granted by the Company pursuant to the New Scheme.

Share Option Schemes *(continued)*

The total number of Shares available for issue under all the share option schemes as at the date of this annual report is 24,489,040 Shares, representing 3.59% of the issued share capital of the Company.

Details of the movement of options under the Pre-IPO Scheme for the twelve months ended 31 December 2011 were as follows:

				Number of share options				
Name or category of participant	**Date of grant** (Notes 1 & 2)	**Exercisable period** (Notes 1, 2 & 3)	**Exercise price per share** HK$	**Balance as at 01.01.2011**	**Exercised during the period** (Notes 4)	**Cancelled during the period** (Note 4)	**Lapsed during the period** (Note 4)	**Balance as at 31.12.2011**
Employees	19.10.2005	29.11.2005 to 18.10.2015	0.2383	950,400	(518,400)	–	–	432,000
Total				950,400	(518,400)	–	–	432,000

Notes:

1. All dates are shown day, month, year.

2. The vesting period of the options is 5 years and starts from the date of grant and becomes vested at stepped semi-annual increments of 10% of the total options originally granted subject to any adjustment due to a bonus issue, for a period of 5 years from the date of grant.

3. These grants are exercisable, starting from the first anniversary of the listing date at stepped semi-annual increments of 10% of the total options originally granted subject to any adjustment due to the bonus issue, for a period not later than 10 years from the date of grant.

4. The period refers to the twelve months ended 31 December 2011.

Share Option Schemes *(continued)*

Details of movement of options under the Post-IPO Scheme including the Refreshment for the twelve months ended 31 December 2011 were as follows:

	Name or category of participant	Date of grant (Notes 1 & 2)	Exercisable period (Notes 1, 2 & 3)	Exercise price per share HK$	Balance as at 01.01.2011	Number of share options: Granted during the period (Note 4)	Exercised during the period (Note 4)	Cancelled during the period (Note 4)	Lapsed during the period (Note 4)	Balance as at 31.12.2011
(i)	Employees	10.05.2007	10.11.2007 to 09.05.2017	2.43	6,332,000	–	–	–	(750,000)	5,582,000
	Sub-total				6,332,000	–	–	–	(750,000)	5,582,000
(ii)	Employees	12.11.2007	12.05.2008 to 11.11.2017	5.60	8,160,000	–	–	–	(400,000)	7,760,000
	Consultants	12.11.2007	12.05.2008 to 11.11.2017	5.60	200,000	–	–	–	–	200,000
	Sub-total				8,360,000	–	–	–	(400,000)	7,960,000
(iii)	Employees	15.01.2008	15.07.2008 to 14.01.2018	5.23	2,000,000	–	–	–	–	2,000,000
	Sub-total				2,000,000	–	–	–	–	2,000,000
(iv)	Employees	12.08.2008	12.02.2009 to 11.08.2018	2.32	1,700,000	–	–	–	–	1,700,000
	Sub-total				1,700,000	–	–	–	–	1,700,000
(v)	Directors:									
	Mr. Zhang Menggui	29.12.2008	29.06.2009 to 28.12.2018	0.54	840,000	–	(240,000)	–	–	600,000
	Mr. Jiang Bing Hua	29.12.2008	29.06.2009 to 28.12.2018	0.54	840,000	–	(240,000)	–	–	600,000
	Mr. Jiang Longsheng	29.12.2008	29.06.2009 to 28.12.2018	0.54	400,000	–	–	–	–	400,000
	Mr. Chan Ngai Sang, Kenny	29.12.2008	29.06.2009 to 28.12.2018	0.54	500,000	–	–	–	–	500,000
	Mr. Bian Junjiang	29.12.2008	29.06.2009 to 28.12.2018	0.54	350,000	–	–	–	–	350,000
	Mr. Guan Zhichuan	29.12.2008	29.06.2009 to 28.12.2018	0.54	270,000	–	(90,000)	–	–	180,000
					3,200,000	–	(570,000)	–	–	2,630,000
	Employees and other	29.12.2008	29.06.2009 to 28.12.2018	0.54	9,555,000	–	(2,240,000)	–	(675,000)	6,640,000
	Sub-total				12,755,000	–	(2,810,000)	–	(675,000)	9,270,000
Total					31,147,000	–	(2,810,000)	–	(1,825,000)	26,512,000

Share Option Schemes *(continued)*

Notes:

1. All dates are shown day, month, year.

2. The vesting period of the options is 5 years and starts from the date of grant and becomes vested at stepped semi-annual increments of 10% of the total options granted for a period of 5 years from the date of grant.

3. These grants are exercisable, starting from the first anniversary of the listing date at stepped semi-annual increments of 10% of the total options granted, for a period not later than 10 years from the date of grant.

4. The period refers to the twelve months ended 31 December 2011.

Details of movement of options under the New Scheme for the twelve months ended 31 December 2011 were as follows:

	Name or category of participant	Date of grant (Notes 1 & 2)	Exercisable period (Notes 1, 2 & 3)	Exercise price per share HK$	Balance as at 01.01.2011	Number of share options Granted during the period (Note 4)	Exercised during the period (Note 4)	Cancelled during the period (Note 4)	Lapsed during the period (Note 4)	Balance as at 31.12.2011
(i)	Employees	18.09.2009	18.03.2010 to 17.09.2019	2.06	19,720,000	–	–	–	(2,770,000)	16,950,000
(ii)	Employees	01.09.2010	01.03.2011 to 31.08.2020	1.27	8,620,000	–	–	–	(850,000)	7,770,000
(iii)	Employees	21.02.2011	21.08.2011 to 20.02.2021	1.97	–	2,400,000	–	–	–	2,400,000
Total					28,340,000	2,400,000	–	–	(3,620,000)	27,120,000

Notes:

1. All dates are shown day, month, year.

2. The vesting period of the options is 5 years and starts from the date of grant and becomes vested at stepped semi-annual increments of 10% of the total options granted for a period of 5 years from the date of grant.

3. These grants are exercisable, starting from the first anniversary of the listing date at stepped semi-annual increments of 10% of the total options granted, for a period not later than 10 years from the date of grant.

4. The period refers to the twelve months ended 31 December 2011.

Save as disclosed above, none of the Directors or their spouses and children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the Year.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2011, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to the required standard of dealings by the Directors as referred to in Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of the Company, were as follows:

Long position in ordinary shares and underlying shares of the Company:

Name of Directors	Number of issued ordinary Shares of HK$0.10 each in the Company Personal interests	Family interests	Corporate interests	Other interests	Total	Number of underlying Shares (in respect of share options granted under the Post-IPO Scheme) (Note 3)	Approximate percentage of the Company's issued share capital
Mr. Zhang Menggui (Note 1)	4,056,000	–	106,871,200	–	110,927,200	600,000	16.39%
Mr. Jiang Bing Hua (Note 1)	4,056,000	–	106,871,200	–	110,927,200	600,000	16.39%
Mr. Jiang Longsheng	–	–	–	–	–	400,000	0.06%
Mr. Brian Chang (Note 2)	–	–	66,072,800	–	66,072,800	–	9.71%
Mr. Chan Ngai Sang, Kenny	–	–	–	–	–	500,000	0.07%
Mr. Bian Junjiang	–	–	–	–	–	350,000	0.05%
Mr. Guan Zhichuan	120,000	–	–	–	120,000	180,000	0.04%

Notes:

1. Global Energy Investors, LLC. is the beneficial owner of 106,871,200 Shares. The entire shares capital of Global Energy Investors, LLC, is beneficially owned as to 50% each by Mr. Zhang Menggui and Mr. Jiang Bing Hua, both are the executive Directors of the Company. Accordingly, both Mr. Zhang Menggui and Mr. Jiang Bing Hua are deemed to be interested in the 106,871,200 Shares beneficially owned by Global Energy Investors, LLC. under Part XV of the SFO.

2. Mr. Brian Chang indirectly holds 16,072,800 shares and 50,000,000 through Asian Infrastructure Limited and Windmere International Limited respectively which are his wholly-owned companies. Accordingly, he is deemed to be interested in the shares held by Asian Infrastructure Limited and Windmere International Limited under Part XV of the SFO.

3. Please refer to the section "Share Option Schemes" below for details of share options held by the Directors and chief executives of the Company.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures *(continued)*

Long position in ordinary shares and underlying shares of the Company: *(continued)*

Save as disclosed above, as at 31 December 2011, none of the Directors or chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to the required standard of dealings by the Directors as referred to in Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Company.

Directors' Rights to Acquire Shares

Save as disclosed under the paragraph headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" above and in the share option scheme disclosures in note 27 to the financial statements, at no time during the Year under review, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company was granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2011, the following persons had interests or short positions in the Shares and underlying Shares of the Company which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

(i) long positions in ordinary shares and underlying shares of the company:

Name	Capacity and nature of interest	Number of shares/ underlying Shares held	Approximate percentage of the Company's issued share capital
Madam Chen Fengying (Note 1)	Interest of the spouse	110,927,200 Shares and 600,000 share options	16.39%
Madam Zhang Jiuli (Note 2)	Interest of the spouse	110,927,200 Shares and 600,000 share options	16.39%
Global Energy Investors, LLC. (Note 3)	Corporate	106,871,200 Shares	15.70%
Windmere International Limited (Note 4)	Corporate	50,000,000 Shares	7.35%
China International Marine Corporate Containers (Group) Co., Ltd. (Note 5)	Corporate	92,800,000 Shares	13.63%
China International Marine Corporate Containers (Hong Kong) Ltd. (Note 5)	Corporate	92,800,000 Shares	13.63%
Harmony Master Fund (Note 6)	Corporate	34,094,800 Shares	5.00%

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares *(continued)*

(i) long positions in ordinary shares and underlying shares of the company: *(continued)*

Notes:

1. These interests represent the same block of Shares and share options held by Mr. Zhang Menggui as shown in the above section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES". Since Madam Chen Fengying is the spouse of Mr. Zhang Menggui, she is deemed to be interested in the Shares and share options held by him under Part XV of the SFO.

2. These interests represent the same block of Shares and share options held by Mr. Jiang Binghua as shown in the above section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES". Since Madam Zhang Jiuli is the spouse of Mr. Jiang Binghua, she is deemed to be interested in the Shares and share options held by him under Part XV of the SFO.

3. This interest represents the same block of corporate interest held by Mr. Zhang Menggui and Mr. Jiang Binghua as shown in the above section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES".

4. Mr. Brian Chang indirectly holds 16,072,800 Shares and 50,000,000 Shares through Asian Infrastructure Limited and Windmere International Limited respectively which are his wholly-owned companies. The interests of Mr. Brian Chang is shown in the above section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES". Accordingly, he is deemed to be interested in the shares held by Asian Infrastructure Limited and Windmere International Limited under Part XV of the SFO.

5. China International Marine Containers (Hong Kong) Limited ("CIMC HK") is the beneficial owner of 92,800,000 Shares. CIMC HK is a wholly-owned subsidiary of China International Marine Containers (Group) Company Limited ("CIMC Group"). Therefore, CIMC Group is deemed to be interested in the 92,800,000 Shares of the Company held by CIMC HK under Part XV of the SFO.

6. Harmony Master Fund ("Harmony Fund") is a long-only equity fund registered in Cayman Island. Harmony Fund is managed by DM Fund Management Limited, a company registered in Cayman Island and a subsidiary of DM Capital Limited, a company incorporated in British Virgin Islands. DM Capital Limited is principally engaged in equity research and investment, venture investment and merger & acquisition advisory with offices located in China, Hong Kong and New York.

(ii) long positions in shares of subsidiaries of the company:

Name of subsidiary	Name of substantial shareholder	Percentage of shareholding
TSC Deepwater Systems, LLC	Mr. Doug E. Wheeler	29%
Jurun Limited	Xingbo Limited	49%

Save as disclosed above, as at 31 December 2011, there was no person (other than the Directors and chief executives of the Company whose interests are set out under the paragraph headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES" above and section headed "SHARE OPTION SCHEMES" below), had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

Related Party Transactions

Details of the related party transactions for the year are set out in note 31 to the financial statements. Save as disclosed therein, there were no other transactions to be disclosed as related party transactions in accordance with the requirements of the Listing Rules and accounting principles generally accepted in Hong Kong.

Non-Exempt Continuing Connected Transactions

The Group conducted the following continuing connected transactions with connected parties of the Company, namely CIMC Raffles Offshore (Singapore) Limited ("CIMC Raffles"):

In February 2010, the Group conducted the following continuing connected transactions with connected parties of the Company, namely CIMC Raffles. CIMC Raffles is a substantial shareholder of the Company, which through its wholly-owned subsidiary, CIMC Raffles Investments Limited ("CRIL"), owns approximately 6.51% of the issued share capital of the Company.

