TSC Group Holdings Limited

Stock Code: 206

Beyond Integration
Seamless Solutions™



Annual Report 2012

Global Products and **Services**
to **Onshore** and **Offshore**
Drilling Industry

Your Ultimate
Total Solution Company

Sales, Service, Success,

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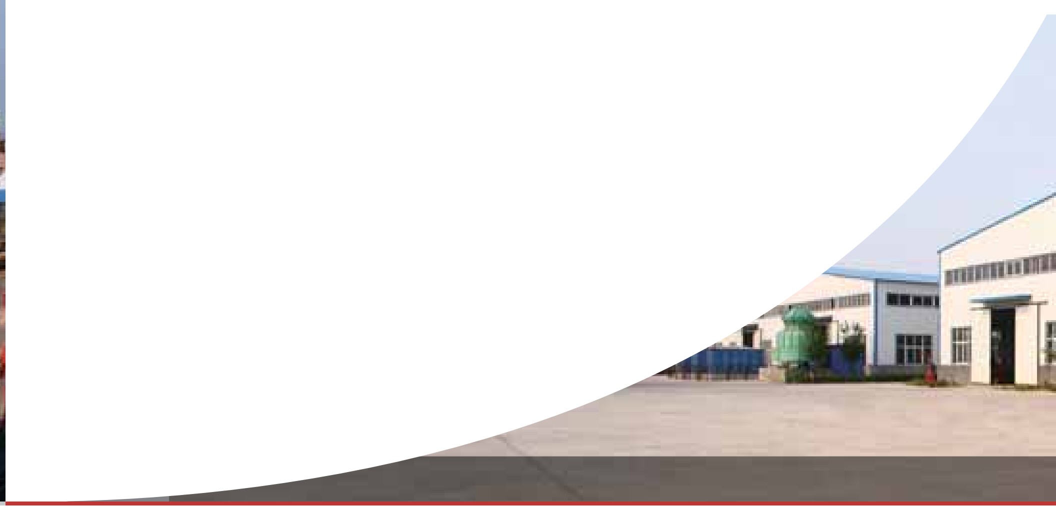
Corporate Profile

TSC Group Holdings Limited (the "Company" or "TSC") is a global product and service provider serving the worldwide offshore and land drilling rig industries. 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 offshore and land drilling rig industries. With a successful track record in the industry, the Group successfully provides innovative solutions to a wide network of global customers.

Our Capital Equipment and Packages business segment comprises a comprehensive line of highly engineered 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 rigs. 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.

Our Oilfield Expandables and Supplies business 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.




Xi'an factory I in China


Qingdao factory I in China


Shipley office in UK


Dalian factory in China


Qingdao factory II in China

Macaé facility in Brazil


Zhengzhou factory in China


Houston office in USA


Xi'an factory II in China

Corporate Milestones

1995

- TSC Group originated as EMER International in the State of Texas, the United States of America ("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 specializes in the design, manufacturing and sale of expendable parts for mud pumps 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
- Established sales offices in Brazil, Singapore, Middle East and Russia

2005

- Completed reorganization of EMER International Ltd and was listed on the Growth Enterprise Market ("GEM") Board of the Stock Exchange

2007

- Expanded solids control system production line with acquisition of Zhengzhou ("Highlight") production base
- Acquired manufacturing facilities in Houston, Texas to manufacture drilling equipment, mechanical handling and deck cranes
- CIMC Group 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 Group Ltd renamed TSC Offshore Group Ltd
- Acquired second Zhengzhou ("GEAR") production base and expanded jacking system product line

Corporate Milestones

2009

- Opened the second production base in Qingdao ("TSCOE") to manufacture offshore capital equipment in May 2009
- Transferred listing of the TSC Shares from the GEM Board to the Main Board of the Stock Exchange in June 2009 with a new stock code: 206

2010

- Acquired 51% shareholding 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

2012

- TSC (Qingdao) Manufacture Co., Limited celebrated its tenth anniversary in June 2012
- On 26 September 2012, TSC (Qingdao) Manufacture Co., Limited was approved as the first batch of Advanced High-Tech Enterprises to be endorsed at Qingdao Municipality in 2012
- TSC established the Qingdao Offshore Engineering Technology Research Institute, to drive technology innovation advancement and long-term value creation for the Company
- On 12 November 2012, TSC was selected as one of the candidates under Technologies category of "Creativity Events in China"
- On 10 December 2012, the "Caspian Sea Explorer" 300 feet jack-up drilling rig at Caspian Sea was delivered. TSC provided partial design for the cantilever structure and outfitting, the drilling equipment package, power control and drives, installation and commissioning of equipment onboard the Caspian Driller



TSC Group Holdings Worldwide Locations

GLOBAL SOLUTIONS

Designing, Manufacturing and Packaging for the Onshore and Offshore Industries

Executive Chairman and Chief Executive Officer's Statement

Zhang Menggui
Chief Executive Officer

Jiang Bing Hua
Executive Chairman

Dear Shareholders

2012 was an outstanding year for TSC.

We made substantial progress in identifying and developing our five-year strategic direction. 2012 was an important milestone year for the Company. Our results reflected sound business plan execution, which focused on the basics required to deliver state-of-the-art products on-time whilst developing a niche market in which TSC will excel. In addition to delivering our highest ever turnover to-date, we completed essential organizational changes enabling us to effectively and efficiently execute. We improved our cost discipline to effectively manage resources while also creating significant progress with our key alliances.

The Company is well positioned to earn solid profits within selected niche markets, with products and customers we developed over the years, even in a fragile global economy. The Company is positioned to significantly benefit from the growing integrated solutions demand in the unconventional shale oil and gas exploration sector, which has been described as a game changer. The shale developments as well as upgrade and replacement requirements to the worldwide aging jack up rig fleet provide sufficient opportunities for the Company to comfortably secure the success of our long term goals.

The theme of our annual report to shareholders this year is twofold. To highlight TSC's exciting near term achievable goals whilst ensuring the basics to be firmly entrenched.

1. Financials

2012 marked a record turnover of US$183.7 million. This was a substantial 31.7% increase over the previous year of US$139.5 million. The income statement performance for the full financial year 2012 was characterized by a vastly improved second half performance following an unsatisfactory first half. TSC's income statement performance demonstrates our ability to improve progress of two turnkey drilling packages and numerous equipment deliveries. Financial year 2012 net profit after tax also significantly improved with a 102.9% increase to US$8.2 million from US$4.0 million in year 2011. The second half profited from enhanced commercial and operational performance and witnessed the beginning of benefits implemented on cost efficiency initiatives within the business, which will carry on into the successive financial years.

2. Operations

Although our name TSC stands for "Total Solutions Company," the letters also embody our core values – Teamwork, Sharing, Commitment plus Excellence at all levels. We firmly believe these values support the nature of our business and the goals we aspire to achieve. In an effort to pursue ambitious plans and maximize shareholder wealth, we persistently emphasize on staying grounded on the basics.

In April 2012, after a 14 year successful career with Weatherford International, Mr. Wang Yong joined TSC as Chief Operations Officer. His strong operational and business management background plays a key role in TSC at this critical stage of growth for the Company. He adopts a structured approach to operations management and is familiar with managing TSC's international multi-location matrix organization structure. We are fortunate to have Mr. Wang Yong on our team. In just the brief period with the Company, we witnessed good results with improvements in organizational clarity, goal alignment, accountabilities and responsibilities, budgetary discipline cost consciousness, and clear focus on defined goals.

Increased emphasis on important Quality Health Safety and Environment Standards also provided visible improvements. Site incident review procedures are now in place allowing workers and management to constructively and openly discuss nominated incidents. TSC is committed to providing an environment promoting employee goal achievement and zero lost time from workplace injuries. Our safety philosophy is already embedded in all product designs, which are compliant with international safety standards and regulations.

Although a record turnover was achieved in 2012, the cost of executing long term strategies, which will provide business benefits in forthcoming years, were still higher than planned. Stringent budgetary controls and expenditure approval limits were implemented to improve control over all levels of expenditure. Such expenditures will decrease in future to reduce overall overhead expenditure.

3. Building a focused, stronger TSC

Control over energy resources is evolving. As emerging countries become more developed, control over oil and gas reserves has become more nationalistic. Previously, International Oil Companies (IOC) have dominated access to resources with their technology and capability to rapidly exploit and monetize these reserves. Emerging economies had to depend on IOCs and National Oil Companies (NOC) had to balance the need to generate oil revenue with the higher cost of energy. However, NOCs are under increasing pressure to retain more control over revenue and thus policies are shifting towards a higher degree of nationalization of exploration and production activities. We are now entering a phase, where co-operation between strategic partners in emerging economies is the key to future development.

Executive Chairman and Chief Executive Officer's Statement

Several other important factors contribute to our business focus and shape our strategy. TSC's business model development is impacted by contributing influences such as conventional oil reserves found at deeper water depths, aged equipment effectiveness, and increased demand on higher safety and environmental factors. The rapid development of unconventional drilling technology and equipment for shale oil and gas further adds a significant positive factor to our future business potential given our background expertise in offshore deepwater technology.

The term unconventional drilling in shale gas exploration and production refers to the vastly different process in well operation versus conventional land rig processes. The primary differences include long distance horizontal drilling, significantly different gas extraction method using a hydraulic fracturing process, rig movement to several wells over a drillpad, and rig movement ability to other drilling locations. The shale gas well completion and work over required time is relatively shorter in the unconventional scenario. Mobility is a key factor in return on investment. Conventional drilling rigs, which are generally past economic obsolescence, do not possess these features and capabilities. TSC has extensive offshore drilling platform technical expertise which is similar in many areas to requirements in unconventional drilling rig applications. TSC has completed and owns a range of unconventional drilling and fracturing product designs including our PDQ™ (Performance Driven Quality) series rigs and high pressure fracturing pumps and expendables. We expect to unveil and launch our extensive range of unconventional drilling and fracturing products in the near future.

Undeniably, energy remains the main engine of progress. The above briefly outlined factors combined with increasing energy demands, will lead to increasing strong foreseeable future demands. The world continues to depend on fossil fuels and a growing importance of shale gas as a cleaner energy source. TSC will apply continued strategic focus on Offshore Exploration and Production and Onshore Unconventional Oil and Gas. This is our future.

4. Strategies

Our medium term strategic objective is to build a sustainable, distinctive, differentiated platform for stakeholders. Our focus and target is to achieve US$1 billion in revenue by 2016 based on sustainable high quality earnings. We established important strategy milestones for ourselves in order to increase focus and strengthen our position. In 2012 we began with the reorganization of the company into business units, product lines, regions and streamlining key functions such as QHSE, project management, engineering and manufacturing to be adequately supported by corporate functions. We have redefined the organization to effectively execute our strategies to deliver our objective.

We periodically review our strategies to match the world and situations we forecast and perceive ahead. Our relentless focus includes: customer-driven, service-driven and solutions-driven, core values which serves as the foundation to secure customer confidence. We believe we are capable of performing to our strengths, engaging with strategic customers and carving out new market segments for TSC. Our organizational framework is now optimized to enable us to thrive in the identified niche markets and engineered solutions that we have to offer.

5. Prospects

TSC, with our partner CIMC Raffles, delivered on 10 December 2012, the first jack up rig in 20 years at the "Krasnye Barrikady" Shipyard in Astrakhan, Russia for Caspian Sea operation. With the rig completed and delivered, we expect this to be the first of many TSC jack up rig contracts in the Russian market. This Caspian Sea delivery is in addition to the planned delivery of two additional CIMC Raffles rigs in 2013. By then, we will have completed and delivered six (6) total turnkey drilling packages for CIMC Raffles. Confirmed by the above, our core underlying business remains strong.

A key TSC development in 2012 was a strategic cooperation agreement among TSC, Zentech, and CSSC Guangzhou Huangpu Shipbuilding Co. of China. The cooperative agreement, signed on 3 December 2012, will primarily focus on delivering the R-550D jack up rig.

6. Appreciation

We will face challenges with increasing cost, inflationary pressures, achieving efficiency in a diverse operational environment, and strong competition. Most importantly, we recognize the need to manage our balance sheet to more effectively monetize our working capital to improve liquidity. We have challenges ahead and do recognize the risks associated with our strategies, but we are prepared and determined to effectively manage and transform these into shareholder opportunities. We acknowledge the need to rise beyond the norm and meet our future challenges and in this we appreciate the support we have from our customers, our staff, our business partners, and our shareholders.

We firmly believe TSC is positioned for immense growth and future success. Building on the outstanding performance in 2012, the Company remains well situated to capitalize on the ample opportunities available. We are committed to our goals and values, which offers your company a distinctive competitive advantage to eventually become a great company.

Jiang Bing Hua
Executive Chairman

Zhang Menggui
Chief Executive Officer

Hong Kong, 27 March 2013

Corporate Vision

To become a World Class Offshore Solutions Provider, by Catering to Client's Needs through

COMMITMENT, EXCELLENCE, ADAPTABILITY & LOYALTY.