On 26 May 2011, the Company was informed by China International Marine Containers (Hong Kong) Limited ("CIMC HK"), CIMC HK was already the beneficial owner of 50,000,000 shares of the Company and a wholly-owned subsidiary of China International Marine Containers (Group) Co., Limited ("CIMC Group"), that they acquired 42,800,000 Shares at HK$2.28 each in the Company from CRIL, a wholly-owned subsidiary of CIMC Raffles. CIMC Raffles is held as to 83.55% by CIMC Offshore Holdings Limited. Mr. Brian Chang, a non-executive director of the Company, through his wholly-owned companies held 38.24% of the issued shares in CIMC Offshore Holdings Limited. Mr. Brian Chang is deemed to be interested in 42,800,000 shares held by CRIL as he held 31.94% attributable interest in CRIL and he currently serves as deputy chairman of CIMC Raffles and serves as director of certain subsidiaries of CIMC Raffles group.

As of the date of this report, Mr. Brian Chang continues to have deemed interested in aggregate 66,072,800 shares, representing approximately 9.69% of the Company by virtue of his interests in Asian Infrastructure Limited and Windmere International Limited. CIMC Group, through CIMC HK, is deemed to be interested in 92,800,000 shares, representing approximately 13.61% of the issued share capital of the Company.

Non-Exempt Continuing Connected Transactions *(continued)*

The Supply of Drilling Packages and Electrical Power Packages

Category of transaction	Continuing Connected Transactions
Transaction Date	10 February 2010
Transaction with	CIMC Raffles
Purpose of transaction	The master agreement with CIMC Raffles by which the Group can provide the Equipment under the Turnkey Project(s) to CIMC Raffles for two years ended 31 December 2011.
Contract values and other details	The annual caps under the master agreement for two years ended 31 December 2011 are approximately US$200 million each year.
Detailed announcement and shareholder approval	Details of the transaction were announced on 10 February 2010 which was published on the websites of the Stock Exchange and the Company. The master agreement was approved by independent shareholders at extraordinary general meeting on 18 March 2010.

During the Year, the Group transacted contracts with CIMC Raffles under the continuing connected transactions mandate approved by the Company's independent shareholders at extraordinary general meeting held on 18 March 2010. The above-mentioned contracts cover the supply of drilling packages, electrical power packages and a submersible pump with a total contract value of approximately US$66.5 million, which is within the cap of US$200 million for the year ended 31 December 2011 approved by the independent shareholders of the Company. The actual sales amount of these continuing connected transactions between the Group and CIMC Raffles was approximately US$7.8 million for the year ended 31 December 2011.

In addition, the actual sales amount of the supply contracts with CIMC Raffles signed during 2010 was approximately US$2.9 million for the year ended 31 December 2011 (2010: US$29.1 million).

The independent non-executive Directors, who were not interested in any of the above continuing connected transactions, have reviewed and confirmed that the above continuing connected transactions have been entered into by the Company:

- in the ordinary and usual course of business of the Group;
- conducted either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those to be offered to or from independent third parties; and
- in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Non-Exempt Continuing Connected Transactions *(continued)*

The Company's auditors were engaged to report to the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter of Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions as disclosed by the Group in the annual report in accordance with Rule 14A.38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

Competition and Conflict of Interests

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group, as defined in the Listing Rules, or has any other conflict of interests with the Group during the Year.

Sufficient of Public Float

The Company has maintained a sufficient public float throughout the year ended 31 December 2011.

Auditors

KPMG will retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

Corporate Governance

A report on the principle corporate governance practices adopted by the Company is set out on pages 43 to 48 of this annual report.

ON BEHALF OF THE BOARD
TSC Group Holdings Limited

Jiang Bing Hua
Executive Chairman

Zhang Menggui
Chief Executive Officer

Hong Kong, 28 March 2012

Corporate Governance Report

The Board of Directors (the "Board") is pleased to present this "Corporate Governance Report" for the Year.

The Company recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the needs of its business, therefore the Company continued to incorporate the essence of corporate governance into its management structure and internal control procedures, as we strove to maintain the highest standard in integrity and ethics in all aspects of our business activities, and to ensure the full compliance of our operations with applicable laws and regulations. By achieving high standards of corporate governance, the Directors believe that sound and reasonable corporate governance practices are essential for the rapid growth of the Group and for safeguarding and maximizing shareholders' interests.

Corporate Governance Practices

Throughout the Year, the Company applied the principles and complied with all applicable provisions under the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules under the periodical review.

Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the Year.

Board of Directors

The Board is responsible for managing the Company on behalf of shareholders. The Board is of the view that it is the Directors' responsibilities to create value for shareholders and safeguard the best interests of the Company and the shareholders by discharging its duties in a dedicated, diligent and prudent manner on the principle of good faith. The Board is also responsible for decisions in relation to the overall strategic development of the Group's business. Responsibilities in relation to daily and execution of the strategic business plans are delegated to each of the executive Directors and management.

The executive chairman of the Board is Mr. Jiang Bing Hua and the Group's chief executive officer is Mr. Zhang Menggui. The roles of the executive chairman and the chief executive officer are distinct and segregated with a clear division of responsibility. The executive chairman plays a leading role and is responsible for effective running of the Board while the chief executive officer is delegated with the authority and responsibility of overall management, business development and implementation of the Group's strategy determined by the Board in achieving its overall commercial objectives.

Details of backgrounds and qualifications of the executive chairman of the Company and the other Directors are set out under the "Profiles of Directors and Senior Management" of this annual report. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

Board of Directors *(continued)*

The Board comprises nine Directors up to the date of this annual report, including two executive Directors, namely Mr. Jiang Bing Hua and Mr. Zhang Menggui; three non-executive Directors, namely Mr. Jiang Longsheng, Mr. Brian Chang and Mr. Yu Yuqun; and four independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny, Mr. Bian Junjiang, Mr. Guan Zhichuan and Mr. Robert William Fogal Jr. As over half of the members of the Board being non-executive and they have not participated into the management of the Company, the Board is therefore able to exercise independent judgment on corporate affairs and provide the management with a diverse and objective perspective on issues. The Board believes that current board size is appropriate based on the Company's present circumstances and will periodically evaluate the need for increasing or decreasing its size.

The Articles have stated clearly the procedures for the appointment of new directors, re-election and removal of directors. Under the Articles, the Board may from time to time appoint a director either to fill a casual vacancy or as an addition to the Board. Any such new director shall hold office until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board) and shall then be eligible for re-election at the same general meeting.

All Directors (including non-executive Directors) have entered into a service contract with the Company for a term of three years, are subject to retirement by rotation once every three years, are subject to re-election in accordance with the Articles, unless and until terminated by not less than three months' prior notice in writing served by either party on the other. Pursuant to Article 87, Mr. Zhang Menggui, Mr. Chan Ngai Sang, Kenny and Mr. Bian Junjiang will retire, and being eligible for election, offer themselves for re-election at the forthcoming annual general meeting to be held on 16 May 2012.

Members of the Board held a total of four meetings during the Year. The Directors are given sufficient time and information relating to the matters to be discussed in the Board meetings in advance, or except in special circumstances, consent to short notice is sought at times of urgency. In addition, the Company has maintained a procedure for the Directors to seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company. Moreover, the Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all Board meetings. The Company Secretary also keeps the minutes, which are open for inspection at any reasonable time on reasonable notice by any Director.

Matters considered and approved by the Board during the Year mainly related to (i) change of the Company's name, appointment of top management and non-executive director, change of size of the Board; (ii) approval of annual results 2010; (iii) review of the financial and director performance; and (iv) approval of interim results.

The Directors have complied with the Code for the convening of Board meeting which should be held at least four times a year at approximately quarterly intervals, to review the financial performance, results of each period, material investments and other matters of the Group that require resolutions of the Board. Simultaneous conference calls may be used to improve attendance when individual Director cannot attend the meeting in person.

Board of Directors *(continued)*

During the Year, Board, audit committee, remuneration committee, nomination committee and compliance committee meetings were held, with details as follows:

		Meetings attended/held			
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Compliance Committee**
Executive Directors					
Mr. Jiang Bing Hua	4/4		2/2	1/1	
Mr. Zhang Menggui	4/4		2/2	1/1	2/2
Non-executive Directors					
Mr. Jiang Longsheng	4/4				
Mr. Brian Chang	1/4				
Mr. Yu Yuqun (appointed on 15 March 2011)	2/3				
Independent non-executive Directors					
Mr. Chan Ngai Sang, Kenny	4/4	2/2	2/2	1/1	2/2
Mr. Bian Junjiang	4/4	2/2	2/2	1/1	2/2
Mr. Guan Zhichuan	4/4	2/2	2/2	1/1	2/2
Mr. Robert William Fogal Jr.	4/4				

Remuneration Committee

The remuneration committee was established on 20 October 2005 with written terms of reference in compliance with the Code. It comprises three independent non-executive Directors, namely Mr. Bian Junjiang (being the Chairman), Mr. Chan Ngai Sang, Kenny and Mr. Guan Zhichuan; and two executive Directors, namely, Mr. Jiang Bing Hua and Mr. Zhang Menggui.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors and senior management, including benefits-in-kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of Directors. The remuneration committee will consider and give due regard to both the performance levels of, and a fair reward for, the chairman, executive Directors and the senior management and to the interest of all the shareholders of the Company in light of the financial and commercial circumstances of the Company from time to time. No Director shall be involved in deciding his own remuneration.

During the Year, two meetings of the remuneration committee were held and the remuneration committee of the Company reviewed all executive Directors' performance for the year 2009 & 2010 proposed bonuses adjusted salaries. The chairman of the remuneration committee has reported the findings and provided recommendations to the Board after the meeting.

Nomination Committee

The nomination committee was established on 5 June 2009 with written terms of reference in compliance with the Code. A majority of its current members are independent non-executive Directors. Currently, the members of the committee are Mr. Jiang Bing Hua (being the Chairman), Mr. Zhang Menggui, Mr. Chan Ngai Sang, Kenny, Mr. Bian Junjiang and Mr. Guan Zhichuan.

Nomination Committee *(continued)*

Prior to the establishment of the nomination committee, the executive chairman and chief executive officer were mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The executive chairman or chief executive officer would propose the appointment of such candidates to the Board for consideration and the members of the Board would review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his skills, qualifications, experience, background, leadership and personal integrity. The decision to appoint a director might be approved by majority of the members of the Board.

During the Year, one meeting of the nomination committee was held and the nomination committee reviewed the change of the size of the board and appointment of non-executive Director – Mr Yu Yuqun, the Chairman of the nomination committee then reported to the Board after the meeting.

The remit of the nomination committee is to identify candidates for appointment to the Board and to review the structure, size and composition of the Board. Before an appointment is made, the nomination committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment. If deemed appropriate, external consultants may be used to identify suitable candidates.

Compliance Committee

The compliance committee was established on 20 October 2005 with written terms of reference. The constitution of the Committee shall comply with the requirements of the Listing Rules from time to time. It comprises four Directors, namely, Mr. Zhang Menggui (being the Chairman), Mr. Bian Junjiang, Mr. Chan Ngai Sang, Kenny, Mr. Guan Zhichuan and two other members, namely, Mr. Chung Man Lai and Ms. Cheung Wai Sze.

The general responsibilities of the Committee are to ensure the Company to comply with all relevant laws and regulations and the Listing Rules ("Relevant Regulations"). It shall fulfill other responsibilities as required by the Relevant Regulations from time to time.

During the Year, two meetings of the compliance committee were held and the compliance committee reviewed and monitored the annual and interim report disclosure which was in compliance with the Relevant Regulations, the Chairman of the compliance committee then reported the findings and provided recommendations to the Board after the meetings.

Directors Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The Directors ensure that the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in "The Independent Auditor's Report" on pages 49 to 50 of this annual report.

Auditors' Remuneration

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing non-audit functions (if any) performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the Year under review, the Company has paid an aggregate of approximately US$508,000 (2010: US$463,000) to the external auditor for its audit services. The Company did not have any non-audit service fee in the Year.

Audit Committee

The Company established an audit committee with written terms of reference in compliance with the Code. To ensure on-going compliance with the Code, the audit committee's terms of reference takes into account the Board's responsibility for reviewing the adequacy of staffing of the financial reporting functions and the oversight role of the audit committee. The audit committee comprises a minimum of three members with a majority of independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny (being the chairman), Mr. Bian Junjiang and Mr. Guan Zhichuan, all of them are independent non-executive Directors; and at least one member must have appropriate professional qualifications or accounting or related financial management expertise, namely Mr. Chan Ngai Sang, Kenny, in compliance with Rule 3.10(2) of the Listing Rules. The Company considers these Directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

The main duties of the audit committee include the followings:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the Company's staff responsible for the accounting and financial reporting functions, compliance officer or external auditors before submission to the Board;

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

Throughout the Year, the audit committee held two meetings in considering and reviewing the interim and annual results of the Group, and were of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

There is no disagreement between the Board and the audit committee regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2011, has been reviewed by the audit committee.