Management Discussion and Analysis

Overview

TSC is a global product and service provider serving the worldwide offshore and land drilling rig industries. The Company's principal activities remained unchanged in 2012.

The Company is structured as a matrix organization; business units and functions are managed within four Regions. Organized as business units, TSC's three primary product segments are Capital Equipment and Packages, MRO Supplies and Engineering Services.

The Capital Equipment and Packages segment includes land rig and offshore rig design, manufacturing, installation and commissioning. TSC's products are highly engineered automated equipment used in drilling and rig operations, as well as oil and gas land and offshore exploration and production units. These products provide automated mechanical handling, solids control, power control and drives, jacking systems and racks, tensioning and compensation equipment and operating systems for various offshore drilling rigs, well completion, well intervention and workover vessels.

The MRO Supplies segment encompasses oil field expendables and spares manufacturing and sales.

The Engineering Services segment comprises a comprehensive range of TSC product engineering and maintenance services, as well as equipment manufactured by others.

Two principle rig activity drivers are (i) new discoveries and (ii) oil and gas prices. Both factors influence the worldwide oil and gas industry business activity level and have an impact on our business. TSC has placed significant emphasis on the rapidly increasing importance of unconventional shale oil and gas exploration and production. The Company possesses key competencies from its extensive experience operating within the stringent requirements of the offshore rig environment. These competencies provide key strategic advantages for the Company to establish itself in the fast-growing sector of unconventional exploration and production of shale oil and gas.

2012 oil prices averaged approximately US$116 per barrel compared to the previous 2011 year average of US$100 per barrel. The favourable outlook and rapid unconventional shale oil and gas exploration and production development activities have a positive influence on our business.

The Company's key strength includes its capability to utilize innovative technology to design and manufacture a comprehensive range of products. TSC employs an extensive range of experienced expertise which enables TSC to meet industry requirements. TSC's matrix organization structure promotes expertise integration to provide customers high value solutions, safe and high quality products, and services at cost effective rates. These strengths empower the Company to pursue innovative strategies leveraging towards high future growth as oil price sustains above US$80 per barrel, noted as the long term sustainable base price.

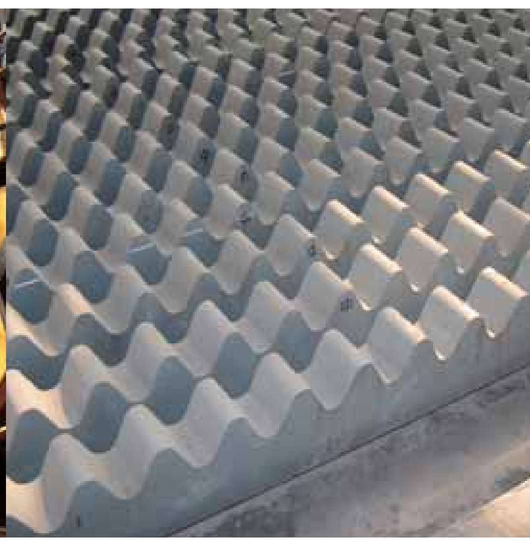
Financial Review

Turnover

	31-Dec-12 US$000	31-Dec-11 US$000	Change US$000	%
Turnover	**183,742**	139,496	44,246	31.7%
Gross profits	**62,679**	53,075	9,604	18.1%
	34.1%	38.0%		
Profit from Operations	**13,898**	7,962	5,936	74.6%
	7.6%	5.7%		
Profit for the year	**8,180**	4,031	4,149	102.9%
Earnings per Share (Basic)	**US 1.09 cent**	US 0.51 cent		
Earnings per Share (Diluted)	**US 1.09 cent**	US 0.50 cent		

Turnover for the Group in year 2012 increased 31.7% to US$183.7 million from US$139.5 million in year 2011. The increase in turnover came mainly from the Capital Equipment and Packages segment with good progress made on integrated solutions projects and rig electrical control systems. Revenue from rig electrical control systems increased 89% this year 2012 compared to year 2011. In year 2012, rig turnkey solutions revenue also increased 88% over year 2011.

The profit for the year achieved for year 2012 was US$8.2 million, an increase of 102.9% over the US$4.0 million achieved for year 2011.



Management Discussion and Analysis

Segment Information by business segments

	31-Dec-12 US$'000	%	31-Dec-11 US$'000	%	Increase/ (Decrease) US$'000
Capital Equipment and Packages	**131,744**	**71.7**	89,162	63.9	42,582
Oilfield Expendables and Supplies	**31,289**	**17.0**	27,033	19.4	4,256
Engineering services	**20,709**	**11.3**	23,301	16.7	(2,592)
	183,742	**100.0**	139,496	100.0	44,246

Capital Equipment and Packages

Capital Equipment and Packages revenue increased 47.8% over the previous year 2011 and contributed to 96.2% of the increase in the turnover. Several projects reached manufacturing and testing phases during the year resulting in recognizing a higher level of revenue from projects during year 2012. The company has so far completed 4 turnkey drilling packages with the latest delivery in December 2012 in the Caspian Sea and is in the process of completing further 2 units in the current year 2013.

Oilfield Expendables and Supplies

Oilfield Expendables and Supplies revenue increased 15.7% over the previous year 2011 and contributed to 9.6% of the increase in turnover in year 2012. The two new distribution centers set up in year 2011 in the United States were already profitable in year 2012 and the presence in high growth areas will provide higher growth rates in subsequent years.

Engineering Services

The negative growth in Engineering Services in year 2012 was mainly due to the weakening of the Brazilian Real from an average of R$1.66 to US$1.00 in 2011 to R$1.95 to US$1.00 in year 2012. The decrease was also due to engineering services for several projects completed in year 2011 which did not carry forward to year 2012.

Segment Information by Geographical Regions

Geographical Segments	31-Dec-12 US$'000	%	31-Dec-11 US$'000	%	Increase/ (Decrease) US$'000
Mainland China	**68,888**	**37.5**	48,436	34.7	20,452
North America	**24,257**	**13.2**	31,736	22.8	(7,479)
South America	**13,598**	**7.4**	12,984	9.3	614
Europe	**16,066**	**8.7**	16,028	11.5	38
Singapore	**53,870**	**29.3**	23,341	16.7	30,529
Others	**7,063**	**3.9**	6,971	5.0	92
Total	**183,742**	**100.0**	139,496	100.0	44,246

The increase in turnover in Mainland China in the year 2012 was due to a combination of higher rig building activities in shipyards in China in the year 2012 compared to the previous year 2011 and progress made in completion of execution of projects. The increase in turnover in Singapore was mainly due to the completion of Integrated Solutions contracts signed with a customer in Singapore. The decrease in turnover in the North America region was due to the completion of projects in the North America region.

Gross Profit and Gross Profit Margins

Gross Profit for the year 2012 increased to US$62.7 million compared to US$53.1 million in the previous year 2011, however, gross profit margin decreased from 38.0% in the previous year 2011 to 34.1% in the year 2012 mainly due to higher staff cost and increase in project related engineering costs.

Other Revenue

The decrease in Other Revenue from US$2.3 million in the previous year 2011 to US$1.3 million was mainly due to the reversal of impairment losses on doubtful debts by US$1 million in year 2011. There was no such reversal in year 2012.

Operating Expense and Profit Attributable to Equity Holders of the Company

General and Administrative Expenses

General and Administration expenses increased slightly in the year 2012 to US$37.5 million compared to US$35.6 million in the year 2011. The increase came mainly from increased number of staff and related staff cost and travelling expenses. However, as a percentage of turnover, the level of General and Administrative expenses in year 2012 improved to a level of 20.4% of turnover compared to 25.5% in the previous year 2011. General and Administrative expenses included costs incurred in developing strategic alliances in emerging markets which will come to fruition to provide a broader revenue base in future.

Selling and Distribution Expenses

Selling and Distribution expense increased 28.1% by US$1.8 million from US$6.7 million in year 2011 to US$8.5 million in year 2012. The Company provides extensive technical and marketing support to key customers to execute its marketing strategies in emerging markets. This involved extensive domestic and overseas travelling and development of sales strategies with our strategic alliance partners.

Other Operating Expenses

Other Operating Expenses decreased from US$5.1 million in year 2011 to US$4.1 million in year 2012 mainly due to the decrease of loss on fair value change in foreign exchange contracts by US$0.8 million.

Finance Costs

Finance Costs, primarily interest on bank loans, amounted to approximately US$2.3 million compared to US$1.7 million in the previous year for the Group. The increase was due to a higher level of bank borrowings from US$25.5 million at end year 2011 to US$32.1 million at end year 2012 and slight increase in bank interest rates.

Group's Liquidity and Capital Resources

As at 31 December 2012, the Group had intangible assets of approximately US$38.3 million (31 December 2011 – US$39.9 million). As at 31 December 2012, the Group carried fixed assets of approximately US$43.1 million (31 December 2011 – US$41.1 million) consisting of property, plant and equipment and interest in leasehold land held for own use under operating leases.

As at 31 December 2012, the Group had interest in associates and deferred tax assets of approximately US$1.1 million (2011 – US$2.2 million) and approximately US$10.9 million (2011 – US$10.9 million) respectively and non-current portion of prepayments of approximately US$1.8 million (2011 – US$0.07 million).

Management Discussion and Analysis

As at 31 December 2012, the Group had current assets of approximately US$216.7 million (2011 – US$171.2 million). Current assets mainly comprised cash and bank balances of approximately US$31.0 million (2011 – US$34.1 million), and pledged bank deposits of approximately US$3.4 million (2011 – US$1.3 million), inventories of approximately US$48.8 million (2011 – US$39.6 million), trade and other receivables of approximately US$85.8 million (2011 – US$79.5 million) and amount due from a related company of approximately US$0.1 million (2011 – US$0.1 million), gross amount due from customers for contract work of approximately US$47.6 million (2011 – US$16.5 million) and an amount due from director of approximately US$0.1 million (2011 – US$nil).

As at 31 December 2012, current liabilities amounted to approximately US$122.1 million (2011 – US$85.2 million), mainly comprising trade and other payables of approximately US$86.6 million (2011 – US$58.7 million), bank loans of approximately US$28.4 million (2011 – US$20.5 million), current tax payables of approximately US$5.6 million (2011 – US$4.2 million) and provision of contract loss of approximately US$1.5 million (2011 – US$1.8 million).

As at 31 December 2012, the Group had non-current liabilities of approximately US$4.7 million (2011 – US$6.3 million), comprising bank loans of approximately US$3.7 million (2011 – US$4.9 million) and deferred tax liabilities of approximately US$1.0 million (2011 – US$1.3 million). Gearing ratio, being the Group's total liabilities to equity shareholders' funds as at 31 December 2012 was 71%, as compared to 55% as at December 2011.

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 2012, there were 681,892,204 shares in issue (the "Shares") and the Company carried a share capital of approximately US$8,770,000.

During the Year, the Company issued 890,000 shares to option holders who exercised their options under the Company employee share option schemes. At 31 December 2012, the Company had 682,782,204 Shares in issue, and a paid up capital of approximately US$8,781,000.

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, inventories and trade receivables with aggregate net book value of US$46.7 million (2011: US$56.0 million).

(ii) Corporate guarantees given by TSCOE, HHCT, TSC China and TSC (Qingdao) to the extent of banking facilities outstanding of US$6.6 million as at 31 December 2012 (2011: US$8.4 million).

(iii) Guarantees given by the directors of the Company (the "Director") to the extent of banking facilities outstanding of US$5.4 million as at 31 December 2012 (2011: US$4.9 million).

Certain bank loans of the Group are subject to the fulfilment of covenants relating to certain of the subsidiaries' statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. The drawn down loan balances would become payable on demand if the covenants were breached. The Group regularly monitors its compliance with these covenants. As at 31 December 2012, none of the covenants relating to the Group's bank loans has been breached.

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 Renminbi while approximately 50% of the Group's turnover was denominated in United States dollars. As at 31 December 2012, no related hedges were made by the Group.

In order to mitigate that foreign exchange exposure, we may utilize foreign currency forward contracts to better match the currency of our revenues and associated costs in the future. However, we do not use foreign currency forward contracts 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 April 2012, the Group conducted the following continuing connected transactions with connected parties of the Company, namely CIMC Raffles.

On 11 May 2012, China International Marine Containers (Group) Company Limited ("CIMC Group") and China International Marine Containers (Hong Kong) Limited ("CIMC HK") (a wholly-owned subsidiary of CIMC Group) owned approximately 88.58% of CIMC Raffles through their wholly-owned subsidiary, CIMC Offshore Holdings Limited. CIMC Group, through CIMC HK, owned and had control over the voting right of 92,800,000 Shares, representing approximately 13.60% of the issued share capital of the Company. As at the date of this report, CIMC HK is the beneficial owner of 92,800,000 Shares, representing approximately 13.60% of the issued share capital of the Company. CIMC HK is a wholly-owned subsidiary of CIMC Group. Therefore, CIMC Group is deemed to be interested in the 92,800,000 Shares of the Company held by CIMC HK.

The Supply of Drilling Packages and Electrical Power Packages

Category of transaction	Continuing Connected Transactions
Transaction Date	24 April 2012
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 three years ending 31 December 2014.
Contract Values and Other Details	The annual caps under the master agreement for three years ending 31 December 2014 are approximately US$200 million each year.
Detailed announcement and shareholder approval	Details of the transaction were announced on 24 April 2012 which were published on the websites of the Stock Exchange and the Company. The master agreement was approved by independent shareholders at the extraordinary general meeting held on 4 June 2012.

Management Discussion and Analysis

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 4 June 2012. The abovementioned contracts cover the supply of drilling packages, electrical power packages and a submersible pump with a total contract value of approximately US$2 million, which is within the cap of US$200 million for the year ended 31 December 2012 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$53.3 million for the year ended 31 December 2012.

Employees and Remuneration Policy

As at 31 December 2012, the Group had approximately 1,386 full-time staff in the 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.

Business and Market Review

Based on a recent Credit Suisse report entitled 'The Shale Revolution', the current China natural gas and petroleum supply and demand trends could result in China becoming the world's largest oil importer, with import potential of 10 million barrels per day by 2020. The report mentions the importance for China, for both energy demand and environmental reasons, to expedite local production capacity and reduce imports. The United States is experiencing an oil and natural gas exploration boom. Oil and natural gas well exploration expenditure accounts for 9% of total business fixed investment, a growth of four times from the 1990s and is approximately 17% of the growth in real business fixed investment since 2009. Although the report does not suggest the energy sector would transform the US economy any time soon, it is important to recognize the potential from the growth in expenditure on oil and gas exploration and production.

TSC, along with strategic alliance partners, has developed strong working relationships in emerging countries such as Brazil, Mexico, Argentina, Venezuela, Colombia and Russia, which are rapidly increasing capital expenditure to increase oil production.

At the end of year 2012, the worldwide jack up rig count was 388 (Source: Rigzone). By year 2015, 117 of these rigs will be over 35 years old. Increasing stringent regulatory requirements to meet higher safety and environmental standards, as well as improved operational efficiency and capability to drill in deeper water and drilling depths, will result in a growing demand for new generation jack-up rigs. Recent years indicate China shipyards have rapidly progressed in the jack up rig construction segment and it is believed that this trend will continue, leading to additional jack up rig construction in shipyards in China. Developed alliances provide TSC a competitive advantage for jack up rig construction in the near future. Our proximity to shipyards in China and our track record of previous packages delivered are significant TSC competitive advantages.

The Company's pressure pumps product range sanctions a wide range of applications, including, but not limited to, the hydraulic fracturing process for shale gas production. The hydraulic fracturing process for shale gas production is one of the largest direct beneficiaries in oil and gas capital expenditure.

All the above background information provides the basis for our business strategies and activities primary focus.

Future Plans for Material Investments, Capital Assets and Capital Commitment

Expansion intentions for 2013 include two additional Texas locations and one international Mexico location. The additional locations will meet the growing expendable products and MRO supplies demand within these regions. The leased facilities will have sufficient stock and supplies enabling immediate customer request and assistance response.

The company is in the process of acquiring a piece of industrial land of measuring approximately 24.7 acres located in Qingdao, China at a price to be determined by the Bureau of Land Resources. Should the acquisition be successful we intend to consolidate manufacturing facilities that we have in Zhengzhou and Dalian to one location in Qingdao. This will increase manufacturing efficiency and reduce manufacturing overheads.

The company intends to continue research and development efforts enhancing its competitive advantage, including, but not limited to, the following products:

- Jacking systems for harsh environment deepwater jack up rigs
- R-550 D400 feet Zentech design jack up project integration and rig equipment development
- Electric PLC (Programmable Logic Control) zone management software
- Fast-Moving Land Rigs for shale oil and gas exploration and production
- Further shale oil and gas MRO Supplies products research and development

Strategy, Prospects and Order Book

Strategies

Our vision is designed to develop TSC into an energy industry world class solutions provider. We intend to achieve this by driving business growth through creating value to our customers, shareholders, employees and stakeholders. TSC adopts a 3-tier business strategy, which can be visualized as a pyramid. The pyramid base is the 'cash cow' businesses encompassing MRO Supplies, Engineering Services (including repair, engineering, training, installation and commissioning), Rack Cutting, Solids Control and other developed equipment range. The pyramid mid-section consists of 'revenue boosters' and comprises a wide of range product sales such as Deck Cranes, Mechanical Handling, Mud Pumps, Jacking Systems, Jack-up Rack and Chord, Electric Controls and Drives. The pyramid top section is the 'growth engine', where TSC tailors and packages a range of products as an 'Integrated Solution'. We meet specific customer needs by leveraging and combining TSC's broad product range, engineering capability, project execution, and financial partnerships as an integrated product offering.

The 3-tier business strategy is complemented by marketing and operational strategies. As a whole, these serve to meet TSC's vision and transformation into a formidable global oil and gas service and equipment industry company. We also adopt a Customer-Driven, Service-Driven, and Solution-Driven "3D" approach. This approach enables us to achieve desirable market penetration as well as deliver on-time, quality, within budget products and services.

Management Discussion and Analysis

Prospects

During the year 2012, numerous significant strategy milestones were achieved. Primarily, TSC completed and delivered the fourth jack up drilling package to CIMC raffles on 10 December 2012. Successful completion and delivery further cements the maturity process and strengthens TSC's track record and reputation to provide turnkey drilling packages. Two additional drilling packages are scheduled for completion within 2013. TSC will continue to develop its strategic alliance expectations with CIMC Raffles to position the Company to carry out similar package and equipment development in the future.

On 3 December 2012, the Company entered into a jack up drilling rig strategic cooperation framework agreement with CSSC Guangzhou Huangpu Shipbuilding Co., Limited ("CSSC Huangpu") and Zentech Incorporated ("Zentech"), pursuant to which the Company is responsible for supplying drilling-related equipment, commissioning and after-sale services. Zentech is responsible for design and CSSC Huangpu is responsible for rig construction. This strategic cooperation will jointly develop the next generation jack up drilling rig, bringing an affordable and technologically advanced alternative to today and tomorrow's jack up market.

The company placed significant emphasis on the rapidly increasing importance of unconventional shale oil and gas exploration and production requirements. The demand for cost effective solutions for unconventional drilling technology will grow significantly in North America, Central America, South America, China and other countries where significant new gas reserves are discovered. TSC's offshore rig operating environment background and key competencies provide fundamental strategic advantages to establish itself in the fast growing unconventional shale gas exploration and production sector. The Company is in the position to capitalize on our capability in this sector.

Order Book

As at 31 December 2012, the Group as a whole carried an order backlog of approximately US$68.2 million for rig product technology, rig turnkey solutions and expendables. Subsequent to 31 December 2012, the Group has secured further new orders amounting to US$27.3 million up to the date of this report.

Subsequent Events

Save as disclosed in this report, no subsequent events occurred after 31 December 2012 which may have significant effects on the assets and liabilities of future operations of the Group.

Profiles of Directors and Senior Management

Executive Directors

JIANG Bing Hua, *Executive Chairman*

Mr. JIANG Bing Hua, aged 62, 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's degree in offshore structure engineering from the Tianjin University (天津大學) in the PRC in 1980 and acquired his master's degree in business administration from the University of Dallas in the U.S.A. in 1993. Mr. Jiang has 39 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.

ZHANG Menggui, *Chief Executive Officer*

Mr. ZHANG Menggui, aged 54, 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's degree majoring in drilling engineering from the China University of Petroleum (中國石油大學) in 1982 and acquired his master's degree in petroleum engineering from the University of Alaska-Fairbanks in the U.S.A. in 1989 and he received an executive master's in business administration ("EMBA") from China Europe International Business School in 2012. Mr. Zhang has 30 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. ("TSC M&S"), a subsidiary of the Group.

Profiles of Directors and Senior Management

Non-Executive Directors

JIANG Longsheng, *Non-Executive Director*

Mr. JIANG Longsheng, aged 68, 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 40 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.

Brian CHANG, *Non-Executive Director*

Mr. Brian CHANG, aged 70, 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 the chairman of Brian Chang Holdings Limited, and was 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 GMC Surf, Vostok Raffles, Willow Scent Limited, Calm Oceans and Bergen Group ASA, a company listed at Oslo Stock Exchange with ticker BERGEN.

YU Yuqun, *Non-Executive Director*

Mr. YU Yuqun, aged 47, 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. He is also the non-executive director of Pteris Global Limited, whose shares are listed on Singapore Stock Exchange with stock code 574.

Independent Non-Executive Directors

Mr. CHAN Ngai Sang Kenny, aged 48, is an independent non-executive 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 has served as president of the Association of International Accountants Hong Kong Branch. He also served as the District Governor of Lions Clubs International District 303 – Hong Kong & Macao, China in 2009/2010. In addition, Mr. Chan also serves on several tribunals of the HKSAR Government which includes The Mandatory Provident Fund Schemes Appeal Board, The Solicitors Disciplinary Tribunal Panel and the Fight Crime Committee of Tsuen Wan District. Mr. Chan is an independent non-executive director of Combest Holdings Limited,a company listed on the GEM of the Stock Exchange.

CHAN Ngai Sang Kenny, *Independent Non-Executive Director*

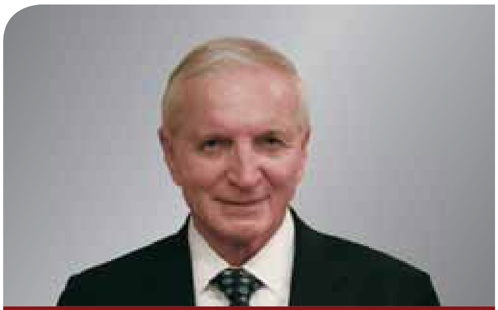
Mr. BIAN Junjiang, aged 70, is an independent non-executive Director since October 2005. Mr. Bian previously held the position of chairman of CGC Overseas Construction Company Limited and was an independent director of CITIC Securities Co., Ltd. He has many years of working experience in accounting and economic analysis in petroleum organisations.

BIAN Junjiang, *Independent Non-Executive Director*

Mr. GUAN Zhichuan, aged 54, is an independent non-executive Director since October 2005. Mr. Guan obtained a doctorate degree 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).

GUAN Zhichuan, *Independent Non-Executive Director*

Profiles of Directors and Senior Management


Robert William FOGAL JR, *Independent Non-Executive Director*

Mr. Robert William FOGAL JR, aged 77, has been an independent non-executive Director of the Company since July 2009. Mr. Fogal has an illustrious career of successful accomplishments in the rig building business and he brings an extensive range of expertise in the oil and gas industry to TSC. He has been instrumental in the sale and construction of over 100 drilling rigs and vessels. He started as an engineer with the Levingston Shipyard in Orange, Texas in the mid-1950s and has since held key executive positions with Baker Marine Corporation (BMC), Texas Dry Dock (TDI-Halter Marine), Friede and Goldman (F&G), Yantai Raffles, and Jackup Structures Alliance. He was a founder member of the Far East Levingston Shipyard (FELS), which is now Keppel FELS, the largest rig builder in the world. Mr. Fogal has a degree in mechanical engineering from the Lamar University in Beaumont, Texas. He is also a member of the International Association of Drilling Contractors (IADC), the Society of Naval Architects and Marine Engineers (SNAME) and the Marine Technical Society (MTS). Mr. Fogal also serves as director of business development for Zentech, Inc.

Senior Management


ZHANG Menggui, *Chief Executive Officer*

Mr. ZHANG Menggui, aged 54, 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's degree majoring in drilling engineering from the China University of Petroleum (中國石油大學) in 1982 and acquired his master's degree in petroleum engineering from the University of Alaska-Fairbanks in the U.S.A. in 1989 and he received an EMBA from China Europe International Business School in 2012. Mr. Zhang has 30 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 TSC M&S, a subsidiary of the Group.


WANG Yong, *Chief Operations Officer*

Mr. WANG Yong, aged 51, joined TSC in April 2012 as the senior vice president and Group chief operations officer. Prior to joining TSC, he was the general manager for Weatherford International China. In the past 14 years with Weatherford International, he held several managerial roles including global business alignment manager and business development manager. He started his career in the oil industry as a drilling engineer for CNPC after graduating from the China Petroleum University in 1982. He also spent 5 years in the China Petroleum University teaching drilling engineering courses before completing his first master's degree in petroleum engineering from the Louisiana State University in 1993. He also holds an EMBA from the China Europe International Business School.