Internal Control

The Company has conducted review of its system of internal control periodically to ensure the effectiveness and adequacy of the internal control system.

The responsibility for maintaining the Group's internal controls are divided between the Board and management. These internal controls are intended to safeguard the shareholders' investments and the Group's assets. The Company will continue to make efforts in improving its internal control system.

Communication with shareholders and Investor Relations

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions set out in the notice of the AGM will be voted by poll. Representatives of the share registrar of the Company are appointed as scrutineers to monitor and count the poll votes cast at each general meeting. The results of poll were published on the websites of the Stock Exchange and the Company respectively.

The Board recognizes the importance of good communications with all shareholders. The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors. The chairman of the Board as well as the chairmen of the remuneration committee and audit committee or, in their absence, and where applicable other members of the respective committees together with the external auditors are available to answer questions at the shareholders' meetings.

The Company continues to enhance communications and relationships with its investors. Designated Directors or senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains a website at http://www.tsc-holdings.com, where extensive information and updates on the Company's business developments and operations, financial information and other information are posted.

Independent Auditor's Report

Independent auditor's report to the shareholders of
TSC Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of TSC Group Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 51 to 139, which comprise the consolidated and company statements of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

(Expressed in United States dollars)

	Note	**2011** **$'000**	2010 $'000
Turnover	3	**138,416**	143,455
Cost of sales		**(86,116)**	(91,189)
Gross profit		**52,300**	52,266
Other revenue and net income	4	**3,051**	2,143
Selling and distribution expenses		**(6,654)**	(5,539)
General and administrative expenses		**(35,610)**	(28,035)
Other operating expenses		**(5,125)**	(4,409)
Profit from operations		**7,962**	16,426
Finance costs	5(a)	**(1,722)**	(1,406)
Share of results of associates		**(113)**	38
Profit before taxation	5	**6,127**	15,058
Income tax	6(a)	**(2,096)**	(1,467)
Profit for the year		**4,031**	13,591
Attributable to:			
Equity shareholders of the Company	9	**3,472**	13,571
Non-controlling interests		**559**	20
Profit for the year		**4,031**	13,591
Earnings per share	10		
Basic		**0.51 cent**	2.05 cents
Diluted		**0.50 cent**	2.01 cents

The notes on pages 59 to 139 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

(Expressed in United States dollars)

	2011 **$'000**	2010 $'000
Profit for the year	**4,031**	13,591
Other comprehensive income for the year:		
Exchange differences on translation of financial statements of subsidiaries and associates	**2,371**	1,972
Total comprehensive income for the year	**6,402**	15,563
Attributable to:		
Equity shareholders of the Company	**5,738**	15,507
Non-controlling interests	**664**	56
Total comprehensive income for the year	**6,402**	15,563

The notes on pages 59 to 139 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2011

(Expressed in United States dollars)

	Note	2011 $'000	2010 $'000
Non-current assets			
Property, plant and equipment	11(a)	**36,660**	27,911
Property under development	12	**–**	429
Interest in leasehold land held for own use under operating leases	13	**4,401**	4,377
Goodwill	14	**23,854**	23,776
Other intangible assets	15	**16,013**	18,884
Interest in associates	17	**2,159**	4,132
Prepayments	19	**70**	2,082
Deferred tax assets	24(b)	**10,897**	13,124
		94,054	94,715
Current assets			
Inventories	18	**39,596**	33,339
Trade and other receivables	19	**79,455**	64,926
Gross amount due from customers for contract work	20	**16,517**	42,932
Amount due from a related company	21	**101**	101
Pledged bank deposits		**1,348**	3,657
Cash at bank and in hand		**34,140**	17,147
		171,157	162,102
Current liabilities			
Trade and other payables	22	**58,734**	62,179
Bank loans	23	**20,538**	14,653
Current taxation	24(a)	**4,179**	4,394
Provisions	25	**1,769**	2,306
		85,220	83,532
Net current assets		**85,937**	78,570
Total assets less current liabilities		**179,991**	173,285

Consolidated Statement of Financial Position

At 31 December 2011

(Expressed in United States dollars)

	Note	2011 $'000	2010 $'000
Non-current liabilities			
Bank loans	23	**4,921**	3,330
Deferred tax liabilities	24(b)	**1,349**	3,224
		6,270	6,554
NET ASSETS		**173,721**	166,731
CAPITAL AND RESERVES			
Share capital	28(b)	**8,770**	8,727
Reserves		**158,183**	151,550
Total equity attributable to equity shareholders of the Company		**166,953**	160,277
Non-controlling interests		**6,768**	6,454
TOTAL EQUITY		**173,721**	166,731

Approved and authorised for issue by the board of directors on 28 March 2012

Jiang Bing Hua
Director

Zhang Menggui
Director

The notes on pages 59 to 139 form part of these financial statements.

Statement of Financial Position

At 31 December 2011

(Expressed in United States dollars)

	Note	**2011** **$'000**	2010 $'000
Non-current assets			
Property, plant and equipment	11(b)	**10**	22
Interest in subsidiaries	16	**135,180**	132,398
		135,190	132,420
Current assets			
Other receivables, prepayments and deposits	19	**166**	33
Cash at bank and in hand		**158**	2,475
		324	2,508
Current liabilities			
Other payables and accrued charges	22	**1,573**	564
Amounts due to subsidiaries	16	**22**	24
		1,595	588
Net current (liabilities)/assets		**(1,271)**	1,920
Total assets less current liabilities		**133,919**	134,340
NET ASSETS		**133,919**	134,340
CAPITAL AND RESERVES	28(a)		
Share capital		**8,770**	8,727
Reserves		**125,149**	125,613
TOTAL EQUITY		**133,919**	134,340

Approved and authorised for issue by the board of directors on 28 March 2012

Jiang Bing Hua
Director

Zhang Menggui
Director

The notes on pages 59 to 139 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

(Expressed in United States dollars)

	Attributable to equity shareholders of the Company											
	Share capital $'000	Share premium $'000	Merger reserve $'000	Exchange reserve $'000	Employee share-based compensation reserve $'000	Capital reserve $'000	Revaluation reserve $'000	Reserve funds $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2010	8,393	116,515	2,161	(5,658)	4,068	512	627	2,306	11,119	140,043	–	140,043
Changes in equity for 2010:												
Profit for the year	–	–	–	–	–	–	–	–	13,571	13,571	20	13,591
Other comprehensive income	–	–	–	1,936	–	–	–	–	–	1,936	36	1,972
Total comprehensive income	–	–	–	1,936	–	–	–	–	13,571	15,507	56	15,563
Issues of ordinary shares	219	2,404	–	–	–	–	–	–	–	2,623	–	2,623
Shares issued under share option schemes	115	825	–	–	(579)	–	–	–	–	361	–	361
Equity-settled share-based transactions	–	–	–	–	1,743	–	–	–	–	1,743	–	1,743
Acquisition of non-wholly owned subsidiary	–	–	–	–	–	–	–	–	–	–	6,398	6,398
Transferred to reserve funds	–	–	–	–	–	–	–	975	(975)	–	–	–
Balance at 31 December 2010 and 1 January 2011	**8,727**	**119,744**	**2,161**	**(3,722)**	**5,232**	**512**	**627**	**3,281**	**23,715**	**160,277**	**6,454**	**166,731**
Changes in equity for 2011:												
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,472**	**3,472**	**559**	**4,031**
Other comprehensive income	**-**	**-**	**-**	**2,266**	**-**	**-**	**-**	**-**	**-**	**2,266**	**105**	**2,371**
Total comprehensive income	**-**	**-**	**-**	**2,266**	**-**	**-**	**-**	**-**	**3,472**	**5,738**	**664**	**6,402**
Shares issued under share option schemes (note 28(b)(ii))	**43**	**299**	**-**	**-**	**(131)**	**-**	**-**	**-**	**-**	**211**	**-**	**211**
Equity-settled share-based transactions	**-**	**-**	**-**	**-**	**727**	**-**	**-**	**-**	**-**	**727**	**-**	**727**
Transferred to reserve funds	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**103**	**(103)**	**-**	**-**	**-**
Dividends paid to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(350)**	**(350)**
Balance at 31 December 2011	**8,770**	**120,043**	**2,161**	**(1,456)**	**5,828**	**512**	**627**	**3,384**	**27,084**	**166,953**	**6,768**	**173,721**

The notes on pages 59 to 139 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

(Expressed in United States dollars)

	Note	2011 $'000	2010 $'000
Operating activities			
Profit before taxation		**6,127**	15,058
Adjustments for:			
Depreciation	5(c)	**3,198**	2,658
Impairment losses (reversed)/recognised on doubtful debts	4/5(c)	**(1,029)**	608
Amortisation of interest in leasehold land held for own use under operating leases	5(c)	**130**	94
Amortisation of intangible assets	5(c)	**3,106**	2,643
Finance costs	5(a)	**1,722**	1,406
Interest income	4	**(131)**	(72)
Share of results of associates		**113**	(38)
Gain on disposal of property, plant and equipment and intangible assets	5(c)	**(18)**	(34)
Gain on bargain purchase of subsidiaries	4	**–**	(1,272)
Gain on disposal of associate	4	**(65)**	–
Equity-settled share-based payment expenses	5(b)	**727**	1,743
Foreign exchange loss		**512**	1,371
Operating profit before changes in working capital		**14,392**	24,165
Increase in inventories		**(5,643)**	(2,230)
Decrease/(increase) in trade and other receivables and gross amount due from customers for contract work		**14,016**	(38,666)
(Decrease)/increase in trade and other payables		**(3,915)**	8,031
Decrease in provisions		**(535)**	(60)
Cash generated from/(used in) operations		**18,315**	(8,760)
People's Republic of China ("PRC") enterprise income tax and overseas tax paid		**(2,077)**	(1,490)
Net cash generated from/(used in) operating activities		**16,238**	(10,250)

Consolidated Cash Flow Statement

For the year ended 31 December 2011

(Expressed in United States dollars)

	Note	2011 $'000	2010 $'000
Investing activities			
Payment for purchase of property, plant and equipment		**(7,810)**	(6,132)
Payment for purchase of interest in leasehold land held for own use under operating leases		**–**	(202)
Construction expenditure on property under development		**(944)**	(1,156)
Interest received		**131**	72
Dividends received from associates		**1,445**	5,732
Decrease/(increase) in pledged bank deposits		**2,316**	(1,340)
Payment for purchase of intangible assets		**(83)**	(24)
Net cash inflow for acquisition of subsidiaries		**–**	607
Net cash inflow from disposal of associate		**429**	–
Proceeds from sale of property, plant and equipment		**43**	150
Net cash used in investing activities		**(4,473)**	(2,293)
Financing activities			
Proceeds from shares issued under share option scheme		**211**	361
Interest paid		**(1,722)**	(1,406)
Proceeds from new bank loans		**39,156**	18,440
Repayment of bank loans		**(32,278)**	(26,500)
Dividends paid to non-controlling interests		**(350)**	–
Net cash generated from/(used in) financing activities		**5,017**	(9,105)
Net increase/(decrease) in cash and cash equivalents		**16,782**	(21,648)
Cash and cash equivalents at 1 January		**17,147**	38,519
Effect of foreign exchange rate changes		**211**	276
Cash and cash equivalents at 31 December		**34,140**	17,147

The notes on pages 59 to 139 form part of these financial statements.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) 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 financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries and the Group's interest in associates.

The functional currency of the Company is Hong Kong dollars. Subsidiaries of the Company have their functional currencies in Renminbi ("RMB"), United States dollars and Pound Sterling. In view of expanded foreign operations, the directors of the Company consider United States dollars, being an internationally well-recognised currency, can provide more meaningful information to the Company's investors and meet the needs of the Group's global customers. Therefore, the directors choose United States dollars as the presentation currency of the financial statements.

The Company has recorded net current liabilities amounted to $1,271,000 at 31 December 2011. The Company's financial statements have been prepared on a going concern basis notwithstanding the financial position of the Company mentioned above as the directors are of the opinion that, based on a detailed review of the working capital forecast of the Company for the twelve months ending 31 December 2012, the Company will have necessary liquid funds to finance its working capital and capital expenditure requirements.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that derivative financial instruments are stated at their fair value as explained in note 1(g).

1 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements (continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)
- HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*

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

HK(IFRIC) 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a debt for equity swap).

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

The impacts of other developments are discussed below:

– HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

– *Improvements to HKFRSs (2010)* omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. The disclosures about the Group's financial instruments in note 29 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

1 Significant accounting policies (continued)

(d) Subsidiaries and non-controlling interests (continued)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(p) or 1(q) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(l)), unless the investment is classified as held for sale.