Mr. LIM Joo Heng, Paul, aged 57, is the chief financial officer and a vice president of the Group. He is responsible for financial management of the Group. 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 27 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.

LIM Joo Heng Paul, *Chief Financial Officer*

Dr. SUN Yuanhui, aged 56, is the chief technology officer, president of TSC Offshore Engineering and Research Institute and Group vice president in charge of Engineering. Dr. Sun has over 22 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's 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.

SUN Yuanhui, *Chief Technology Officer*

Mr. Robert Stuart SHINFIELD, aged 42, is the regional manager for region 3 ("R03"). Mr. Shinfield joined the Group 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 18 years experience in the oil and gas industry and held various technical and management positions with NOV.

Robert Stuart SHINFIELD, *Regional Manager – R03*

Profiles of Directors and Senior Management

CHEN Yunqiang, *Managing Director – TSC China*

Mr. CHEN Yunqiang, aged 47, is the Group vice president and the managing director of TSC Offshore China Limited ("TSC China"), 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.

ZHANG Mengzhen, *President – TSC M&S*

Mr. ZHANG Mengzhen, aged 46, is the Group vice president and the president of TSC M&S, he is overall management of the Group's oilfield supply division and TSC M&S. Mr. Zhang graduated from Xi'an Institute of Metallurgy & Construction Engineering (西安冶金建築學院) in 1989, he received a master's degree from Tulane University in master of business administration in 2012. Previously, Mr. Zhang worked as engineer for Emer International for three years and then joined TSC M&S as vice president on 20 August 2002. He is the younger brother of Mr. Zhang Menggui, an executive Director.

Charles SMITH, *Regional Manager – R01*

Mr. Charles SMITH, aged 39, is the regional manager for region 1 ("R01"). Mr. Smith joined TSC in February 2011 as vice president, project management of TSC Offshore Corp ("TSC Corp"). Mr. Smith has over 16 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.

Results and Dividends

The Group's profit for the year ended 31 December 2012 is set out in the financial statements on pages 55 to 62.

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 2012, are extracted from the audited financial statements of the relevant annual reports of the Company, and are set out on page 132. 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 29(b) to the financial statements. Details of the Company's share option schemes are set out in note 28 to the financial statements.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association ("Articles") 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 29(a) to the financial statements and in the consolidated statement of changes in equity on page 60, 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 2012 (2011: Nil), as computed in accordance with the Companies Law of the Cayman Islands. The details are set in note 29(a) to the financial statements. The Company's share premium account, with a balance of approximately US$120,120,000 (2011: US$120,043,000), may be distributed in the form of fully paid bonus Shares.

Report of the Directors

Major Customers and Suppliers

In the Year under review, sales to the Group's five largest customers accounted for approximately 49% of the Group's total sales for the Year and sales to the largest customer included therein accounted for approximately 30% of the Group's total sales.

In the Year under review, the sales to CIMC Raffles Group amounted to US$55 million, accounting for approximately 30% of the total sales of the Group.

Purchases from the Group's five largest suppliers accounted for approximately 13.1% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 2.9% of the Group's total purchases.

Save as disclosed under the paragraph headed "RELATED PARTY TRANSACTIONS" and note 32(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.

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

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. Brian Chang, Mr. Guan Zhichuan and Mr. Robert William Fogal Jr. 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, (the "Company Secretary") 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 and expiring on 9 July 2012, renewable automatically for successive terms of three years from 10 July 2012 unless terminated by giving either party to the other not less than three months' prior written notice, but he is subject to the retirement by rotation and re-election in accordance with the Articles.

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 and 1 May 2012 respectively unless terminated by giving either party to the other not less than three months' prior written notice. Mr. Brian Chang has entered into a letter of appointment with the Company for a term of three years commencing from 10 July 2009 and expiring on 9 July 2012, renewable automatically for successive terms of three years from 10 July 2012 unless terminated by giving either party to the other not less than three months' prior written notice, but he is subject to the retirement by rotation and re-election in accordance with the Articles. Mr. Yu Yuqun has entered into a letter of appointment with the Company for a term of three years commencing from 15 March 2011 subject to the retirement by rotation and 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.

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.

Report of the Directors

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.

Pre-IPO Scheme and Post-IPO Scheme

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 2012.

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 24,682,000 share options remain valid and outstanding as at 31 December 2012.

New Scheme

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, (iii) 2,400,000 share options at HK$1.97 each to 2 employees of the Group on 21 February 2011, and (iv) 10,780,000 share options at HK$1.02 each to 18 employees of the Group on 4 September 2012. 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, 21 February 2011 and 4 September 2012 under the New Scheme were HK$18,701,000, HK$4,602,100, HK$1,973,100 and HK$6,934,500 respectively. The closing price of the Company's Shares on the preceding option granted on 17 September 2009, 31 August 2010, 18 February 2011 and 3 September 2012 under the New Scheme were HK$1.85, HK$1.23, HK$1.92 and HK$1.01 respectively. Pursuant to the New Scheme, options previously granted but unexercised under the New Scheme will remain valid and exercisable in accordance with their terms of issue, of which a total of 37,450,000 share options remain valid and outstanding as at 31 December 2012. 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 13,709,040 Shares, representing 2% 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 2012 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 01.01.2012**	**Exercised during the period** (Note 4)	**Cancelled during the period** (Note 4)	**Lapsed during the period** (Note 4)	**Balance as at 31.12.2012**
Employees	19.10.2005	29.11.2005 to 18.10.2015	0.2383	432,000	–	–	–	432,000
Total				432,000	–	–	–	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 2012.

Report of the Directors

Share Option Schemes *(Continued)*

Details of movement of options under the Post-IPO Scheme including the Refreshment for the twelve months ended 31 December 2012 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 01.01.2012	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 31.12.2012
(i)	Employees	10.05.2007	10.11.2007 to 09.05.2017	2.43	5,582,000	–	–	–	–	5,582,000
	Sub-total				5,582,000	–	–	–	–	5,582,000
(ii)	Employees	12.11.2007	12.05.2008 to 11.11.2017	5.60	7,760,000	–	–	–	(720,000)	7,040,000
	Consultants	12.11.2007	12.05.2008 to 11.11.2017	5.60	200,000	–	–	–	–	200,000
	Sub-total				7,960,000	–	–	–	(720,000)	7,240,000
(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	600,000	–	–	–	–	600,000
	Mr. Jiang Bing Hua	29.12.2008	29.06.2009 to 28.12.2018	0.54	600,000	–	–	–	–	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	180,000	–	–	–	–	180,000
					2,630,000	–	–	–	–	2,630,000
	Employees and other	29.12.2008	29.06.2009 to 28.12.2018	0.54	6,640,000	–	(890,000)	–	(220,000)	5,530,000
	Sub-total				9,270,000	–	(890,000)	–	(220,000)	8,160,000
Total					26,512,000	–	(890,000)	–	(940,000)	24,682,000

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 2012.

Details of movement of options under the New Scheme for the twelve months ended 31 December 2012 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 01.01.2012	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 31.12.2012
(i)	Employees	18.09.2009	18.03.2010 to 17.09.2019	2.06	16,950,000	–	–	–	(450,000)	16,500,000
(ii)	Employees	01.09.2010	01.03.2011 to 31.08.2020	1.27	7,770,000	–	–	–	–	7,770,000
(iii)	Employees	21.02.2011	21.08.2011 to 20.02.2021	1.97	2,400,000	–	–	–	–	2,400,000
(iv)	Employees	04.09.2012	04.03.2013 to 03.09.2022	1.02	–	10,780,000	–	–	–	10,780,000
Total					27,120,000	10,780,000	–	–	(450,000)	37,450,000

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 2012.

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.

Report of the Directors

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

As at 31 December 2012, 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 Listed Issuers (the "Model Code"), were as follows:

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

	Number of issued ordinary Shares of HK$0.10 each in the Company						
Name of Directors	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	16.33%
Mr. Jiang Bing Hua (Note 1)	4,056,000	–	106,871,200	–	110,927,200	600,000	16.33%
Mr. Jiang Longsheng	–	–	–	–	–	400,000	0.06%
Mr. Brian Chang (Note 2)	–	–	66,072,800	–	66,072,800	–	9.68%
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 66,072,800 Shares through Windmere International Limited which is his wholly-owned company. Accordingly, he is deemed to be interested in the Shares held by 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 2012, 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.

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 2012, 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	16.33%
Madam Zhang Jiuli (Note 2)	Interest of the spouse	110,927,200 Shares and 600,000 share options	16.33%
Global Energy Investors, LLC. (Note 3)	Corporate	106,871,200 Shares	15.65%
Windmere International Limited (Note 4)	Corporate	66,072,800 Shares	9.68%
China International Marine Corporate Containers (Group) Co., Ltd. (Note 5)	Corporate	92,800,000 Shares	13.59%
China International Marine Corporate Containers (Hong Kong) Ltd. (Note 5)	Corporate	92,800,000 Shares	13.59%
Harmony Master Fund (Note 6)	Corporate	47,904,800 Shares	7.02%

Report of the Directors

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 66,072,800 Shares through Windmere International Limited which is his wholly-owned company. 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 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.

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

(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 2012, 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 32 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 April 2012, the Group conducted the following continuing connected transactions with connected parties of the Company, namely CIMC Raffles.

On 11 May 2012, China International Marine Containers (Group) Company Limited ("CIMC Group") and China International Marine Containers (Hong Kong) Limited ("CIMC HK") (a wholly-owned subsidiary of CIMC Group) owned approximately 88.58% of CIMC Raffles through their wholly-owned subsidiary, CIMC Offshore Holdings Limited. CIMC Group, through CIMC HK, owned and had control over the voting right of 92,800,000 Shares, representing approximately 13.60% of the issued share capital of the Company. As at the date of this report, CIMC HK is the beneficial owner of 92,800,000 Shares. CIMC HK is a wholly-owned subsidiary of CIMC Group. Therefore, CIMC Group is deemed to be interested in the 92,800,000 Shares of the Company held by CIMC HK.

Report of the Directors

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

The Supply of Drilling Packages and Electrical Power Packages

Category of transaction	Continuing Connected Transactions
Transaction Date	24 April 2012
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 three years ended 31 December 2014.
Contract Values and Other Details	The annual caps under the master agreement for three years ended 31 December 2014 are approximately US$200 million each year.
Detailed announcement and shareholder approval	Details of the transaction were announced on 24 April 2012 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 4 June 2012.

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 4 June 2012. The abovementioned contracts cover the supply of drilling packages, electrical power packages and a submersible pump with a total contract value of approximately US$2 million, which is within the cap of US$200 million for the year ended 31 December 2012 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$53.3 million for the year ended 31 December 2012.

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 Group:

- 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 Supply of Drilling Packages and Electrical Power Packages *(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 2012.

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 44 to 52 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, 27 March 2013

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 Group'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

For the year ended 31 December 2012, the Board is of the view that, for the period from 1 January 2012 to 31 March 2012, the Company has complied with the code provisions on the Code on Corporate Governance Practices (the "Old Code") set out in Appendix 14 to the Listing Rules and for the period from 1 April 2012 till 31 December 2012, the Company has complied with the code provisions included in the amendments made to the Old Code which took effect since 1 April 2012 (the "Code"), save for the deviations which are explained below.

Code A.6.7

Where one executive Director, three independent non-executive Directors and three non-executive Directors were absent from the last annual general meeting and extraordinary general meeting of the Company both held on 4 June 2012 as they were away from Hong Kong due to other important engagements at the time of those meetings.

The Model Code

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors of the Company. Having made specific enquiry, the Company confirms that the Directors complied with the required standard set out in the Model Code for 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.

During the year ended 31 December 2012, the Board had complied at all times met with the requirement of the Listing Rules that at least three independent non-executive Directors sit on the Board (more than one third of the Board members) and at least one of them has appropriate professional accounting or related financial management expertise. To the knowledge of the Directors, the Board members have no financial, business, families or other material relationships with each other.

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. Brian Chang, Mr. Guan Zhichuan and Mr. Robert William Fogal Jr. will retire, and being eligible for election, offer themselves for re-election at the forthcoming annual general meeting to be held on 22 May 2013.

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The primary functions of the Board include:

- deciding on the overall strategies, overseeing operational and financial performance and formulating appropriate policies to manage risk exposure associated with realizing the strategies and goals of the Group;
- being held accountable for the internal control system of the Group and responsible for reviewing its effectiveness;
- being ultimately responsible for preparing financial accounts and discussing the performance, financial conditions and prospects of the Group in a balanced, clear and comprehensible manner. These responsibilities are applicable to interim and annual reports of the Company, other price sensitive announcements published according to the Listing Rules and disclosure of other financial information, reports submitted to regulatory bodies and information discloseable under statutory requirements;

Corporate Governance Report

Board of Directors *(Continued)*

- whilst executive Directors, who oversee the overall business of the Group, are responsible for the daily operations of the Group, the Board is responsible for affairs involving the overall policies, finance and shareholders of the Company, namely financial statements, dividend policy, significant changes to accounting policies, annual operating budgets, material contracts, major financing arrangements, principal investment and risk management strategy. Implementation and execution of such decisions is delegated to the management; and

- regularly reviewing its own functions and the powers conferred upon executive Directors to ensure appropriate arrangements are in place. The management is well informed of its powers and duties with clear guidelines and instructions, in particular regarding situations under which reporting to the Board is necessary and matters that require the approval of the Board before any decisions or commitments can be made on behalf of the Company.