(e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(f) and 1(l)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

1 Significant accounting policies (continued)

(e) Associates (continued)

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, an investment in an associate is stated at cost less impairment losses (see note 1(l)), unless classified as held for sale.

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(l)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1 Significant accounting policies (continued)

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(h) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(l)).

– buildings held for own use which are situated on leasehold land classified as under operating leases (see note 1(k)); and

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(x)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives at the rates as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 40 years after the date of completion.

– Leasehold improvements are depreciated over the shorter of the unexpired term of lease or 5 years.

– Office equipment, furniture and fixtures	20% – 30%
– Plant and machinery	5% – 30%
– Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

1 Significant accounting policies (continued)

(i) Property under development

Property under development represents buildings under construction, which is stated at cost less impairment losses (see note 1(l)), and is not depreciated. Cost comprises the direct cost of construction and borrowings costs (see note 1(x)). Property under development is reclassified to the appropriate category of property, plant and equipment when substantially completed and ready for its intended use.

(j) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(x)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(l)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(l)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

–	Brand name	20 years
–	Computer software	2 – 10 years
–	Cooperation agreement	8 years
–	Customer relationships	10 – 11 years
–	Order backlog	2 – 6 years
–	Patents	5 – 6 years
–	Technical knowledge	5 – 10 years

Both the period and method of amortisation are reviewed annually.

1 Significant accounting policies (continued)

(k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except that land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

1 Significant accounting policies (continued)

(l) Impairment of assets

(i) Impairment of investments in subsidiaries and associates and other receivables

Investments in subsidiaries and associates and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in subsidiaries and associates (including those recognised using the equity method (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(l)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(l)(ii).

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

1 Significant accounting policies (continued)

(l) Impairment of assets (continued)

(i) Impairment of investments in subsidiaries and associates and other receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows: (continued)

- If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- property under development;
- interest in leasehold land held for own use under operating leases;
- goodwill;
- other intangible assets; and
- non-current prepayments.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

1 Significant accounting policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1 Significant accounting policies (continued)

(l) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with *HKAS 34, Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(l)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 1(v)(iii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

1 Significant accounting policies (continued)

(n) Construction contracts (continued)

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the statement of financial position as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Trade debtors and bills receivable". Amounts received before the related work is performed as "Advances received" under "Trade and other payables".

(o) Trade and other receivables, prepayments and gross amount due from customers for contract work

Trade and other receivables, prepayments and gross amount due from customers for contract work are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(u)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

1 Significant accounting policies (continued)

(s) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in employee shore-based compensation reserve within equity. The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the employee shore-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the employee shore-based compensation reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the employee shore-based compensation reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

1 Significant accounting policies (continued)

(t) Income tax (continued)

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

1 Significant accounting policies (continued)

(t) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary to the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(u)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

1 Significant accounting policies (continued)

(u) Financial guarantees issued, provisions and contingent liabilities (continued)

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(u)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 1(u)(iii).

(iii) Other provisions and contingent liabilities

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

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

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

1 Significant accounting policies (continued)

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Engineering services fee income

Engineering services fee income is recognised when the related services are rendered.

(iii) Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated contract costs for the contract. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated to the respective functional currencies of the group entities at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currencies at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

1 Significant accounting policies (continued)

(w) Translation of foreign currencies (continued)

The results of the group entities with functional currency other than United States dollars are translated into United States dollars at the exchange rates approximating to those ruling at the dates of transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations, are translated into United States dollars at the closing exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) Related parties

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

1 Significant accounting policies (continued)

(y) Related parties (continued)

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

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

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

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

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

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

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Accounting judgements and estimates

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Notes 14, 27 and 29 contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Useful lives of property, plant and equipment and intangible assets

The Group determines the estimated useful lives and related depreciation/amortisation charges for the property, plant and equipment and other intangible assets. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment and other intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation/amortisation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment losses on trade and other receivables

The Group recognises impairment losses on doubtful debts based on an assessment of the recoverability of trade debtors and other receivables. Impairments are applied to trade debtors and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debts expenses in the period in which such estimate has been changed.

2 Accounting judgements and estimates (continued)

(c) Other impairment losses

If circumstances indicate that the carrying value of investments in subsidiaries and associates, property, plant and equipment, property under development, interest in leasehold land held for own use under operating leases, goodwill and other intangible assets may not be recoverable, these assets may be considered impaired, and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amount may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to estimate precisely fair value less costs to sell because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

(d) Net realisable value of inventories

The Group recognises write-down on inventories based on an assessment of the net realisable value of the inventories. Write-down is applied to the inventories where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of the inventories and write-down on inventories charged to profit or loss in the period in which such estimate has been changed.

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

2 Accounting judgements and estimates (continued)

(f) Construction contracts

As explained in the accounting policy notes 1(n) and 1(v)(iii), revenue and profit recognition on an incompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated.

Based on the latest information available in respect of the market environment, the Group prepares budgets for construction contracts individually and the budget, which is used in the Group's financial reporting, is reviewed regularly. Foreseeable losses are provided when identified.

In preparing the financial statements for the year ended 31 December 2011, the directors of the Company have reviewed the construction contracts and consider that a provision for loss is adequate. Material adjustments to the budgeted costs may occur in future if there is a significant change in the market environment.

(g) Warranty provisions

For some of the goods sold by the Group, there is an one year warranty period. Based on historical warranty data and a weighting of all possible outcomes against their associated probabilities, no provision for warranty has been made in the financial statements. It is possible that the past warranty claim history is not indicative of future claims. Any increase in the provision would affect profit or loss in future years.

(h) Bargain purchase

The Group recognised gain on bargain purchase of subsidiaries as the net fair value of the acquirees' identifiable assets and liabilities measured as at the acquisition date exceeds the aggregate of the fair value of the considerations transferred and the amount of non-controlling interest in the acquirees. In determining the net fair value of the acquirees' identifiable assets and liabilities measured as at the acquisition date, it involves significant estimates relating to revenue to be generated in the future, which will impact the amount of gain on bargain purchase of subsidiaries.

3 Turnover and segment reporting

(a) Turnover

The principal activities of the Group are the design, manufacture, installation and commissioning of capital equipment (including rig electrical control system and other rig equipment) and packages on land and offshore rigs and oilfield expendables and supplies and the provision of engineering services.

Turnover represents the invoiced value of goods supplied to customers, revenue from construction contracts and revenue from engineering services. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2011	2010
	$'000	$'000
Capital equipment and packages		
– Sales of rig electrical control system	**11,281**	8,748
– Sales of other rig equipment	**9,081**	8,162
– Construction contracts revenue		
– Rig products and technology	**39,677**	41,412
– Rig turnkey solutions	**29,123**	52,274
	89,162	110,596
Oilfield expendables and supplies		
– Sales of expendables and supplies	**25,953**	22,011
Engineering services		
– Service fee income	**23,301**	10,848
	138,416	143,455

3 Turnover and segment reporting (continued)

(a) Turnover (continued)

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenues. In 2011, revenues from sales of capital equipment and packages to this customer, including sales to entities which are known to the Group to be under common control with this customer, amounted to approximately $29 million (2010: $58 million). Details of concentrations of credit risk arising from this customer are set out in note 29(a).

Further details regarding the Group's principal activities are described below:

(b) Segment reporting

The Group manages its business by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Capital equipment and packages: the design, manufacture, installation and commissioning of capital equipment and packages on land and offshore rigs
- Oilfield expendables and supplies: the manufacturing and trading of oilfield expendables and supplies
- Engineering services: the provision of engineering services

In 2011, the financial results of capital equipment and packages which were separately reported as rig products and technology and rig turnkey solutions segments in previous year's financial statements are reported to the Group's most senior executive management as one single operating segment for the purpose of resources allocation and performance assessment. Following the change in the composition of the Group's operating segments that in turn has resulted in a change in the reportable segments, the segment information for the year ended 31 December 2010 has been restated.

3 Turnover and segment reporting (continued)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, goodwill, intangible assets and current assets with the exception of interest in associates, cash at bank and in hand, pledged bank deposits, tax balances and other unallocated head office corporate assets. Segment liabilities include trade and other payables and provisions attributable to the activities of the individual segment, with the exception of loans, tax balances and other unallocated head office and corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "segment results" i.e. "adjusted earnings before finance costs and taxes" of individual segment. To arrive at segment results, the Group's earnings are further adjusted for share of results of associates, finance costs and items not specifically attributed to individual segment, such as directors' and auditors' remuneration and other head office or corporate income and expenses.

In addition to receiving segment information concerning segment results, management is provided with segment information concerning revenue (including inter-segment revenue), depreciation and amortisation and additions to non-current segment assets used by the segments in their operations.

3 Turnover and segment reporting (continued)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out below.

	Capital equipment and packages		Oilfield expendables and supplies		Engineering services		Total	
	2011	2010 (restated)	**2011**	2010	**2011**	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue from external customers	**89,162**	110,596	**25,953**	22,011	**23,301**	10,848	**138,416**	143,455
Inter-segment revenue	**–**	176	**6,723**	2,208	**1,392**	–	**8,115**	2,384
Reportable segment revenue	**89,162**	110,772	**32,676**	24,219	**24,693**	10,848	**146,531**	145,839
Reportable segment results	**2,537**	11,976	**4,414**	4,852	**6,193**	4,052	**13,144**	20,880
Depreciation and amortisation for the year	**4,583**	4,340	**464**	476	**1,371**	552	**6,418**	5,368
Reportable segment assets	**168,517**	183,262	**22,111**	22,704	**25,722**	12,598	**216,350**	218,564
Additions to non-current segment assets during the year	**5,068**	3,766	**736**	2,044	**3,033**	9,616	**8,837**	15,426
Reportable segment liabilities	**(44,163)**	(52,206)	**(10,249)**	(11,049)	**(4,081)**	(625)	**(58,493)**	(63,880)

3 Turnover and segment reporting (continued)

(b) Segment reporting (continued)

(ii) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities

	2011 $'000	2010 $'000
Revenue		
Reportable segment revenue	**146,531**	145,839
Elimination of inter-segment revenue	**(8,115)**	(2,384)
Consolidated turnover (note 3(a))	**138,416**	143,455
Profit		
Segment results	**13,144**	20,880
Share of results of associates	**(113)**	38
Finance costs	**(1,722)**	(1,406)
Unallocated head office and corporate income and expenses	**(5,182)**	(4,454)
Consolidated profit before taxation	**6,127**	15,058
Assets		
Reportable segment assets	**216,350**	218,564
Cash at bank and in hand	**34,140**	17,147
Pledged bank deposits	**1,348**	3,657
Interest in associates	**2,159**	4,132
Deferred tax assets	**10,897**	13,124
Unallocated head office and corporate assets	**317**	193
Consolidated total assets	**265,211**	256,817
Liabilities		
Reportable segment liabilities	**(58,493)**	(63,880)
Bank loans	**(25,459)**	(17,983)
Current taxation	**(4,179)**	(4,394)
Deferred tax liabilities	**(1,349)**	(3,224)
Unallocated head office and corporate liabilities	**(2,010)**	(605)
Consolidated total liabilities	**(91,490)**	(90,086)

3 Turnover and segment reporting (continued)

(b) Segment reporting (continued)

(iii) Geographic information

The following table sets out information about the geographical locations of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, property under development, interest in leasehold land held for own use under operating leases, goodwill, other intangible assets, interest in associates and non-current portion of prepayments ("specified non-current assets"). The geographical location of customers is based on the location of the customers. The geographical location of the specified non-current assets is based on the physical location of the assets, in the case of property, plant and equipment, property under development and interest in leasehold land held for own use under operating leases, the location of the operation to which they are allocated, in the case of goodwill and intangible assets, and the location of operations, in the case of interest in associates and non-current portion of prepayments.