Members of the Board held a total of five 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) approval of annual results of 2011; (ii) continuing connected transaction with CIMC Raffles; (iii) restructuring of the Group; (iv) approval of interim results of 2012 and (v) regular meeting on key activities and business strategies of the Group.

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.

For the year ended 31 December 2012, the executive chairman of the Company held a meeting with the non-executive Directors (including the independent non-executive Directors) without the presence of the executive Director.

Directors' Continuous Training and Development

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution into the Board remains informed and relevant. The Group continuously updates the Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. Circulars or guidance notes are issued to Directors and senior management where appropriate, to ensure awareness of best corporate governance practices.

During the Year, the Directors are committed to complying with the Code A6.5 which came into effect on 1 April 2012 on Directors' training. On 22 October 2012, the Company organised one formal training session in Beijing conducted by KPMG for the Directors and senior management of the Company. The training session covered topics including the disclosure of price sensitive information, the new Corporate Governance Code, taxation and sustainability reporting. Some Directors have attended the session; others have participated in continuous professional development and provided a record of training they received for the Year to the Company.

Board of Directors *(Continued)*

A summary of training received by the Directors since 1 April 2012 up to 31 December 2012 is as follows:

Name of Directors	Type of Trainings
Executive Directors:	
Mr. Jiang Bing Hua *(Executive Chairman)*	A,B
Mr. Zhang Menggui *(Chief Executive Officer)*	A,B
Non-executive Directors:	
Mr. Jiang Longsheng	A,B
Mr. Brian Chang	B
Mr. Yu Yuqun	A,B
Independent non-executive Directors:	
Mr. Chan Ngai Sang, Kenny	A,B
Mr. Bian Junjiang	B
Mr. Guan Zhichuan	A,B
Mr. Robert William Fogal Jr.	B

Notes:

A: attending KPMG briefing session and/or other seminars

B: reading seminar materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements

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

	Meetings attended/held					
Name of Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	Compliance Committee	General Meetings
Executive Directors:						
Mr. Jiang Bing Hua	5/5		3/3	1/1		2/2
Mr. Zhang Menggui	4/5		3/3	0/1	2/2	0/2
Non-executive Directors:						
Mr. Jiang Longsheng	5/5					0/2
Mr. Brian Chang	2/5					0/2
Mr. Yu Yuqun	2/5					0/2
Independent non-executive Directors:						
Mr. Chan Ngai Sang, Kenny	4/5	2/2	3/3	1/1	2/2	2/2
Mr. Bian Junjiang	4/5	2/2	3/3	0/1	2/2	0/2
Mr. Guan Zhichuan	5/5	2/2	3/3	1/1	2/2	0/2
Mr. Robert William Fogal Jr.	3/5					0/2

Corporate Governance Report

Directors' insurance

The Company has arranged appropriate insurance cover in respect of the legal action against the Directors.

Company Secretary

The Company Secretary of the Company has taken no less than 15 hours of relevant professional trainings to update her skills and knowledge in 2012.

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. The remuneration committee also make recommendation to the Board on the establishment of a formal and transparent procedure for developing remuneration policy.

During the Year, three meetings of the remuneration committee were held and the remuneration committee of the Company reviewed all executive Directors' performance for the year 2011 proposed bonuses adjusted salaries and renewed the appointment letters of two non-executive Directors and one independent non-executive Director. The chairman of the remuneration committee has reported the findings and provided recommendations to the Board after the meeting.

Details of the Directors' remuneration are set out in note 7 to the consolidated financial statements. In addition, pursuant to the Code Provision B.1.5, the annual remuneration of members of the senior management by band for the year ended 31 December 2012 is set out below:

Remuneration band (US$)	Number of individual
100,000 to 200,000	1
200,001 to 300,000	4
300,001 to 400,000	1
400,001 to 500,000	0
500,001 to 600,000	1

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.

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 structure, size and composition of the Directors of the Company on a yearly basis and identified all Directors' individuals suitably qualified continually to become members of the Board of the Company and the independence of independent non-executive Directors, the chairman of the nomination committee then reported to the Board after the meeting.

The remit of the nomination committee is to assess the independence of independent non-executive Directors, identify candidates for appointment to the Board and 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 53 to 131 of this annual report.

Corporate Governance 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$525,000 (2011: US$508,000) 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 has been made. The audit committee also met the external auditor twice without the presence of the executive Directors.

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 2012, 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 in the Year.

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 general meetings 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.

Shareholders' Rights

Annual reports and interim reports offer comprehensive information to the Shareholders on operational and financial performance whereas annual general meetings provide a forum for the Shareholders to exchange views directly with the Board. The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. The executive Chairman of the Company and a member of the audit committee attended the general meetings held on 4 June 2012 to answer questions at the meetings.

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the re-election of the retiring directors.

Corporate Governance Report

Procedure for Shareholders to Convene an Extraordinary General Meeting

Pursuant to the Articles of the Company, any one or more shareholder(s) holding not less than one-tenth in amount of the issued capital of the Company carrying the right of voting at general meetings of the Company (hereinafter referred to as "the requisitionist(s)") may by written requisition to the board of directors or the Secretary of the Company, to require an extraordinary general meeting of the Company to be convened for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit, the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) of the Company.

Procedures for Putting Forward Proposals at Shareholders' Meetings

Save for the following, shareholders do not generally have a right to propose new resolutions at general meetings. Shareholders who wish to propose a resolution may request the Company to convene an extraordinary general meeting following the procedures set out in "Procedures for shareholders to convene an extraordinary general meeting" above.

Where notice of a general meeting includes the election of directors of the Company, any shareholder of the Company may propose the election of any person as a director of the Company (hereinafter referred to as the "Director") at the general meeting. Pursuant to Article 88 of the Articles of the Company, if a shareholder wishes to propose a person other than a retiring Director for election as a Director at any general meeting (including the annual general meeting), the shareholder should lodge a written notice (hereinafter referred to as the "Nomination Notice") at the registered office or the head office of the Company and the minimum length of the period during which such notice is given shall be at least seven (7) days. If the Nomination Notice is submitted after the despatch of the notice of the general meeting appointed for such election, the period for lodgment of the Nomination Notice shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting. The Nomination Notice must be accompanied by a notice signed by the person to be proposed of his willingness to be elected as a Director and such notice must also state the proposed person's biographical details as required by Rule 13.51(2) of the Listing Rules.

For purposes of the above, the following are the registered office and head office of the Company:

Registered Office:	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head Office:	Unit 910, 9/F, China Merchants Tower Shun Tak Centre 200 Connaught Road Central Hong Kong.

Investor Relations

The Company establishes different communication channels with investors to update the latest business development and financial performance including the publication of interim and annual reports, the publication and posting of notices, announcements and circulars on the Hong Kong Stock Exchange website and the Company's website in order to maintain a high level of transparency, and to ensure there is no selective disclosure of inside information.

The Board is not aware of any significant changes in the Company's constitutional documents during the year ended 31 December 2012.

Independent Auditor's Report

KPMG

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 55 to 131, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 2012 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

27 March 2013

Consolidated Income Statement

For the year ended 31 December 2012
(Expressed in United States dollars)

	Note	2012 $'000	2011 $'000
Turnover	3	**183,742**	139,496
Cost of sales		**(121,063)**	(86,421)
Gross profit		**62,679**	53,075
Other revenue and net income	4	**1,349**	2,276
Selling and distribution expenses		**(8,522)**	(6,654)
General and administrative expenses		**(37,480)**	(35,610)
Other operating expenses		**(4,128)**	(5,125)
Profit from operations		**13,898**	7,962
Finance costs	5(a)	**(2,281)**	(1,722)
Share of results of associates		**(37)**	(113)
Profit before taxation	5	**11,580**	6,127
Income tax	6(a)	**(3,400)**	(2,096)
Profit for the year		**8,180**	4,031
Attributable to:			
Equity shareholders of the Company	9	**7,471**	3,472
Non-controlling interests		**709**	559
Profit for the year		**8,180**	4,031
Earnings per share	10		
Basic		**1.09 cent**	0.51 cent
Diluted		**1.09 cent**	0.50 cent

The notes on pages 63 to 131 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012
(Expressed in United States dollars)

	2012 $'000	2011 $'000
Profit for the year	**8,180**	4,031
Other comprehensive income for the year:		
Exchange differences on translation of financial statements of subsidiaries and associates	**2,628**	2,371
Total comprehensive income for the year	**10,808**	6,402
Attributable to:		
Equity shareholders of the Company	**10,079**	5,738
Non-controlling interests	**729**	664
Total comprehensive income for the year	**10,808**	6,402

The notes on pages 63 to 131 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2012
(Expressed in United States dollars)

	Note	2012 $'000	2011 $'000
Non-current assets			
Property, plant and equipment	11(a)	38,816	36,660
Property under development	12	–	–
Interest in leasehold land held for own use under operating leases	13	4,292	4,401
Goodwill	14	24,822	23,854
Other intangible assets	15	13,432	16,013
Interest in associate	17	1,072	2,159
Prepayments	19	1,847	70
Deferred tax assets	25(b)	10,887	10,897
		95,168	94,054
Current assets			
Inventories	18	48,760	39,596
Trade and other receivables	19	85,789	79,455
Gross amount due from customers for contract work	20	47,600	16,517
Amount due from director	21	114	–
Amount due from a related company	22	101	101
Pledged bank deposits		3,356	1,348
Cash at bank and in hand		30,988	34,140
		216,708	171,157
Current liabilities			
Trade and other payables	23	86,623	58,734
Bank loans	24	28,431	20,538
Current taxation	25(a)	5,563	4,179
Provisions	26	1,456	1,769
		122,073	85,220
Net current assets		94,635	85,937
Total assets less current liabilities		189,803	179,991

Consolidated Statement of Financial Position

At 31 December 2012

(Expressed in United States dollars)

	Note	**2012 $'000**	2011 $'000
Non-current liabilities			
Bank loans	24	**3,715**	4,921
Deferred tax liabilities	25(b)	**987**	1,349
		4,702	6,270
NET ASSETS		**185,101**	173,721
CAPITAL AND RESERVES			
Share capital	29(b)	**8,781**	8,770
Reserves		**168,823**	158,183
Total equity attributable to equity shareholders of the Company		**177,604**	166,953
Non-controlling interests		**7,497**	6,768
TOTAL EQUITY		**185,101**	173,721

Approved and authorised for issue by the board of directors on 27 March 2013.

Jiang Bing Hua
Director

Zhang Menggui
Director

The notes on pages 63 to 131 form part of these financial statements.

Statement of Financial Position

At 31 December 2012

(Expressed in United States dollars)

	Note	2012 $'000	2011 $'000
Non-current assets			
Property, plant and equipment	11(b)	215	10
Interest in subsidiaries	16	132,696	135,180
		132,911	135,190
Current assets			
Other receivables, prepayments and deposits	19	42	166
Cash at bank and in hand		86	158
		128	324
Current liabilities			
Other payables and accrued charges	23	572	1,573
Amounts due to subsidiaries	16	21	22
		593	1,595
Net current liabilities		(465)	(1,271)
Total assets less current liabilities		132,446	133,919
NET ASSETS		132,446	133,919
CAPITAL AND RESERVES	29(a)		
Share capital		8,781	8,770
Reserves		123,665	125,149
TOTAL EQUITY		132,446	133,919

Approved and authorised for issue by the board of directors on 27 March 2013.