	Revenue from external customers		Specified non-current assets	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Hong Kong	**–**	–	**14**	28
Mainland China	**47,356**	40,952	**41,519**	38,537
North America	**31,736**	24,551	**6,129**	7,655
South America	**12,984**	4,372	**756**	401
Europe	**16,028**	22,014	**31,128**	32,582
Singapore	**23,341**	46,241	**11**	29
Others (other part of Asia, India, Russia, Middle East, etc.)	**6,971**	5,325	**3,600**	2,359
	138,416	143,455	**83,157**	81,591

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(Expressed in United States dollars unless otherwise indicated)

4 Other revenue and net income

	2011 $'000	2010 $'000
Gain on sales of accessories	**775**	535
Interest income	**131**	72
Gain on bargain purchase of subsidiaries	**–**	1,272
Reversal of impairment losses on doubtful debts (note 19(b))	**1,029**	–
Bad debts recovered	**760**	–
Gain on disposal of associate	**65**	–
Others	**291**	264
	3,051	2,143

5 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	2011 $'000	2010 $'000
(a) Finance costs		
Interest on bank loans wholly repayable within five years	**1,612**	1,261
Interest on other loans	**110**	145
	1,722	1,406
(b) Staff costs#		
Contributions to defined contribution retirement plans	**2,815**	2,010
Equity-settled share-based payment expenses (note 27)	**727**	1,743
Salaries, wages and other benefits	**28,218**	23,164
	31,760	26,917

5 Profit before taxation (continued)

Profit before taxation is arrived at after charging/(crediting): (continued)

	2011 $'000	2010 $'000
(c) Other items		
Amortisation of interest in leasehold land held for own use under operating leases#	**130**	94
Amortisation of intangible assets	**3,106**	2,643
Depreciation#	**3,198**	2,658
Impairment losses on doubtful debts	**–**	608
Research and development costs	**5,247**	2,920
Net foreign exchange loss	**1,401**	798
Net loss on foreign exchange instrument	**795**	–
Gain on disposal of property, plant and equipment and intangible assets	**(18)**	(34)
Auditors' remuneration	**508**	463
Minimum lease payments under operating leases in respect of land and buildings	**2,713**	2,364
Increase in provisions (note 25)	**292**	23
Cost of inventories# (note 18(b))	**83,221**	90,237

\# Cost of inventories includes $12,332,000 (2010: $10,752,000) relating to staff costs, depreciation and amortisation expenses which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 Income tax in the consolidated income statement

(a) Income tax in the consolidated income statement represents:

	2011	2010
	$'000	$'000
Current tax		
Provision for the year		
– PRC enterprise income tax	**1,144**	2,155
– Overseas corporation income tax	**794**	481
	1,938	2,636
(Over)/under-provision in respect of prior years		
– PRC enterprise income tax	**(76)**	35
	1,862	2,671
Deferred tax		
Origination and reversal of temporary differences (note 24(b))	**234**	(1,204)
	2,096	1,467

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit subject to Hong Kong Profits Tax for the year. Taxation for subsidiaries in other jurisdictions is charged at the appropriate current rates of taxation ruling in relevant jurisdictions respectively. During the year, certain PRC subsidiaries are subject to tax at reduced rates of 12.5% to 15% (2010: 12.5% to 15%) under the relevant PRC tax rules and regulations.

6 Income tax in the consolidated income statement (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2011 $'000	2010 $'000
Profit before taxation	**6,127**	15,058
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**1,745**	4,393
Tax effect of non-deductible expenses	**182**	646
Tax effect of non-taxable income	**(531)**	(215)
Tax effect of profits entitled to tax reductions in the PRC	**(720)**	(1,402)
Tax effect of recognition of temporary differences not recognised in prior year	**1,318**	–
Tax effect of recognition of unused tax losses not recognised in prior years	**–**	(1,892)
(Over)/under-provision in prior years	**(76)**	35
Others	**178**	(98)
Actual tax expense	**2,096**	1,467

7 Directors' remuneration

Directors' remuneration disclosed pursuant to the disclosure requirements of section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees		Salaries, allowances and benefits in kind		Retirement scheme contributions		Sub-total		Share-based payments (note)		Total	
	2011 $'000	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000
Executive directors:												
Mr Zhang Menggui	**-**	–	**670**	507	**7**	7	**677**	514	**5**	37	**682**	551
Mr Jiang Bing Hua	**-**	–	**638**	507	**7**	8	**645**	515	**5**	37	**650**	552
Non-executive directors:												
Mr Jiang Longsheng	**15**	15	**-**	–	**-**	–	**15**	15	**2**	3	**17**	18
Mr Brian Chang	**15**	15	**-**	–	**-**	–	**15**	15	**-**	–	**15**	15
Mr Yu Yuqun (appointed on 15 March 2011)	**12**	–	**-**	–	**-**	–	**12**	–	**-**	–	**12**	–
Independent non-executive directors:												
Mr Bian Junjiang	**15**	15	**-**	–	**-**	–	**15**	15	**2**	2	**17**	17
Mr Chan Ngai Sang, Kenny	**31**	19	**-**	–	**-**	–	**31**	19	**2**	3	**33**	22
Mr Guan Zhichuan	**15**	15	**-**	–	**-**	–	**15**	15	**1**	2	**16**	17
Mr Robert William Fogal Jr.	**15**	15	**-**	–	**-**	–	**15**	15	**-**	–	**15**	15
	118	94	**1,308**	1,014	**14**	15	**1,440**	1,123	**17**	84	**1,457**	1,207

Note: These represent the estimated value of share options granted to the directors pursuant to the Company's share option schemes. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(s)(ii). The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share Option Schemes" in the report of the directors and note 27.

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2010: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2010: three) individuals are as follows:

	2011 **$'000**	2010 $'000
Salaries and other emoluments	**1,220**	648
Share-based payments	**69**	53
Retirement scheme contributions	**59**	72
	1,348	773

The emoluments of the three (2010: three) individuals with the highest emoluments are within the following bands:

	2011 **Number of individuals**	2010 Number of individuals
HK$1,500,001 – HK$2,000,000	**–**	2
HK$2,000,001 – HK$2,500,000	**–**	1
HK$2,500,001 – HK$3,000,000	**2**	–
HK$4,500,001 – HK$5,000,000	**1**	–

9 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of $1,531,000 (2010: $2,861,000) which has been dealt with in the financial statements of the Company.

(Expressed in United States dollars unless otherwise indicated)

10 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $3,472,000 (2010: $13,571,000) and the weighted average number of 680,606,000 (2010: 663,542,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2011	2010
Issued ordinary shares at 1 January	**678,564**	652,611
Effect of ordinary shares issued	**–**	5,030
Effect of share options exercised (note 28(b)(ii))	**2,042**	5,901
Weighted average number of ordinary shares at 31 December	**680,606**	663,542

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of $3,472,000 (2010: $13,571,000) and the weighted average number of 689,162,000 (2010: 675,211,000) ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2011	2010
Weighted average number of ordinary shares at 31 December	**680,606**	663,542
Effect of deemed issue of shares under the Company's share option schemes (note 27)	**8,556**	11,669
Weighted average number of ordinary shares (diluted) at 31 December	**689,162**	675,211

11 Property, plant and equipment

(a) The Group

	Buildings held for own use carried at cost $'000	Office equipment, furniture and fixtures $'000	Plant and machinery $'000	Leasehold improvements $'000	Motor vehicles $'000	Total $'000
Cost:						
At 1 January 2010	15,281	1,873	8,906	259	1,529	27,848
Exchange adjustments	450	67	336	(1)	58	910
Additions						
– through acquisition of subsidiaries	372	76	1,106	–	17	1,571
– others	497	765	2,448	61	509	4,280
Transferred from property under development (note 12)	539	–	–	–	–	539
Disposals	(7)	(36)	(395)	–	(245)	(683)
At 31 December 2010	17,132	2,745	12,401	319	1,868	34,465
At 1 January 2011	17,132	2,745	12,401	319	1,868	34,465
Exchange adjustments	561	52	304	7	38	962
Additions	4,294	1,036	2,936	554	842	9,662
Transferred from property under development (note 12)	1,542	–	–	–	–	1,542
Disposals	–	(72)	(11)	–	(48)	(131)
At 31 December 2011	23,529	3,761	15,630	880	2,700	46,500

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(Expressed in United States dollars unless otherwise indicated)

11 Property, plant and equipment (continued)

(a) The Group (continued)

	Buildings held for own use carried at cost $'000	Office equipment, furniture and fixtures $'000	Plant and machinery $'000	Leasehold improvements $'000	Motor vehicles $'000	Total $'000
Accumulated depreciation:						
At 1 January 2010	714	761	1,935	164	722	4,296
Exchange adjustments	34	24	82	(1)	28	167
Charge for the year	676	416	1,202	36	328	2,658
Written back on disposals	(6)	(34)	(367)	–	(160)	(567)
At 31 December 2010	1,418	1,167	2,852	199	918	6,554
At 1 January 2011	1,418	1,167	2,852	199	918	6,554
Exchange adjustments	51	24	94	–	25	194
Charge for the year	778	542	1,422	125	331	3,198
Written back on disposals	–	(56)	(6)	–	(44)	(106)
At 31 December 2011	2,247	1,677	4,362	324	1,230	9,840
Net book value:						
At 31 December 2011	21,282	2,084	11,268	556	1,470	36,660
At 31 December 2010	15,714	1,578	9,549	120	950	27,911

The Group has submitted applications for the issue of property ownership certificates in respect of buildings held for own use carried at cost of $3,583,000 to the relevant PRC government authorities. At 31 December 2011, the certificates have yet to be issued.

11 Property, plant and equipment (continued)

(b) The Company

	Office equipment, furniture and fixtures $'000
Cost:	
At 1 January 2010	82
Additions	9
At 31 December 2010	91
At 1 January 2011 and 31 December 2011	91
Accumulated depreciation:	
At 1 January 2010	39
Charge for the year	30
At 31 December 2010	69
At 1 January 2011	69
Charge for the year	12
At 31 December 2011	81
Net book value:	
At 31 December 2011	10
At 31 December 2010	22

11 Property, plant and equipment (continued)

(c) The analysis of the net book value of properties is as follows:

	The Group	
	2011	2010
	$'000	$'000
Outside Hong Kong		
– long leases	**3,531**	3,616
– medium-term leases	**17,751**	12,098
	21,282	15,714

12 Property under development

The Group's property under development is situated on a piece of leasehold land in Tianjin, the PRC, held under a land use right for a period of 50 years up to 4 March 2059.

During the year ended 31 December 2011, completed property of $1,542,000 (2010: $539,000) has been transferred to property, plant and equipment (note 11).

13 Interest in leasehold land held for own use under operating leases

	The Group	
	2011	2010
	$'000	$'000
Cost:		
At 1 January	**4,740**	3,388
Exchange adjustments	**170**	160
Additions		
– through acquisition of subsidiaries	**–**	990
– others	**–**	202
At 31 December	**4,910**	4,740
Accumulated amortisation:		
At 1 January	**363**	256
Exchange adjustments	**16**	13
Charge for the year	**130**	94
At 31 December	**509**	363
Net book value:		
At 31 December	**4,401**	4,377

The cost of interest in leasehold land held for own use under operating leases located in the PRC is amortised over the lease term of 43 to 50 years on a straight-line basis.

14 Goodwill

	The Group	
	2011	2010
	$'000	$'000
Cost		
At 1 January	**23,776**	24,290
Exchange adjustments	**78**	(514)
At 31 December	**23,854**	23,776

Impairment test for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash generating units ("CGU") identified according to the reportable segment as follow:

	The Group	
	2011	2010
	$'000	$'000
Capital equipment and packages	**23,854**	23,776

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rate stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	2011	2010
– Gross margin	**26% – 36%**	26% – 42%
– Growth rate	**2%**	2%
– Discount rate	**12% – 15%**	12% – 15%

Management determined the budgeted gross margin based on past performance and its expectation for market development. The discount rate used is pre-tax and reflects specific risks relating to the relevant segments.

15 Other intangible assets

The Group

	Technical knowledge $'000	Customer relationships $'000	Order backlog $'000	Patents $'000	Computer software $'000	Brand name $'000	Cooperation agreement $'000	Total $'000
Cost:								
At 1 January 2010	6,768	11,407	1,220	1,846	374	–	–	21,615
Exchange adjustments	(47)	(305)	(29)	69	4	–	–	(308)
Additions								
– through acquisition of subsidiaries	639	–	3,662	–	20	660	365	5,346
– others	–	–	–	–	24	–	–	24
At 31 December 2010	7,360	11,102	4,853	1,915	422	660	365	26,677
At 1 January 2011	7,360	11,102	4,853	1,915	422	660	365	26,677
Exchange adjustments	93	–	2	68	41	–	–	204
Additions	–	–	–	–	83	–	–	83
At 31 December 2011	7,453	11,102	4,855	1,983	546	660	365	26,964

15 Other intangible assets (continued)

The Group (continued)

	Technical knowledge	Customer relationships	Order backlog	Patents	Computer software	Brand name	Cooperation agreement	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Accumulated amortisation:								
At 1 January 2010	1,386	1,801	1,040	795	144	–	–	5,166
Exchange adjustments	19	(48)	(25)	38	–	–	–	(16)
Charge for the year	785	1,011	380	345	96	11	15	2,643
At 31 December 2010	2,190	2,764	1,395	1,178	240	11	15	7,793
At 1 January 2011	2,190	2,764	1,395	1,178	240	11	15	7,793
Exchange adjustments	38	(37)	2	47	2	–	–	52
Charge for the year	934	1,049	610	361	73	33	46	3,106
At 31 December 2011	3,162	3,776	2,007	1,586	315	44	61	10,951
Net book value:								
At 31 December 2011	4,291	7,326	2,848	397	231	616	304	16,013
At 31 December 2010	5,170	8,338	3,458	737	182	649	350	18,884

The amortisation charge for the year is included in "other operating expenses" in the consolidated income statement.