Jiang Bing Hua
Director

Zhang Menggui
Director

The notes on pages 63 to 131 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

(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 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 29(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 and 1 January 2012	**8,770**	**120,043**	**2,161**	**(1,456)**	**5,828**	**512**	**627**	**3,384**	**27,084**	**166,953**	**6,768**	**173,721**
Changes in equity for 2012:												
Profit for the year	–	–	–	–	–	–	–	–	7,471	7,471	709	8,180
Other comprehensive income	–	–	–	2,608	–	–	–	–	–	2,608	20	2,628
Total comprehensive income	–	–	–	2,608	–	–	–	–	7,471	10,079	729	10,808
Shares issued under share option schemes (note 29(b)(ii))	11	77	–	–	(26)	–	–	–	–	62	–	62
Equity-settled share-based transactions	–	–	–	–	510	–	–	–	–	510	–	510
Transferred to reserve funds	–	–	–	–	–	–	–	1,306	(1,306)	–	–	–
Balance at 31 December 2012	**8,781**	**120,120**	**2,161**	**1,152**	**6,312**	**512**	**627**	**4,690**	**33,249**	**177,604**	**7,497**	**185,101**

The notes on pages 63 to 131 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012
(Expressed in United States dollars)

	Note	2012 $'000	2011 $'000
Operating activities			
Profit before taxation		11,580	6,127
Adjustments for:			
Depreciation	5(c)	3,943	3,198
Impairment losses recognised/(reversed) on doubtful debts	4/5(c)	74	(1,029)
Amortisation of interest in leasehold land held for own use under operating leases	5(c)	142	130
Amortisation of intangible assets	5(c)	3,020	3,106
Finance costs	5(a)	2,281	1,722
Interest income	4	(130)	(131)
Share of results of associates		37	113
Loss/(gain) on disposal of property, plant and equipment and intangible assets	5(c)	10	(18)
Gain on disposal of associate	4	–	(65)
Equity-settled share-based payment expenses	5(b)	510	727
Foreign exchange loss		350	512
Operating profit before changes in working capital		21,817	14,392
Increase in inventories		(8,828)	(5,643)
(Increase)/decrease in trade and other receivables and gross amount due from customers for contract work		(36,859)	14,016
Increase/(decrease) in trade and other payables		27,328	(3,915)
Decrease in provisions		(313)	(535)
Cash generated from operations		3,145	18,315
People's Republic of China ("PRC") enterprise income tax and overseas tax paid		(2,271)	(2,077)
Net cash generated from operating activities		874	16,238

Consolidated Cash Flow Statement

For the year ended 31 December 2012
(Expressed in United States dollars)

	Note	2012 $'000	2011 $'000
Investing activities			
Payment for purchase of property, plant and equipment		(7,963)	(7,810)
Construction expenditure on property under development		–	(944)
Interest received		130	131
Dividends received from associates		1,050	1,445
(Increase)/decrease in pledged bank deposits		(2,002)	2,316
Payment for purchase of intangible assets		–	(83)
Net cash inflow from disposal of associate		–	429
Proceeds from disposal of property, plant and equipment		212	43
Net cash used in investing activities		(8,573)	(4,473)
Financing activities			
Proceeds from shares issued under share option scheme		62	211
Interest paid		(2,281)	(1,722)
Proceeds from new bank loans		31,807	39,156
Repayment of bank loans		(25,259)	(32,278)
Dividends paid to non-controlling interests		–	(350)
Net cash generated from financing activities		4,329	5,017
Net (decrease)/increase in cash and cash equivalents		(3,370)	16,782
Cash and cash equivalents at 1 January		34,140	17,147
Effect of foreign exchange rate changes		218	211
Cash and cash equivalents at 31 December		30,988	34,140

The notes on pages 63 to 131 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 2012 comprise the Company and its subsidiaries and the Group's interest in associate.

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 $465,000 at 31 December 2012. 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 the working capital forecast of the Company for the twelve months ending 31 December 2013, 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).

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.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

1 Significant accounting policies *(Continued)*

(c) Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfer of financial assets* is relevant to the Group's financial statements.

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfer of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

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

(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.

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.

1 Significant accounting policies *(Continued)*

(d) Subsidiaries and non-controlling interests *(Continued)*

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 notes 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.

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.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

1 Significant accounting policies *(Continued)*

(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.

(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)).

– freehold land and buildings;

– 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.

1 Significant accounting policies *(Continued)*

(h) Property, plant and equipment *(Continued)*

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 as follows:

– Freehold land is not depreciated.

– Buildings situated on freehold land are depreciated over their estimated useful life, being no more than 40 years after the date of completion.

– 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	3 – 5 years
– Plant and machinery	3 – 20 years
– Motor vehicles	5 years

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.

(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 borrowing 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.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

1 Significant accounting policies *(Continued)*

(j) Intangible assets (other than goodwill) *(Continued)*

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.

(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.

  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.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

1 Significant accounting policies *(Continued)*

(l) Impairment of assets *(Continued)*

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

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.

– 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).

1 Significant accounting policies *(Continued)*

(l) Impairment of assets *(Continued)*

(ii) Impairment of other assets *(Continued)*

– 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.

(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.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

1 Significant accounting policies *(Continued)*

(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.

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 are presented 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 share-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 share-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 share-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 share-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.

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.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

1 Significant accounting policies *(Continued)*

(t) Income tax *(Continued)*

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.

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.

1 Significant accounting policies *(Continued)*

(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.

(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.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

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.

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 the 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.

1 Significant accounting policies *(Continued)*

(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.

(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.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

1 Significant accounting policies *(Continued)*

(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, 28 and 30 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.

(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 2012, 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.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

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:

	2012 $'000	2011 $'000
Capital equipment and packages		
– Sales of rig electrical control system	21,370	11,281
– Sales of other rig equipment	9,265	9,081
– Construction contracts revenue		
– Rig products and technology	46,357	39,677
– Rig turnkey solutions	54,752	29,123
	131,744	89,162
Oilfield expendables and supplies		
– Sales of expendables and supplies	31,289	27,033
Engineering services		
– Service fee income	20,709	23,301
	183,742	139,496

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 2012, 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 $55 million (2011: $29 million). Details of concentrations of credit risk arising from this customer are set out in note 30(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, manufacturing, 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

(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 associate, cash at bank and in hand, pledged bank deposits, tax balances and other unallocated head office and 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. Inter-segment revenue is priced with reference to prices charged to external parties for similar orders.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

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 2012 and 2011 is set out below.

	Capital equipment and packages		Oilfield expendables and supplies		Engineering services		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue from external customers	**131,744**	89,162	**31,289**	27,033	**20,709**	23,301	**183,742**	139,496
Inter-segment revenue	**–**	–	**7,270**	6,723	**1,390**	1,392	**8,660**	8,115
Reportable segment revenue	**131,744**	89,162	**38,559**	33,756	**22,099**	24,693	**192,402**	147,611
Reportable segment results	**12,531**	2,537	**4,753**	4,414	**3,503**	6,193	**20,787**	13,144
Depreciation and amortisation for the year	**4,964**	4,583	**540**	464	**1,584**	1,371	**7,088**	6,418
Reportable segment assets	**209,644**	168,517	**28,428**	22,111	**26,142**	25,722	**264,214**	216,350
Additions to non-current segment assets during the year	**2,751**	5,068	**2,809**	736	**1,362**	3,033	**6,922**	8,837
Reportable segment liabilities	**(71,422)**	(44,163)	**(11,543)**	(10,249)	**(4,069)**	(4,081)	**(87,034)**	(58,493)

3 Turnover and segment reporting *(Continued)*

(b) Segment reporting *(Continued)*

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

	2012 $'000	2011 $'000
Revenue		
Reportable segment revenue	192,402	147,611
Elimination of inter-segment revenue	(8,660)	(8,115)
Consolidated turnover (note 3(a))	183,742	139,496
Profit		
Segment results	20,787	13,144
Share of results of associates	(37)	(113)
Finance costs	(2,281)	(1,722)
Unallocated head office and corporate income and expenses	(6,889)	(5,182)
Consolidated profit before taxation	11,580	6,127
Assets		
Reportable segment assets	264,214	216,350
Cash at bank and in hand	30,988	34,140
Pledged bank deposits	3,356	1,348
Interest in associates	1,072	2,159
Deferred tax assets	10,887	10,897
Unallocated head office and corporate assets	1,359	317
Consolidated total assets	311,876	265,211
Liabilities		
Reportable segment liabilities	(87,034)	(58,493)
Bank loans	(32,146)	(25,459)
Current taxation	(5,563)	(4,179)
Deferred tax liabilities	(987)	(1,349)
Unallocated head office and corporate liabilities	(1,045)	(2,010)
Consolidated total liabilities	(126,775)	(91,490)

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

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 associate 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 asset, 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 associate and non-current portion of prepayments.

	Revenue from external customers		Specified non-current assets	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Hong Kong	**–**	–	**218**	14
Mainland China	**68,888**	48,436	**43,456**	41,519
North America	**24,257**	31,736	**5,800**	6,129
South America	**13,598**	12,984	**890**	756
Europe	**16,066**	16,028	**31,012**	31,128
Singapore	**53,870**	23,341	**4**	11
Others (other part of Asia, India, Russia etc.)	**7,063**	6,971	**2,901**	3,600
	183,742	139,496	**84,281**	83,157

4 Other revenue and net income

	2012	2011
	$'000	$'000
Interest income	**130**	131
Reversal of impairment losses on doubtful debts (note 19(b))	**–**	1,029
Bad debts recovered	**–**	760
Net gain on foreign exchange instrument	**931**	–
Gain on disposal of associate	**–**	65
Others	**288**	291
	1,349	2,276

5 Profit before taxation

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

	2012 $'000	2011 $'000
(a) Finance costs		
Interest on bank loans wholly repayable within five years	**2,256**	1,612
Interest on other loans	**25**	110
	2,281	1,722
(b) Staff costs#		
Contributions to defined contribution retirement plans	**4,008**	2,815
Equity-settled share-based payment expenses (note 28)	**510**	727
Salaries, wages and other benefits	**33,865**	28,218
	38,383	31,760
(c) Other items		
Amortisation of interest in leasehold land held for own use under operating leases#	**142**	130
Amortisation of intangible assets	**3,020**	3,106
Depreciation#	**3,943**	3,198
Impairment losses on doubtful debts	**74**	–
Research and development costs	**3,583**	5,247
Net foreign exchange loss	**990**	1,401
Net loss on foreign exchange instrument	**–**	795
Loss/(gain) on disposal of property, plant and equipment and intangible assets	**10**	(18)
Auditors' remuneration	**525**	508
Minimum lease payments under operating leases in respect of land and buildings	**2,808**	2,713
Increase in provisions	**–**	292
Cost of inventories# (note 18(b))	**116,954**	83,221

Cost of inventories includes $16,205,000 (2011: $12,332,000) 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.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

6 Income tax in the consolidated income statement

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

	2012 $'000	2011 $'000
Current tax		
Provision for the year		
– PRC enterprise income tax	**2,598**	1,144
– Overseas corporation income tax	**942**	794
	3,540	1,938
Under/(over)-provision in respect of prior years		
– PRC enterprise income tax	**115**	(76)
	3,655	1,862
Deferred tax		
Origination and reversal of temporary differences (note 25(b))	**(255)**	234
	3,400	2,096

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no assessable profits 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 15% (2011: 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:

	2012 $'000	2011 $'000
Profit before taxation	11,580	6,127
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	3,377	1,745
Tax effect of non-deductible expenses	709	182
Tax effect of non-taxable income	(501)	(531)
Tax effect of profits entitled to tax reductions in the PRC	(1,637)	(720)
Tax effect of unused tax losses not recognised	1,406	–
Tax effect of recognition of temporary differences not recognised in prior year	–	1,318
Under/(over)-provision in prior years	115	(76)
Others	(69)	178
Actual tax expense	3,400	2,096

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

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	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Executive directors:												
Mr Zhang Menggui	–	–	539	670	7	7	546	677	3	5	549	682
Mr Jiang Bing Hua	–	–	495	638	7	7	502	645	3	5	505	650
Independent non-executive directors:												
Mr Bian Junjiang	15	15	–	–	–	–	15	15	1	2	16	17
Mr Chan Ngai Sang, Kenny	31	31	–	–	–	–	31	31	1	2	32	33
Mr Guan Zhichuan	15	15	–	–	–	–	15	15	1	1	16	16
Mr Robert William Fogal Jr.	15	15	–	–	–	–	15	15	–	–	15	15
Non-executive directors:												
Mr Jiang Longsheng	15	15	–	–	–	–	15	15	1	2	16	17
Mr Brian Chang	15	15	–	–	–	–	15	15	–	–	15	15
Mr Yu Yuqun (appointed on 15 March 2011)	15	12	–	–	–	–	15	12	–	–	15	12
	121	118	1,034	1,308	14	14	1,169	1,440	10	17	1,179	1,457

Note: These represent the estimated value of share options granted to the directors pursuant to the Company's share option scheme. 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) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting. The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share Option Scheme" in the report of the directors and note 28.