16 Interest in subsidiaries

	The Company	
	2011	2010
	$'000	$'000
Unlisted shares/capital contributions, at cost	**26,279**	26,245
Amounts due from subsidiaries	**108,901**	106,153
	135,180	132,398
Amounts due to subsidiaries	**(22)**	(24)

Amounts due from subsidiaries are unsecured, interest-free and not expected to be recovered within one year.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
			Group's effective interest	Held by a subsidiary	
Emer International Limited	Hong Kong	2,000,000 shares of HK$1 each	100%	100%	Investment holding, trading of rig equipment and provision of rig turnkey solutions
TSC (Qingdao) Manufacture Co., Limited ("TSC (Qingdao)") #* (青島天時石油機械有限公司)	PRC	$1,300,000	100%	100%	Manufacturing and trading of oilfield expendables and supplies
TSC-HHCT (Xian) Control Technologies Limited ("TSC-HHCT") #* (海爾海斯（西安）控制技術有限公司)	PRC	RMB17,000,000	100%	100%	Manufacturing and trading of rig electrical control system
TSC Manufacturing and Supply, LLC ("TSCMS")	USA	1,612,000 shares of $1 each	100%	100%	Trading of rig equipment and oilfield expendables and supplies and provision of rig turnkey solutions

(Expressed in United States dollars unless otherwise indicated)

16 Interest in subsidiaries (continued)

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activity
Qingdao TSC Offshore Equipment Co., Ltd. ("TSCOE")# (青島天時海洋石油裝備有限公司)	PRC	$11,000,000	100%	100%	Manufacturing and trading of rig equipment and provision of rig turnkey solutions
Zhengzhou TSC Offshore Equipment Co., Ltd. ("ZZOE")# (鄭州天時海洋石油裝備有限公司)	PRC	RMB31,200,000	100%	100%	Manufacturing and trading of rig equipment
Zhengzhou Gear King Co., Ltd. #* (鄭州吉爾傳動科技有限公司)	PRC	RMB1,200,000	100%	100%	Manufacturing and trading of rig equipment
NN Petroleum Engineering (HK) Co., Limited	Hong Kong	HK$16,450,000	51%	51%	Trading of oilfield expendables and supplies and provision of engineering services
TSC Offshore (UK) Limited ("TSCUK")	United Kingdom	73,074,952 shares of GBP0.025 each	100%	100%	Investment holding
TSC Engineering Limited	United Kingdom	GBP1	100%	100%	Design and manufacture of mechanical handling equipment, trading of oilfield expendables and supplies and provision of engineering services

16 Interest in subsidiaries (continued)

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activity
Ansell Jones Limited	United Kingdom	GBP1	100%	100%	Design and manufacture of mechanical handling equipment
TSC Offshore Pte. Limited	Singapore	2 shares of SG$1 each	100%	100%	Trading of rig equipment and oilfield expendables and supplies and provision of engineering services equipment
TSC Offshore Corporation	USA	$6,100	100%	100%	Design and manufacture of rig equipment
Patriot Crane, LLC.	USA	$1	100%	100%	Design and manufacture of offshore deck cranes and provision of engineering services
TSC Offshore Limited	Brazil	BRL1,200,000	100%	100%	Trading of oilfield expendables and supplies, provision engineering services
8655 Golden Spike, LLC ("Golden Spike")	USA	$1,039,500	100%	100%	Property holding

Registered under the laws of the PRC as foreign investment enterprises

* Unofficial English translation

17 Interest in associates

	The Group	
	2011	2010
	$'000	$'000
Share of net assets	**2,159**	4,132

Details of the Group's interest in associates are as follows:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activity
Goldman Offshore Design, LLC	Incorporated	USA	802 Class A shares of $1 each and 1,732 Class B shares of $1 each	28%	28%	Investment holding

Summary financial information on associates

	Assets	Liabilities	Equity	Revenue	(Loss)/ profit (Note)
	$'000	$'000	$'000	$'000	$'000
2011					
100 per cent	7,731	(25)	7,706	–	(424)
Group's effective interest	2,166	(7)	2,159	–	(113)
2010					
100 per cent	15,087	(144)	14,943	35	137
Group's effective interest	4,169	(37)	4,132	9	38

Note:

During the year ended 31 December 2011, Zhengzhou Fu Ge Offshore Equipment Co., Ltd (鄭州富格海洋工程裝備有限公司) was disposed by the Group. Gain on disposal of associate has been recognised in "other revenue and net income" in the consolidated income statement.

18 Inventories

(a) Inventories in the statement of financial position comprise:

	The Group	
	2011	2010
	$'000	$'000
Raw materials	**10,462**	6,869
Work in progress	**10,937**	9,403
Finished goods	**18,197**	17,067
	39,596	33,339

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group	
	2011	2010
	$'000	$'000
Carrying amount of inventories sold	**85,680**	89,646
(Reversal of write down)/write down of inventories	**(2,459)**	591
	83,221	90,237

The reversal of write down of inventories made in prior years arose due to an increase in the estimated net realisable value of certain raw materials for capital equipment and packages segment as a result of sales contracts entered during the year ended 31 December 2011.

19 Trade and other receivables

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Trade debtors and bills receivable	**76,919**	61,826	**–**	–
Less: allowance for doubtful debts (note 19(b))	**(4,126)**	(6,758)	**–**	–
	72,793	55,068	**–**	–
Other receivables, prepayments and deposits	**6,732**	11,940	**166**	33
	79,525	67,008	**166**	33
Less: Non-current portion of prepayments	**(70)**	(2,082)	**–**	–
	79,455	64,926	**166**	33

(a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	The Group	
	2011	2010
	$'000	$'000
Current	**24,933**	31,408
Less than 1 month past due	**14,996**	7,711
1 to 3 months past due	**5,650**	3,458
More than 3 months but within 12 months past due	**21,604**	10,743
More than 12 months past due	**5,610**	1,748
Amounts past due	**47,860**	23,660
	72,793	55,068

19 Trade and other receivables (continued)

(a) Ageing analysis (continued)

The credit terms offered by the Group to its customers differ with each product/service. The credit terms offered to customers of oilfield expendables and supplies and engineering services are normally 30 to 90 days. The credit terms offered to customers of rig electrical control system and other rig equipment are negotiated on a case-by-case basis. Deposits ranging from 10% to 30% of the contract sum are usually required. The balance of 60% to 85% would be payable in 1 to 2 months after delivery and acceptance of products. The remaining 5% to 10% of the contract sum represents the retention money and is payable within up to 18 months after delivery of the products or 1 year after completion of the onsite testing, whichever is earlier. The amount of those retentions expected to be recovered after more than one year is $Nil (2010: $292,000).

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(l)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group	
	2011	2010
	$'000	$'000
At 1 January	**6,758**	7,126
Exchange adjustments	**49**	63
Impairment losses (reversed)/recognised	**(1,029)**	608
Uncollectible amounts written-off	**(1,652)**	(1,039)
At 31 December	**4,126**	6,758

At 31 December 2011, the Group's trade debtors and bills receivable of $9,894,000 (2010: $16,543,000) were individually determined to be impaired. The individually impaired receivables related to customers which management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $4,126,000 (2010: $6,758,000) were recognised. The Group does not hold any collateral over these balances.

19 Trade and other receivables (continued)

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2011	2010
	$'000	$'000
Neither past due nor impaired	**24,913**	30,664
Less than 1 month past due	**14,783**	7,711
1 to 3 months past due	**5,415**	2,113
More than 3 months but within 12 months past due	**18,777**	3,932
More than 12 months past due	**3,137**	863
	42,112	14,619
	67,025	45,283

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a past payment history with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

20 Construction contracts

The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in gross amount due from/to customers for contract work at 31 December 2011 is $178,470,000 (2010: $175,680,000).

21 Amount due from a related company

	The Group	
	2011	2010
	$'000	$'000
Katy International Inc.:		
Balance at 1 January	**101**	101
Balance at 31 December	**101**	101
Maximum balance outstanding during the year	**101**	101

The amount represents funds advanced and expenses paid on behalf of Katy International Inc. and is unsecured, non-interest-bearing and without pre-determined repayment terms.

Mr Zhang Menggui and Mr Jiang Bing Hua are directors of the Company and each of them has a 50% beneficial interest in Katy International Inc.

There was no provision made against the principal amount at 31 December 2010 and 2011.

22 Trade and other payables

	The Group		The Company	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Trade creditors and bills payable	**32,094**	43,417	**–**	–
Other payables and accrued charges	**15,163**	11,447	**778**	564
Gross amount due to customers for contract work	**10,432**	6,330	**–**	–
Advances received in relation to construction contracts	**250**	985	**–**	–
Derivative financial instrument – foreign exchange instrument	**795**	–	**795**	–
	58,734	62,179	**1,573**	564

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the end of the reporting period:

	The Group	
	2011	2010
	$'000	$'000
Within 1 month	**13,820**	9,239
More than 1 month but within 3 months	**8,942**	9,529
More than 3 months but within 12 months	**5,618**	16,830
More than 12 months but within 24 months	**1,641**	3,911
More than 24 months	**2,073**	3,908
	32,094	43,417

23 Bank loans

At 31 December 2011, the bank loans were repayable as follows:

	The Group	
	2011	2010
	$'000	$'000
Within 1 year or on demand	**20,538**	14,653
After 1 year but within 2 years	**1,653**	95
After 2 years but within 5 years	**1,239**	1,082
After 5 years	**2,029**	2,153
	4,921	3,330
	25,459	17,983

At 31 December 2011, the bank loans were secured as follows:

	The Group	
	2011	2010
	$'000	$'000
Secured	**21,481**	9,184
Unsecured	**3,978**	8,799
	25,459	17,983

23 Bank loans (continued)

The bank loans carried interest at rates ranging from 5.81% to 8.65% per annum (2010: 5.31% to 7.00% per annum) and were secured/guaranteed by:

(i) Interest in leasehold land held for own use under operating leases, buildings, plant and machinery, inventories and trade receivables of six subsidiaries namely TSC(Qingdao), TSCOE, TSCMS, Golden Spike, Tianjin Shengli Petroleum Equipment Co. Ltd. and TSC-HHCT. The aggregate net book value of assets pledged amounted to $56,045,000 (2010: Interest in leasehold land held for own use under operating leases, buildings, plant and machinery of four subsidiaries namely TSC(Qingdao), Golden Spike, Tianjin Shengli Petroleum Equipment Co. Ltd and TSC-HHCT, with aggregate net book value of assets pledged amounted to $12,927,000).

(ii) Corporate guarantees given by TSCOE, ZZOE and TSC(Qingdao) to the extent of banking facilities outstanding of $8,387,000 (2010: $7,433,000) as at 31 December 2011.

(iii) Guarantees given by the directors of the Company to the extent of banking facilities outstanding of $4,928,000 (2010: $3,641,000) as at 31 December 2011.

Certain bank loans of the Group are subject to the fulfillment of covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down loan balances would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 29(b). As at 31 December 2011, none of the covenants relating to the Group's bank loans had been breached, except that the Group did not fulfil the financial covenants of a short term bank loan of $2,199,400. Subsequent to 31 December 2011, the Group has obtained a letter from the bank to waive the strict compliance with the financial covenants for the year ended 31 December 2011.

24 Income tax in the statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2011	2010
	$'000	$'000
Provision for the year	**1,938**	2,636
Provisional income tax paid	**(757)**	(871)
	1,181	1,765
Balance of income tax provision relating to prior years	**2,998**	2,629
	4,179	4,394

24 Income tax in the statement of financial position (continued)

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Depreciation in excess of related depreciation allowances	Impairment losses on doubtful debts	Write-down on inventories	Intangible assets	Tax losses	Unrealised profits	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Deferred tax arising from:							
At 1 January 2010	(77)	(1,801)	(1,155)	4,453	(11,062)	(554)	(10,196)
Exchange adjustments	–	(12)	20	(89)	292	–	211
Addition through acquisition of subsidiaries	–	–	–	1,289	–	–	1,289
Charged/(credited) to profit or loss (note 6(a))	–	154	679	(671)	(1,056)	(310)	(1,204)
At 31 December 2010	(77)	(1,659)	(456)	4,982	(11,826)	(864)	(9,900)
At 1 January 2011	(77)	(1,659)	(456)	4,982	(11,826)	(864)	(9,900)
Exchange adjustments	–	63	(4)	(202)	261	–	118
Charged/(credited) to profit or loss (note 6(a))	39	971	95	(743)	(162)	34	234
At 31 December 2011	(38)	(625)	(365)	4,037	(11,727)	(830)	(9,548)

24 Income tax in the statement of financial position (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

	The Group	
	2011	2010
	$'000	$'000
Reconciliation to the consolidated statement of financial position:		
Net deferred tax assets	**(10,897)**	(13,124)
Net deferred tax liabilities	**1,349**	3,224
	(9,548)	(9,900)

At 31 December 2011, the Group had temporary differences arising from undistributed profits of subsidiaries of $33,029,000 (2010: $29,429,000). No provision for deferred tax liabilities have been made as the Group is able to control the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

25 Provisions

Provision for loss making construction contracts:

	The Group
	$'000
At 1 January 2011	2,306
Additional provisions made	292
Provisions utilised	(829)
At 31 December 2011	1,769

Provision for loss making construction contracts is recognised for the amount by which costs exceed the associated revenue based on the best estimate of the expenditure required to settle the Group's liabilities under certain long term contracts. These provisions are expected to be realised over the next 12 months.

26 Employee retirement benefits

As stipulated by the labour regulations of the PRC, the Group participates in various defined contribution retirement plans organised by the municipal and provincial governments for its employees in the PRC. The Group is required to make contributions to the retirement plans at rates ranging from 20% to 25% of the eligible employees' salaries.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

The Group also operates defined contribution retirement benefits schemes for all qualifying employees in jurisdictions other than the PRC and Hong Kong with contributions to the schemes at 3% – 10% of the gross salaries.

The Group has no other obligation for the payment of the employees' retirement and other post-retirement benefits other than the contributions described above.

27 Equity settled share-based transactions

Pre-IPO Scheme

Pursuant to written resolutions of all shareholders of the Company on 19 October 2005, the Company adopted a Pre-IPO share option scheme ("Pre-IPO Scheme").

The purpose of the Pre-IPO Scheme is to recognise the contribution of certain directors and employees of the Group to the growth of the Group and/or the listing of shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("the Stock Exchange").

The subscription price for each share is HK$0.2383 (adjusted for the effect of capitalisation issue in May 2007) which was determined after taking into account the grantees' substantial contributions to the growth and development of the Group.

27 Equity settled share-based transactions (continued)

Pre-IPO Scheme (continued)

The total number of shares subject to the Pre-IPO Scheme is 18,252,000 ordinary shares (adjusted for the effect of capitalisation issue) representing approximately 6.34% of the then total issued share capital of the Company. During the year, 518,400 (2010: 6,728,400) share options were exercised and the Company had 432,000 (2010: 950,400) share options outstanding as at the end of the reporting period.

No further share options will be offered or granted under the Pre-IPO Scheme after the termination date i.e. 21 November 2005.

The options granted under the Pre-IPO Scheme can only be exercised by the grantees after the later of twelve months following the listing date (i.e. 28 November 2005) or such period as may be required by the Stock Exchange for the options granted under the Pre-IPO Scheme to be subject to lock-up restrictions.

If the grantee maintains continuous status of an employee for every 6 months, an additional 10% of the option granted is vested and exercisable. The accumulated vested portion of this option may not be exercised later than 10 years from the date on which the grantee accepts the options.

Share Option Scheme

In addition, pursuant to the resolutions passed by all the shareholders on 20 October 2005 and 20 August 2009, the Company has adopted a share option scheme ("Share Option Scheme").

The purpose of the Share Option Scheme is to provide incentives or rewards to the participants (as defined below) for their contribution to the Group and/or enable the Group to recruit and retain high-caliber employees and to improve the loyalty of the employees.

The directors may, at their discretion, invite any participant (the "Participants") being any employee, executive directors, non-executive directors, certain consultants, suppliers and customers of the Group who, in the sole discretion of the boards, have contributed to the Group. Upon acceptance of the option, the grantee shall pay HK$1 to the Company as consideration for the grant.

The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes in force from time to time must not in aggregate exceed 30% of the shares in issue from time to time (the "Scheme Limit").

27 Equity settled share-based transactions (continued)

Share Option Scheme (continued)

Subject to the Scheme Limit, the Company may grant options of up to 10% of the issued share capital of the Company as at the date of adoption of the Share Option Scheme ("Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the 10% limit.

The Company may renew the Scheme Mandate Limit at any time subject to the approval of the shareholders. However, the Scheme Mandate Limit as "refreshed" must not exceed 10% of the shares in issue as at the date of approval of the renewed limit. Options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

Unless approved by the shareholders, the total number of shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued share capital of the Company from time to time. Any further grant of options in excess of the limit must be subject to the shareholders' approval with such Participant and his associates abstaining from voting.

The exercise price must be at least the highest of: (a) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; (b) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the Company's shares.

A nominal consideration of HK$1 is payable by the grantee upon acceptance of an option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the directors of the Company to each grantee of the option which period may commence on a day after the date upon which the option is granted but shall and in any event be not later than ten years from the date of grant. Unless otherwise determined by the directors of the Company at their sole discretion, there is no requirement of a minimum period for which a share option must be held.

During the year, 2,810,000 (2010: 2,225,000) share options under the Share Option Scheme were exercised and 5,445,000 (2010: 1,685,000) share options were lapsed.

(Expressed in United States dollars unless otherwise indicated)

27 Equity settled share-based transactions (continued)

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 19 October 2005	5,918,400	Note	10 years
– on 29 December 2008	5,440,000	Note	10 years
Options granted to employees:			
– on 19 October 2005	1,760,400	Note	10 years
– on 10 May 2007	6,602,000	Note	10 years
– on 12 November 2007	8,510,000	Note	10 years
– on 15 January 2008	2,000,000	Note	10 years
– on 12 August 2008	1,700,000	Note	10 years
– on 29 December 2008	9,780,000	Note	10 years
– on 18 September 2009	20,295,000	Note	10 years
– on 1 September 2010	9,070,000	Note	10 years
– on 21 February 2011	2,400,000	Note	10 years
Total share options	73,475,800		

Note: The vesting period of the options is 5 years, starting from the date of grant and becomes vested at stepped semi-annual increments of 10% of the total options originally granted for a period of 5 years from the date of grant.

27 Equity settled share-based transactions (continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2011 Weighted average exercise price	2011 Number of options	2010 Weighted average exercise price	2010 Number of options
Outstanding at the beginning of the year	**HK$2.24**	**60,437,400**	HK$2.10	62,005,800
Exercised during the year	**HK$0.49**	**(3,328,400)**	HK$0.31	(8,953,400)
Lapsed during the year	**HK$2.06**	**(5,445,000)**	HK$2.01	(1,685,000)
Granted during the year	**HK$1.97**	**2,400,000**	HK$1.27	9,070,000
Outstanding at the end of the year	**HK$2.35**	**54,064,000**	HK$2.24	60,437,400
Exercisable at the end of the year	**HK$2.89**	**26,990,000**	HK$2.87	20,202,400

The weighted average share price at the date of exercise for share options exercised during the year was HK$2.23 (2010: HK$2.28).

The options outstanding at 31 December 2011 had an exercise price of HK$0.2383, HK$2.43, HK$5.6, HK$5.23, HK$2.32, HK$0.54, HK$2.06, HK$1.27 and HK$1.97 (2010: HK$0.2383, HK$2.43, HK$5.6, HK$5.23, HK$2.32, HK$0.54, HK$2.06 and HK$1.27) and a weighted average remaining contractual life of 7.2 years (2010: 8.1 years).

(Expressed in United States dollars unless otherwise indicated)

27 Equity settled share-based transactions (continued)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Binomial Model. The contractual life of the share option is used as an input into this model.

Fair value of share options and assumptions

Grant date	21 February 2011	1 September 2010	18 September 2009	29 December 2008	12 August 2008	15 January 2008	12 November 2007	10 May 2007	19 October 2005
Fair value at measurement date	$0.11	$0.07	$0.12	$0.03	$0.12	$0.27	$0.29	$0.13	$0.09
Share price	HK$1.9	HK$1.2	HK$2.06	HK$0.54	HK$2.32	HK$5.22	HK$5.6	HK$2.43	HK$0.6083
Exercise price	HK$1.97	HK$1.27	HK$2.06	HK$0.54	HK$2.32	HK$5.23	HK$5.6	HK$2.43	HK$0.2383
Expected volatility	49%	50%	50%	45%	41%	42%	42%	42%	51%
Option life	10 years	10 years	10 years	10 years	10 years	10 years	10 years	10 years	10 years
Expected dividends	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate (based on Exchange Fund Notes)	2.86%	1.93%	2.36%	1.235%	3.38%	2.8%	3.45%	4.24%	4.58%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on public available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

28 Capital and reserves

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital $'000	Share premium $'000	Exchange reserve $'000	Employee share-based compensation reserve $'000	Retained profits/ (accumulated loss) $'000	Total $'000
Balance at 1 January 2010	8,393	116,515	779	4,068	2,719	132,474
Changes in equity in 2010:						
Total comprehensive income for the year	–	–	–	–	(2,861)	(2,861)
Issue of ordinary shares	219	2,404	–	–	–	2,623
Shares issued under share option schemes	115	825	–	(579)	–	361
Equity-settled share-based transactions	–	–	–	1,743	–	1,743
Balance at 31 December 2010 and 1 January 2011	8,727	119,744	779	5,232	(142)	134,340
Changes in equity in 2011:						
Total comprehensive income for the year	–	–	172	–	(1,531)	(1,359)
Shares issued under share option schemes (note 28(b)(ii))	43	299	–	(131)	–	211
Equity-settled share-based transactions	–	–	–	727	–	727
Balance at 31 December 2011	8,770	120,043	951	5,828	(1,673)	133,919

28 Capital and reserves (continued)

(b) Share capital

(i) Authorised and issued share capital

	2011		2010	
	No. of shares '000	Amount $'000	No. of shares '000	Amount $'000
Authorised:				
Ordinary share of HK$0.1 each	**2,000,000**	**25,746**	2,000,000	25,746
Ordinary shares, issued and fully paid:				
At 1 January	**678,564**	**8,727**	652,611	8,393
Issue of ordinary shares	**–**	**–**	17,000	219
Shares issued under share option schemes	**3,328**	**43**	8,953	115
At 31 December	**681,892**	**8,770**	678,564	8,727

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Shares issued under share option schemes

During the year ended 31 December 2011, options were exercised to subscribe for 3,328,400 ordinary shares in the Company at a consideration of $211,000 of which $43,000 was credited to share capital and the balance of $168,000 was credited to the share premium account. $131,000 has been transferred from the employee share-based payment reserve to the share premium account in accordance with the policy set out in note 1(s)(ii).

28 Capital and reserves (continued)

(b) Share capital (continued)

(iii) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	Exercise price	2011 Number	2010 Number
29 November 2005 to 18 October 2015	HK$0.2383	**432,000**	950,400
10 November 2007 to 9 May 2017	HK$2.43	**5,582,000**	6,332,000
12 May 2008 to 11 November 2017	HK$5.60	**7,960,000**	8,360,000
15 July 2008 to 14 January 2018	HK$5.23	**2,000,000**	2,000,000
12 February 2009 to 11 August 2018	HK$2.32	**1,700,000**	1,700,000
29 June 2009 to 28 December 2018	HK$0.54	**9,270,000**	12,755,000
18 March 2010 to 17 September 2019	HK$2.06	**16,950,000**	19,720,000
1 March 2011 to 31 August 2020	HK$1.27	**7,770,000**	8,620,000
21 August 2011 to 20 February 2021	HK$1.97	**2,400,000**	–
		54,064,000	60,437,400

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 27 to the financial statements.

(c) Nature and purpose of reserves

(i) Share premium

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

(ii) Merger reserve

The merger reserve represents the difference between the nominal value of the share capital of the subsidiaries acquired as a result of the restructuring exercise in 2004 and the nominal value of the Company's shares issued in exchange thereof.

28 Capital and reserves (continued)

(c) Nature and purpose of reserves (continued)

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries and associates. The reserve is dealt with in accordance with the accounting policies set out in note 1(w).

(iv) Employee share-based compensation reserve

The employee share-based compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 1(s)(ii).

(v) Capital reserve

The capital reserve represents the excess of capital contribution over the nominal value of the registered capital of TSC(Qingdao).

(vi) Revaluation reserve

The revaluation reserve represents the fair value adjustment to the interest previously held by the Group as an associate upon the acquisition of TSCUK.

(vii) Reserve funds

The Articles of Association of certain PRC subsidiaries require the appropriation of 10% of their profit after tax each year, based on their statutory audited financial statements, to the reserve funds until the balance reaches 50% of the registered capital of the respective PRC subsidiaries. The reserve funds may be capitalised as the paid-in capital of these subsidiaries.