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2011: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2011: three) individuals are as follows:

	2012 $'000	2011 $'000
Salaries and other emoluments	1,117	1,220
Share-based payments	57	69
Retirement scheme contributions	–	59
	1,174	1,348

The emoluments of the three (2011: three) individuals with the highest emoluments are within the following bands:

	2012 Number of individuals	2011 Number of individuals
HK$2,000,001 – HK$2,500,000	2	–
HK$2,500,001 – HK$3,000,000	–	2
HK$4,000,001 – HK$4,500,000	1	–
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 $2,356,000 (2011: $1,531,000) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

(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 $7,471,000 (2011: $3,472,000) and the weighted average number of 682,303,000 (2011: 680,606,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2012 '000	2011 '000
Issued ordinary shares at 1 January	681,892	678,564
Effect of share options exercised (note 29(b)(ii))	411	2,042
Weighted average number of ordinary shares at 31 December	682,303	680,606

(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 $7,471,000 (2011: $3,472,000) and the weighted average number of 687,307,000 (2011: 689,162,000) ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2012 '000	2011 '000
Weighted average number of ordinary shares at 31 December	682,303	680,606
Effect of deemed issue of shares under the Company's share option schemes for nil consideration (note 28)	5,004	8,556
Weighted average number of ordinary shares (diluted) at 31 December	687,307	689,162

11 Property, plant and equipment

(a) The Group

	Land and 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 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
At 1 January 2012	23,529	3,761	15,630	880	2,700	46,500
Exchange adjustments	153	23	16	1	(2)	191
Additions	1,199	1,589	2,468	289	641	6,186
Disposals	–	(106)	(257)	–	(68)	(431)
At 31 December 2012	24,881	5,267	17,857	1,170	3,271	52,446

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

11 Property, plant and equipment *(continued)*

(a) The Group *(continued)*

	Land and 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 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
At 1 January 2012	2,247	1,677	4,362	324	1,230	9,840
Exchange adjustments	18	23	13	–	2	56
Charge for the year	947	707	1,634	163	492	3,943
Written back on disposals	–	(92)	(80)	–	(37)	(209)
At 31 December 2012	3,212	2,315	5,929	487	1,687	13,630
Net book value:						
At 31 December 2012	21,669	2,952	11,928	683	1,584	38,816
At 31 December 2011	21,282	2,084	11,268	556	1,470	36,660

11 Property, plant and equipment *(Continued)*

(b) The Company

	Office equipment, furniture and fixtures $'000
Cost:	
At 1 January 2011 and 31 December 2011	91
At 1 January 2012	91
Additions	220
At 31 December 2012	311
Accumulated depreciation:	
At 1 January 2011	69
Charge for the year	12
At 31 December 2011	81
At 1 January 2012	81
Charge for the year	15
At 31 December 2012	96
Net book value:	
At 31 December 2012	215
At 31 December 2011	10

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

11 Property, plant and equipment *(Continued)*

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

	The Group	
	2012	2011
	$'000	$'000
Outside Hong Kong		
– freehold	**690**	–
– long leases	**3,446**	3,531
– medium-term leases	**17,533**	17,751
	21,669	21,282

12 Property under development

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

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

	The Group 2012 $'000	2011 $'000
Cost:		
At 1 January	**4,910**	4,740
Exchange adjustments	**37**	170
At 31 December	**4,947**	4,910
Accumulated amortisation:		
At 1 January	**509**	363
Exchange adjustments	**4**	16
Charge for the year	**142**	130
At 31 December	**655**	509
Net book value:		
At 31 December	**4,292**	4,401

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 not more than 50 years on a straight-line basis.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

14 Goodwill

	The Group 2012 $'000	2011 $'000
Cost		
At 1 January	**23,854**	23,776
Exchange adjustments	**968**	78
At 31 December	**24,822**	23,854

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 2012 $'000	2011 $'000
Capital equipment and packages	**24,822**	23,854

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:

	2012	2011
– Gross margin	**17% – 35%**	26% – 36%
– 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 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
At 1 January 2012	7,453	11,102	4,855	1,983	546	660	365	26,964
Exchange adjustments	234	489	51	15	6	–	–	795
At 31 December 2012	7,687	11,591	4,906	1,998	552	660	365	27,759
Accumulated amortisation:								
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
At 1 January 2012	3,162	3,776	2,007	1,586	315	44	61	10,951
Exchange adjustments	103	186	50	12	5	–	–	356
Charge for the year	843	1,038	611	369	81	33	45	3,020
At 31 December 2012	4,108	5,000	2,668	1,967	401	77	106	14,327
Net book value:								
At 31 December 2012	3,579	6,591	2,238	31	151	583	259	13,432
At 31 December 2011	4,291	7,326	2,848	397	231	616	304	16,013

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

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(Expressed in United States dollars unless otherwise indicated)

16 Interest in subsidiaries

	The Company 2012 $'000	2011 $'000
Unlisted shares/capital contributions, at cost	**26,340**	26,279
Amounts due from subsidiaries	**106,356**	108,901
	132,696	135,180
Amounts due to subsidiaries	**(21)**	(22)

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: Group's effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activity
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	$4,100,000	100%	100%	Manufacturing and trading of oilfield expendables and supplies

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
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	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
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
TSC Offshore China Ltd. ("TSC China") #* (北京TSC海洋石油裝備有限公司)	PRC	RMB10,000,000	100%	100%	Trading of rig equipment and oilfield expendables
Dalian TSC Offshore Equipment Co., Ltd. ^* (大連天時海洋石油裝備有限公司)	PRC	RMB10,000,000	100%	100%	Manufacturing and trading of rig equipment

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(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
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
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

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
TSC Offshore Corporation	USA	$6,100	100%	100%	Design and manufacture of rig equipment
TSC Offshore Limiteda	Brazil	BRL1,200,000	100%	100%	Trading of oilfield expendables and supplies and provision of 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*

^ *Registered under the laws of the PRC as a limited liability company*

* *Unofficial English translation*

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(Expressed in United States dollars unless otherwise indicated)

17 Interest in associate

	The Group 2012 $'000	The Group 2011 $'000
Share of net assets	**1,072**	2,159

Details of the Group's interest in associate 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 the Company	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 associate

	Assets $'000	Liabilities $'000	Equity $'000	Revenue $'000	Loss $'000
2012					
100 per cent	**3,850**	**(25)**	**3,825**	**–**	**(133)**
Group's effective interest	**1,079**	**(7)**	**1,072**	**–**	**(37)**
2011					
100 per cent	7,731	(25)	7,706	–	(424)
Group's effective interest	2,166	(7)	2,159	–	(113)

18 Inventories

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

	The Group	
	2012	2011
	$'000	$'000
Raw materials	**11,936**	10,462
Work in progress	**13,831**	10,937
Finished goods	**22,993**	18,197
	48,760	39,596

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

	The Group	
	2012	2011
	$'000	$'000
Carrying amount of inventories sold	**116,871**	85,680
Write-down/(reversal of write-down) of inventories	**83**	(2,459)
	116,954	83,221

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

19 Trade and other receivables

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Trade debtors and bills receivable	**78,267**	76,919	**–**	–
Less: allowance for doubtful debts (note 19(b))	**(3,638)**	(4,126)	**–**	–
	74,629	72,793	**–**	–
Other receivables, prepayments and deposits	**13,007**	6,732	**42**	166
	87,636	79,525	**42**	166
Less: Non-current portion of prepayments	**(1,847)**	(70)	**–**	–
	85,789	79,455	**42**	166

(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	
	2012	2011
	$'000	$'000
Current	**42,010**	24,933
Less than 1 month past due	**4,096**	14,996
1 to 3 months past due	**9,548**	5,650
More than 3 months but within 12 months past due	**8,499**	21,604
More than 12 months past due	**10,476**	5,610
Amounts past due	**32,619**	47,860
	74,629	72,793

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 milestone have been met. The remaining 5% to 10% of the contract sum represents retention money and is payable within up to 18 months after delivery of the products or 1 year after completion of onsite testing, whichever is earlier.

Including in "Trade and other receivables" of the Group are trade debtors and bills receivable of $78,267,000 (2011: $76,919,000) of which $6,445,000 (2011: $27,439,000) are due from subsidiaries of a substantial shareholder of the Group.

(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	
	2012	2011
	$'000	$'000
At 1 January	**4,126**	6,758
Exchange adjustments	**2**	49
Impairment losses recognised/(reversed)	**74**	(1,029)
Uncollectible amounts written-off	**(564)**	(1,652)
At 31 December	**3,638**	4,126

At 31 December 2012, the Group's trade debtors of $6,208,000 (2011: $9,894,000) 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 $3,638,000 (2011: $4,126,000) were recognised. The Group does not hold any collateral over these balances.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

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	
	2012	2011
	$'000	$'000
Neither past due nor impaired	**42,010**	24,913
Less than 1 month past due	**4,096**	14,783
1 to 3 months past due	**9,548**	5,415
More than 3 months but within 12 months past due	**8,471**	18,777
More than 12 months past due	**7,934**	3,137
	30,049	42,112
	72,059	67,025

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 2012 is $213,202,000 (2011: $178,470,000).

Included in "Gross amount due from customers for contract work" of the Group, there are amounts due from subsidiaries of a substantial shareholder of the Group of $24,810,000 (2011: $9,869,000).

21 Amount due from director

	The Group	
	2012	2011
	$'000	$'000
Balance at 1 January – Mr Jiang Bing Hua	**–**	–
Balance at 31 December – Mr Jiang Bing Hua	**114**	–
Maximum balance outstanding during the year – Mr Jiang Bing Hua	**114**	–

The amount represents expenses paid on behalf of the director and is unsecured, non-interest-bearing and without pre-determined repayment terms.

There was no provision made against the principal amount at 31 December 2012.

22 Amount due from a related company

	The Group	
	2012	2011
	$'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

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

22 Amount due from a related company *(Continued)*

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 2011 and 2012.

23 Trade and other payables

	The Group		The Company	
	2012	2011	**2012**	2011
	$'000	$'000	**$'000**	$'000
Trade creditors and bills payable	**46,655**	32,094	**–**	–
Other payables and accrued charges	**39,968**	15,163	**572**	778
Gross amount due to customers for contract work	**–**	10,432	**–**	–
Advances received in relation to construction contracts	**–**	250	**–**	–
Derivative financial instrument – foreign exchange instrument	**–**	795	**–**	795
	86,623	58,734	**572**	1,573

Included in "Gross amount due to customers for contract work" of the Group, there were amounts due to subsidiaries of a substantial shareholder of the Group of $8,852,000 at 31 December 2011.

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	
	2012	2011
	$'000	$'000
Within 1 month	**24,048**	13,820
More than 1 month but within 3 months	**14,649**	8,942
More than 3 months but within 12 months	**3,810**	5,618
More than 12 months but within 24 months	**2,221**	1,641
More than 24 months	**1,927**	2,073
	46,655	32,094

24 Bank loans

At 31 December 2012, the bank loans were repayable as follows:

	The Group	
	2012	2011
	$'000	$'000
Within 1 year or on demand	**28,431**	20,538
After 1 year but within 2 years	**562**	1,653
After 2 years but within 5 years	**989**	1,239
After 5 years	**2,164**	2,029
	3,715	4,921
	32,146	25,459

At 31 December 2012, the bank loans were secured as follows:

	The Group	
	2012	2011
	$'000	$'000
Secured	**20,485**	21,481
Unsecured	**11,661**	3,978
	32,146	25,459

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

24 Bank loans *(continued)*

The bank loans carried interest at rates ranging from 4.25% to 7.98% per annum (2011: 5.81% to 8.65% per annum) and were secured/guaranteed by:

(i) Interest in leasehold land held for own use under operating leases, buildings, inventories and trade receivables with aggregate net book value of $46,715,000 (2011: interest in leasehold land held for own use under operating leases, buildings, plant and machinery, inventories and trade receivables with aggregate net book value of $56,045,000).

(ii) Corporate guarantees given by TSCOE, TSC-HHCT, TSC China and TSC (Qingdao) to the extent of banking facilities outstanding of $6,639,000 (2011: TSCOE, ZZOE and TSC (Qingdao) of $8,387,000) as at 31 December 2012.

(iii) Guarantees given by the directors of the Company to the extent of banking facilities outstanding of $5,441,000 (2011: $4,928,000) as at 31 December 2012.

Certain bank loans of the Group are subject to the fulfillment of covenants relating to certain of the subsidiaries' statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. The drawn down loan balances would become payable on demand if the covenants were breached. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 30(b). As at 31 December 2012, none of the covenants relating to the Group's bank loans had been breached.

25 Income tax in the statement of financial position

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

	The Group	
	2012	2011
	$'000	$'000
Provision for the year	**3,540**	1,938
Provisional income tax paid	**(1,020)**	(757)
	2,520	1,181
Balance of income tax provision relating to prior years	**3,043**	2,998
	5,563	4,179

25 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 $'000	Impairment losses on doubtful debts $'000	Write-down on inventories $'000	Intangible assets $'000	Tax losses $'000	Unrealised profits $'000	Total $'000
Deferred tax arising from:							
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)
At 1 January 2012	(38)	(625)	(365)	4,037	(11,727)	(830)	(9,548)
Exchange adjustments	–	(4)	(1)	101	(193)	–	(97)
Charged/(credited) to profit or loss (note 6(a))	45	44	–	(999)	412	243	(255)
At 31 December 2012	7	(585)	(366)	3,139	(11,508)	(587)	(9,900)

	The Group 2012 $'000	The Group 2011 $'000
Reconciliation to the consolidated statement of financial position:		
Net deferred tax assets recognised in the statement of financial position	**(10,887)**	(10,897)
Net deferred tax liabilities recognised in the statement of financial position	**987**	1,349
	(9,900)	(9,548)

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

25 Income tax in the statement of financial position *(Continued)*

(b) Deferred tax assets and liabilities recognised: *(Continued)*

At 31 December 2012, the Group had temporary differences arising from undistributed profits of subsidiaries of $40,562,000 (2011: $33,029,000). No provision for deferred tax liabilities have been made as the Company controls 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.

The Group has not recognised deferred tax assets in respect of cumulative tax losses of $4,134,000 (2011: $Nil) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

26 Provisions

Provision for loss making construction contracts:

	The Group $'000
At 1 January 2012	1,769
Provisions utilised	(313)
At 31 December 2012	1,456

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.

27 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$25,000 (HK$20,000 prior to June 2012). 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.

28 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.

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 total issued share capital of the Company. During the year, none of (2011: 518,400) share options were exercised and the Company had 432,000 (2011: 432,000) 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.

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(Expressed in United States dollars unless otherwise indicated)

28 Equity settled share-based transactions *(continued)*

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").

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.

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, 890,000 (2011: 2,810,000) share options under the Share Option Scheme were exercised and 1,390,000 (2011: 5,445,000) share options were forfeited.

28 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	518,400	Note	10 years
– on 29 December 2008	4,400,000	Note	10 years
Options granted to employees:			
– on 19 October 2005	432,000	Note	10 years
– on 10 May 2007	6,332,000	Note	10 years
– on 12 November 2007	8,360,000	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	8,355,000	Note	10 years
– on 18 September 2009	19,720,000	Note	10 years
– on 1 September 2010	8,620,000	Note	10 years
– on 21 February 2011	2,400,000	Note	10 years
– on 4 September 2012	10,780,000	Note	10 years
Total share options	73,617,400		

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.

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28 Equity settled share-based transactions *(continued)*

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

	2012 Weighted average exercise price	2012 Number of options	2011 Weighted average exercise price	2011 Number of options
Outstanding at the beginning of the year	**HK$2.35**	**54,064,000**	HK$2.24	60,437,400
Exercised during the year	**HK$0.54**	**(890,000)**	HK$0.49	(3,328,400)
Forfeited during the year	**HK$3.65**	**(1,390,000)**	HK$2.06	(5,445,000)
Granted during the year	**HK$1.02**	**10,780,000**	HK$1.97	2,400,000
Outstanding at the end of the year	**HK$2.12**	**62,564,000**	HK$2.35	54,064,000
Exercisable at the end of the year	**HK$2.69**	**35,470,000**	HK$2.89	26,990,000

The weighted average share price at the date of exercise for share options exercised during the year was HK$1.12 (2011: HK$2.23).

The options outstanding at 31 December 2012 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, HK$1.97 and HK$1.02 (2011: 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) and a weighted average remaining contractual life of 6.77 years (2011: 7.2 years).

28 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. Expectation of early exercise are incorporated into the Binomial Model.

Fair value of share options and assumptions

Grant date	4 September 2012	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	$0.08	$0.11	$0.07	$0.12	$0.03	$0.12	$0.27	$0.29	$0.13	$0.09
Share price	HK$1.01	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$1.02	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	76%	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	10 years
Expected dividends	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate (based on Exchange Fund Notes)	0.65%	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.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

29 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	Accumulated losses $'000	Total $'000
Balance at 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 29(b)(ii))	43	299	–	(131)	–	211
Equity-settled share-based transactions	–	–	–	727	–	727
Balance at 31 December 2011 and 1 January 2012	8,770	120,043	951	5,828	(1,673)	133,919
Changes in equity in 2012:						
Total comprehensive income for the year	–	–	311	–	(2,356)	(2,045)
Shares issued under share option schemes (note 29(b)(ii))	11	77	–	(26)	–	62
Equity-settled share-based transactions	–	–	–	510	–	510
Balance at 31 December 2012	8,781	120,120	1,262	6,312	(4,029)	132,446

29 Capital and reserves *(continued)*

(b) Share capital

(i) Authorised and issued share capital

	2012 No. of shares '000	2012 Amount $'000	2011 No. of shares '000	2011 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	**681,892**	**8,770**	678,564	8,727
Shares issued under share option schemes	**890**	**11**	3,328	43
At 31 December	**682,782**	**8,781**	681,892	8,770

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 2012, options were exercised to subscribe for 890,000 ordinary shares in the Company at a consideration of $62,000 of which $11,000 was credited to share capital and the balance of $51,000 was credited to the share premium account. $26,000 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).

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

29 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	2012 Number	2011 Number
29 November 2005 to 18 October 2015	HK$0.2383	**432,000**	432,000
10 November 2007 to 9 May 2017	HK$2.43	**5,582,000**	5,582,000
12 May 2008 to 11 November 2017	HK$5.60	**7,240,000**	7,960,000
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	**8,160,000**	9,270,000
18 March 2010 to 17 September 2019	HK$2.06	**16,500,000**	16,950,000
1 March 2011 to 31 August 2020	HK$1.27	**7,770,000**	7,770,000
21 August 2011 to 20 February 2021	HK$1.97	**2,400,000**	2,400,000
4 March 2013 to 3 September 2017	HK$1.02	**10,780,000**	–
		62,564,000	54,064,000

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 28 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.

(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).

29 Capital and reserves *(continued)*

(c) Nature and purpose of reserves *(continued)*

(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 2012, as computed in accordance with the Companies Law (Revised) of the Cayman Islands amounted to $116,091,000 (2011: $118,370,000).

(e) Dividend

The directors do not recommend the payment of a dividend for the year ended 31 December 2012 (2011: $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 2011 and 2012.

The Group monitors capital with reference to its debt position. The Group's strategy is to maintain the gearing ratio, being the Group's total liabilities to equity shareholders' funds under 100%. The gearing ratio as at 31 December 2012 was 71% (2011: 55%).

Except for the bank loans which require the fulfilment of covenants relating to certain financial ratios as disclosed in note 24 to the financial statements, neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

30 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.

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, 26% (2011: 39%) and 52% (2011: 48%) 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.

30 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

	2012 Contractual undiscounted cash outflow						2011 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	86,623	–	–	–	86,623	86,623	47,257	–	–	–	47,257	47,257
Bank loans	29,928	792	1,470	2,885	35,075	32,146	21,767	1,981	1,762	2,850	28,360	25,459
	116,551	792	1,470	2,885	121,698	118,769	69,024	1,981	1,762	2,850	75,617	72,716

The Company

	2012 Contractual undiscounted cash outflow						2011 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	572	–	–	–	572	572	778	–	–	–	778	778
Amounts due to subsidiaries	21	–	–	–	21	21	22	–	–	–	22	22
	593	–	–	–	593	593	800	–	–	–	800	800

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

30 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

	2012 Effective interest rate	**2012** $'000	2011 Effective interest rate	2011 $'000
Fixed rate borrowings:				
Bank loans	**4.25%-6.90%**	**22,924**	5.81%-7.87%	15,287
Variable rate borrowings/(deposits):				
Bank loans	**6.00%-7.98%**	**9,222**	6.50%-8.65%	10,172
Less: Pledged bank deposits	**0.50%**	**(3,356)**	0.50%	(1,348)
Cash at bank and in hand	**0.01%-1.49%**	**(30,988)**	0.01%-1.49%	(34,140)
		(25,122)		(25,316)
Total net deposits		**(2,198)**		(10,029)

30 Financial risk management and fair values *(continued)*

(c) Interest rate risk *(continued)*

(i) Interest rate profile *(continued)*

The Company

	2012 Effective interest rate	2012 $'000	2011 Effective interest rate	2011 $'000
Variable rate deposits:				
Cash at bank and in hand	**0.01%**	**(86)**	0.01%	(158)

(ii) Sensitivity analysis

At 31 December 2012, 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 $251,000 (2011: $253,000).

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 2011.

(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 over 50% of the Group's turnover was denominated in United States dollars. At 31 December 2012, 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.

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

30 Financial risk management and fair values *(continued)*

(d) Currency risk *(continued)*

(ii) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to 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) 2012 $'000	2011 $'000
Trade and other receivables	**2,181**	1,235
Cash at bank and in hand	**2,186**	189
Trade and other payables	**(205)**	(600)
Net exposure arising from recognised assets and liabilities	**4,162**	824

(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

	2012		2011	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit before tax $'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit before tax $'000
United States dollars	**5%**	**208**	5%	41
	(5)%	**(208)**	(5)%	(41)

30 Financial risk management and fair values *(continued)*

(d) Currency risk *(continued)*

(iii) Sensitivity analysis *(continued)*

The Group *(continued)*

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 2011.

(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 HKFRS 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

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

30 Financial risk management and fair values *(continued)*

(e) Fair values *(continued)*

Financial instruments carried at fair value *(continued)*

2012

	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	–	–	–	–	–	–	–	–

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.

(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.

30 Financial risk management and fair values *(continued)*

(f) Estimation of fair values *(continued)*

(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.

31 Commitments

(a) Capital commitments outstanding at 31 December 2012 not provided for in the financial statements were as follows:

	The Group	
	2012	2011
	$'000	$'000
Contracted for	**896**	–

(b) At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2012	2011
	$'000	$'000
Within 1 year	**2,503**	2,111
After 1 year but within 5 years	**4,422**	3,750
After 5 years	**–**	438
	6,925	6,299

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

Notes to the Financial Statements

(Expressed in United States dollars unless otherwise indicated)

32 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:

	2012 **$'000**	2011 $'000
Salaries and other emoluments	**3,964**	3,749
Share-based payments	**189**	191
Retirement scheme contributions	**47**	140
	4,200	4,080

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

(b) Transactions with related companies

The Group entered into the following related party transactions with subsidiaries of a substantial shareholder of the Group:

	2012 **$'000**	2011 $'000
Sales of capital equipment and packages	**55,479**	29,123

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.

(c) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of note 32(b) above constitute connected transactions and continuing connected transactions as defined in Chapter 14A of the Listing Rules. The amount of connected transactions and continuing connected transactions were $2,150,000 (2011:$18,511,000) and $53,329,000 (2011:$10,612,000) respectively. The disclosures of continuing connected transactions required by Chapter 14A of the Listing Rules are provided in section "Related Party Transactions" of the Report of the Directors and details of the connected transactions were announced on 16 July 2007 and included in the Circular dated 7 August 2007.

33 Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2012

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 2012 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 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
Annual Improvements to HKFRSs 2009 – 2011 Cycle	1 January 2013
Amendments to HKFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
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 consolidated financial statements.

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

	2012	2011	2010	2009	2008
	US$'000	US$'000	US$'000	US$'000	US$'000
Turnover	**183,742**	139,496	143,455	112,842	160,113
Cost of sales	**(121,063)**	(86,421)	(91,189)	(91,578)	(116,470)
Gross profit	**62,679**	53,075	52,266	21,264	43,643
Other revenue	**1,349**	2,276	2,143	1,194	881
Selling and distribution expenses	**(8,522)**	(6,654)	(5,539)	(4,884)	(5,172)
General and administration expenses	**(37,480)**	(35,610)	(28,035)	(22,910)	(20,122)
Other operating expenses	**(4,128)**	(5,125)	(4,409)	(9,051)	(4,587)
Finance costs	**(2,281)**	(1,722)	(1,406)	(1,338)	(500)
Share of results of associates	**(37)**	(113)	38	1,399	(2,063)
Profit/(loss) before taxation	**11,580**	6,127	15,058	(14,326)	12,080
Income tax (expense)/credit	**(3,400)**	(2,096)	(1,467)	4,088	(1,753)
Profit/(loss) for the year	**8,180**	4,031	13,591	(10,238)	10,327

ASSETS AND LIABILITIES

	As at 31 December				
	2012	2011	2010	2009	2008
	US$'000	US$'000	US$'000	US$'000	US$'000
Non-current assets	**95,168**	94,054	94,715	91,882	80,832
Current assets	**216,708**	171,157	162,102	132,011	115,918
Current liabilities	**(122,073)**	(85,220)	(83,532)	(76,736)	(71,448)
Net current assets	**94,635**	85,937	78,570	55,275	44,470
Non-current liabilities	**(4,702)**	(6,270)	(6,554)	(7,114)	(9,748)
Net assets	**185,101**	173,721	166,731	140,043	115,554

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 2012 are as set out on page 55 to 56 of the audited financial statements.*

2. *The consolidated balance sheet of the Group as at 31 December 2012 are as set out on pages 57 to 58 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

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Mr. Jiang Bing Hua

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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
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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

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Mr. Jiang Bing Hua *(Chairman)*
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