(d) Distributability of reserves

The Company's reserves available for cash distribution and/or distribution in specie to equity shareholders of the Company as at 31 December 2011, as computed in accordance with the Companies Law (Revised) of the Cayman Islands amounted to $118,370,000 (2010: $119,602,000).

28 Capital and reserves (continued)

(e) Dividend

The directors do not recommend the payment of a dividend for the year ended 31 December 2011 (2010: $Nil).

(f) Capital management

The Group's primary objectives when managing capital are to maintain a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. The Group reviews the capital structure on a regular basis and considers the cost of capital and the associated risks. Based on recommendations of the board of directors, the Group will balance its overall capital structure through adjusting the amount of dividends payable to shareholders, new shares issues or new debt financing. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 2011.

The Group monitors capital with reference to its debt position. The Group's strategy is to maintain the equity and debt in a balanced position and ensure there would be adequate working capital to service its debt obligations. The Group's gearing ratio, being the Group's total liabilities to equity shareholders' funds, as at 31 December 2011 was 55% (2010: 56%).

Except for the bank loans which require the fulfillment of covenants relating to certain of the Group's financial ratios as disclosed in note 23 to the financial statements, neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

29 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to this credit risk is monitored on an ongoing basis.

29 Financial risk management and fair values (continued)

(a) Credit risk (continued)

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Credit terms offered by the Group to its customers are set out in note 19(a) to the financial statements.

The credit risk on cash at bank and pledged bank deposits is limited as the counterparties are banks with sound credit standing. Given their high credit standing, management does not expect any counterparty fail to meet its obligations.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 39% (2010: 38%) and 48% (2010: 44%) of the total trade and other receivables and gross amount due from customers for contract work was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

29 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay:

The Group

	2011 Contractual undiscounted cash outflow						2010 Contractual undiscounted cash outflow					
	Within 1 year or on demand $'000	More than 1 year but within 2 years $'000	More than 2 years but within 5 years $'000	More than 5 years $'000	Total $'000	Carrying amount at 31 December $'000	Within 1 year or on demand $'000	More than 1 year but within 2 years $'000	More than 2 years but within 5 years $'000	More than 5 years $'000	Total $'000	Carrying amount at 31 December $'000
Trade and other payables	47,257	-	-	-	47,257	47,257	54,864	–	–	–	54,864	54,864
Bank loans	21,767	1,981	1,762	2,850	28,360	25,459	15,322	318	1,604	3,190	20,434	17,983
	69,024	1,981	1,762	2,850	75,617	72,716	70,186	318	1,604	3,190	75,298	72,847

The Company

	2011 Contractual undiscounted cash outflow						2010 Contractual undiscounted cash outflow					
	Within 1 year or on demand $'000	More than 1 year but within 2 years $'000	More than 2 years but within 5 years $'000	More than 5 years $'000	Total $'000	Carrying amount at 31 December $'000	Within 1 year or on demand $'000	More than 1 year but within 2 years $'000	More than 2 years but within 5 years $'000	More than 5 years $'000	Total $'000	Carrying amount at 31 December $'000
Other payables and accrued charges	778	–	–	–	778	778	564	–	–	–	564	564
Amounts due to subsidiaries	22	–	–	–	22	22	24	–	–	–	24	24
	800	–	–	–	800	800	588	–	–	–	588	588

29 Financial risk management and fair values (continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from the Group's cash at bank and in hand, pledged bank deposits and bank loans. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's net borrowings (being interest-bearing financial liabilities less cash at bank and in hand and pledged bank deposits) at the end of the reporting period.

The Group

	2011 Effective interest rate	**2011** $'000	2010 Effective interest rate	2010 $'000
Fixed rate borrowings:				
Bank loans	**5.81% – 7.87%**	**15,287**	5.31% – 7.00%	10,550
Variable rate borrowings/ (deposits):				
Bank loans	**6.50% – 8.65%**	**10,172**	5.31% – 6.50%	7,433
Less: Pledged bank deposits	**0.50%**	**(1,348)**	0.36%	(3,657)
Cash at bank and in hand	**0.01% – 1.49%**	**(34,140)**	0.01% – 1.29%	(17,147)
		(25,316)		(13,371)
Total net deposits		**(10,029)**		(2,821)

29 Financial risk management and fair values (continued)

(c) Interest rate risk (continued)

(i) Interest rate profile (continued)

The Company

	2011		2010	
	Effective interest rate	**$'000**	Effective interest rate	$'000
Variable rate deposits:				
Cash at bank and in hand	**0.01%**	**(158)**	0.01%	(2,475)

(ii) Sensitivity analysis

At 31 December 2011, it is estimated that a general increase/decrease of one percentage point in interest rates, with all other variables held constant, would have increased/decreased the Group's profit before tax by approximately $253,000 (2010: $134,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit before tax that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit before tax is estimated as an annualised impact on interest expense or income of such a change interest rates. The analysis is performed on the same basis for 2010.

29 Financial risk management and fair values (continued)

(d) Currency risk

(i) Forecast transactions

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. Most of the Group's subsidiaries in the PRC carried out production locally with RMB as functional currency while approximately 45% of the Group's turnover was denominated in United States dollars. At 31 December 2011, no related hedges were made by the Group.

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

(ii) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to the currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in United States dollars, translated using the spot rate at the year end date.

The Group

	Exposure to United States dollars (expressed in United States dollars)	
	2011	2010
	$'000	$'000
Trade and other receivables	**1,235**	2,202
Cash at bank and in hand	**189**	1,613
Trade and other payables	**(600)**	(1,560)
Net exposure arising from recognised assets and liabilities	**824**	2,255

29 Financial risk management and fair values (continued)

(d) Currency risk (continued)

(iii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit before tax that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

The Group

	2011 Increase/ (decrease) in foreign exchange rates	**2011** Effect on profit before tax $'000	2010 Increase/ (decrease) in foreign exchange rates	2010 Effect on profit before tax $'000
United States dollars	**5%**	**41**	5%	113
	(5)%	**(41)**	(5)%	(113)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit before tax measured in the respective functional currencies, translated into United States dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2010.

29 Financial risk management and fair values (continued)

(e) Fair values

Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in IFRS 7, *Financial instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

29 Financial risk management and fair values (continued)

(e) Fair values (continued)

Financial instruments carried at fair value (continued)

2011

	The Group				The Company			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities								
Derivative financial instrument-foreign exchange instrument	$ –	$ 795	$ –	$ 795	$ –	$ 795	$ –	$ 795

During the year ended 31 December 2011, there was no transfer between instrument in Level 1 and Level 2.

29 Financial risk management and fair values (continued)

(f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(ii) Derivatives

The fair value of foreign exchange instrument is estimated as the average present value of estimated payoff by adopting the Monte Carlo simulation. The Monte Carlo simulation takes into account of observable market parameters such as spot exchange rates, volatility and interest rates as at the valuation date based on a number of simulation path to be used. Based on the exchange rates simulated in each path, the payoff at each settlement date is estimated. The present value of the instrument for each path is calculated by discounting the estimated payoffs back to the valuation date.

30 Commitments

(a) Capital commitments outstanding at 31 December 2011 not provided for in the financial statements were as follows:

	The Group	
	2011	2010
	$'000	$'000
Contracted for	**–**	2,034

(b) At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2011	2010
	$'000	$'000
Within 1 year	**2,111**	1,780
After 1 year but within 5 years	**3,750**	3,683
After 5 years	**438**	1,150
	6,299	6,613

The Group is the lessee in respect of certain properties under operating leases. The leases run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

31 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following related party transactions.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2011	2010
	$'000	$'000
Salaries and other emoluments	**3,749**	2,427
Share-based payments	**191**	273
Retirement scheme contributions	**140**	112
	4,080	2,812

Total remuneration is included in "staff costs" (see note 5(b)).

(b) Transaction with related companies

	2011	2010
	$'000	$'000
Sales of capital equipment and packages	**29,123**	58,004

In the opinion of the Company's directors, the above transactions were carried out on normal commercial terms and in the ordinary course of business.

32 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 27, *Separate financial statements* (2011)	1 January 2013
HKAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
HKFRS 9, *Financial instruments*	1 January 2015

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 but is not yet in a position to state whether these amendments and new standards would have a significant impact on the Group's or Company's results of operations and financial position.

Five Years Financial Summary

The following is a summary of the consolidated results, assets and liabilities of the Group prepared on the basis set out in notes.

CONSOLIDATED RESULTS

	2011 US$'000	2010 US$'000	2009 US$'000	2008 US$'000	2007 US$'000
Turnover	**138,416**	143,455	112,842	160,113	34,327
Cost of sales	**(86,116)**	(91,189)	(91,578)	(116,470)	(20,494)
Gross profit	**52,300**	52,266	21,264	43,643	13,833
Other revenue	**3,051**	2,143	1,194	881	1,399
Selling and distribution expenses	**(6,654)**	(5,539)	(4,884)	(5,172)	(2,551)
General and administration expenses	**(35,610)**	(28,035)	(22,910)	(20,122)	(7,989)
Other operating expenses	**(5,125)**	(4,409)	(9,051)	(4,587)	(755)
Finance costs	**(1,722)**	(1,406)	(1,338)	(500)	(296)
Share of results of associates	**(113)**	38	1,399	(2,063)	528
Profit/(loss) before taxation	**6,127**	15,058	(14,326)	12,080	4,169
Income tax (expense)/credit	**(2,096)**	(1,467)	4,088	(1,753)	(236)
Profit/(loss) for the year	**4,031**	13,591	(10,238)	10,327	3,933

ASSETS AND LIABILITIES

			As at 31 December		
	2011 US$'000	2010 US$'000	2009 US$'000	2008 US$'000	2007 US$'000
Non-current assets	**94,054**	94,715	91,882	80,832	28,707
Current assets	**171,157**	162,102	132,011	115,918	89,064
Current liabilities	**(85,220)**	(83,532)	(76,736)	(71,448)	(41,012)
Net current assets	**85,937**	78,570	55,275	44,470	48,052
Non-current liabilities	**(6,270)**	(6,554)	(7,114)	(9,748)	(736)
Net assets	**173,721**	166,731	140,043	115,554	76,023

Notes:

1. The summary of consolidated results of the Group includes the results of the Company and its subsidiaries as if the current Group structure had been in existence throughout the financial periods, or from the respective dates of the incorporation where this is a shorter period. The consolidated results of the Group for the years ended 31 December 2011 are as set out on page 51 to 52 of the audited financial statements.

2. The consolidated balance sheet of the Group as at 31 December 2011 are as set out on pages 53 to 54 of the audited financial statements.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Jiang Bing Hua *(Executive Chairman)*
Mr. Zhang Menggui *(Chief Executive Officer)*

Non-executive Directors

Mr. Jiang Longsheng
Mr. Brian Chang
Mr. Yu Yuqun

Independent non-executive Directors

Mr. Chan Ngai Sang, Kenny
Mr. Bian Junjiang
Mr. Guan Zhichuan
Mr. Robert William Fogal Jr

COMPLIANCE OFFICER

Mr. Zhang Menggui

CHIEF FINANCIAL OFFICER

Mr. Lim Joo Heng, Paul

COMPANY SECRETARY

Ms. Cheung Wai Sze, Candy

AUTHORISED REPRESENTATIVES

Mr. Zhang Menggui
Mr. Jiang Bing Hua

AUDIT COMMITTEE

Mr. Chan Ngai Sang, Kenny *(Chairman)*
Mr. Bian Junjiang
Mr. Guan Zhichuan

REMUNERATION COMMITTEE

Mr. Bian Junjiang *(Chairman)*
Mr. Zhang Menggui
Mr. Jiang Bing Hua
Mr. Chan Ngai Sang, Kenny
Mr. Guan Zhichuan

COMPLIANCE COMMITTEE

Mr. Zhang Menggui *(Chairman)*
Mr. Bian Junjiang
Mr. Chan Ngai Sang, Kenny
Mr. Guan Zhichuan
Mr. Chung Man Lai
Ms. Cheung Wai Sze, Candy

NOMINATION COMMITTEE

Mr. Jiang Bing Hua *(Chairman)*
Mr. Zhang Menggui
Mr. Chan Ngai Sang, Kenny
Mr. Bian Junjiang
Mr. Guan Zhichuan

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PRINCIPAL BANKERS

Standard Chartered Bank
China Construction Bank, Qingdao Branch
China Construction Bank, Shaanxi Branch Hi-Tech Development Zone Sub-branch
Bank of Communications, Qingdao Branch
Metrobank N.A.
The Royal Bank of Scotland

AUDITORS

KPMG

WEBSITE

www.tsc-holdings.com

STOCK CODE

206

TSC Group Holdings Limited

Stock Code: 206