# TSC Group Holdings Limited

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 206)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

### HIGHLIGHTS

- Turnover amounted to approximately US$270.6 million for the year ended 31 December 2014, representing an increase of 34.0% as compared with 2013;
- Gross profit amounted to approximately US$75.2 million for the year ended 31 December 2014, representing an increase of 18.0% as compared with 2013;
- Gross profit margin decreased from 31.6% for 2013 to 27.8% for 2014;
- Profit attributable to equity shareholders of the Company amounted to approximately US$20.5 million for the year ended 31 December 2014, representing an increase of 40.9% as compared with 2013; and
- The Directors do not recommend the payment of a dividend for 2014.

## ANNUAL RESULTS

The board of the Directors (the "Board") is pleased to announce the results of TSC Group Holdings Limited (the "Company" or "TSC") and its subsidiaries (collectively the "Group") for the year ended 31 December 2014 (the "Year") together with the comparative figures for the year ended 31 December 2013 as follows using United States dollars as presentation currency:

### Consolidated Income Statement

*For the year ended 31 December 2014*

| | Notes | 2014 US$'000 | 2013 US$'000 |
|---|---|---|---|
| **Turnover** | 3 | **270,586** | 201,928 |
| Cost of sales | | **(195,339)** | (138,151) |
| **Gross profit** | | **75,247** | 63,777 |
| Other revenue and net income | 4 | **883** | 1,981 |
| Selling and distribution expenses | | **(9,849)** | (7,000) |
| General and administrative expenses | | **(33,292)** | (32,961) |
| Other operating expenses | | **(5,461)** | (4,934) |
| **Profit from operations** | | **27,528** | 20,863 |
| Finance costs | 5(a) | **(3,221)** | (3,372) |
| Share of results of associate | | **–** | (54) |
| **Profit before taxation** | 5 | **24,307** | 17,437 |
| Income tax | 6(a) | **(3,365)** | (2,138) |
| **Profit for the year** | | **20,942** | 15,299 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **20,502** | 14,550 |
| Non-controlling interests | | **440** | 749 |
| **Profit for the year** | | **20,942** | 15,299 |
| **Earnings per share** | 8 | | |
| Basic | | **US2.95 cents** | US2.12 cents |
| Diluted | | **US2.87 cents** | US2.07 cents |

**Consolidated Statement of Comprehensive Income**

*For the year ended 31 December 2014*

| | **2014** | 2013 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| **Profit for the year** | **20,942** | 15,299 |
| **Other comprehensive income for the year:** | | |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| – Exchange differences on translation of financial statements of subsidiaries and associate (with nil tax effect) | **(554)** | 2,940 |
| **Total comprehensive income for the year** | **20,388** | 18,239 |
| **Attributable to:** | | |
| Equity shareholders of the Company | **20,075** | 17,451 |
| Non-controlling interests | **313** | 788 |
| Total comprehensive income for the year | **20,388** | 18,239 |

## Consolidated Statement of Financial Position

*At 31 December 2014*

| | Notes | 2014<br>US$'000 | 2013<br>US$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **34,490** | 36,940 |
| Property under development | | **10,644** | – |
| Interest in leasehold land held for own use under operating leases | | **8,726** | 10,021 |
| Goodwill | | **24,089** | 25,177 |
| Other intangible assets | | **9,169** | 11,997 |
| Interest in associate | | **–** | – |
| Other financial asset | | **4,561** | – |
| Prepayments | | **56** | 419 |
| Deferred tax assets | | **11,355** | 11,500 |
| | | **103,090** | 96,054 |
| **Current assets** | | | |
| Inventories | | **50,466** | 47,008 |
| Trade and other receivables | *9* | **97,658** | 114,620 |
| Gross amount due from customers for contract work | | **182,489** | 56,270 |
| Amount due from a related company | | **101** | 101 |
| Pledged bank deposits | | **4,382** | 2,718 |
| Cash at bank and in hand | | **52,337** | 37,909 |
| | | **387,433** | 258,626 |
| Non-current assets classified as held for sale | | **3,470** | – |
| | | **390,903** | 258,626 |
| **Current liabilities** | | | |
| Trade and other payables | *10* | **195,226** | 105,267 |
| Bank loans and other borrowings | | **27,310** | 29,796 |
| Current taxation | | **7,930** | 6,145 |
| Provisions | | **–** | 1,456 |
| | | **230,466** | 142,664 |

| | 2014 | 2013 |
|---|---|---|
| | *US$'000* | *US$'000* |
| **Net current assets** | **160,437** | 115,962 |
| **Total assets less current liabilities** | **263,527** | 212,016 |
| **Non-current liabilities** | | |
| Bank loans and other borrowings | **37,893** | 7,073 |
| Deferred tax liabilities | **467** | 699 |
| | **38,360** | 7,772 |
| **NET ASSETS** | **225,167** | 204,244 |
| **CAPITAL AND RESERVES** | | |
| Share capital | **9,066** | 8,884 |
| Reserves | **212,821** | 187,514 |
| **Total equity attributable to equity shareholders of the Company** | **221,887** | 196,398 |
| **Non-controlling interests** | **3,280** | 7,846 |
| **TOTAL EQUITY** | **225,167** | 204,244 |

## Consolidated Statement of Changes in Equity

*For the year ended 31 December 2014*

| | Attributable to equity shareholders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *US$'000* | Share premium *US$'000* | Merger reserve *US$'000* | Exchange reserve *US$'000* | Employee share-based compen-sation reserve *US$'000* | Capital reserve *US$'000* | Revaluation reserve *US$'000* | Reserve funds *US$'000* | Retained profits *US$'000* | Total *US$'000* | Non-controlling interests *US$'000* | Total equity *US$'000* |
| **Balance at 1 January 2013** | 8,781 | 120,120 | 2,161 | 1,152 | 6,312 | 512 | 627 | 4,690 | 33,249 | 177,604 | 7,497 | 185,101 |
| **Changes in equity for 2013:** | | | | | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | – | – | 14,550 | 14,550 | 749 | 15,299 |
| Other comprehensive income | – | – | – | 2,901 | – | – | – | – | – | 2,901 | 39 | 2,940 |
| Total comprehensive income | – | – | – | 2,901 | – | – | – | – | 14,550 | 17,451 | 788 | 18,239 |
| Capital contribution received by a non-wholly owned subsidiary from non-controlling shareholder | – | – | – | – | – | – | – | – | – | – | 623 | 623 |
| Shares issued under share option schemes | 103 | 1,491 | – | – | (503) | – | – | – | – | 1,091 | – | 1,091 |
| Equity-settled share-based transactions | – | – | – | – | 252 | – | – | – | | 252 | – | 252 |
| Transferred to reserve funds | – | – | – | – | – | – | – | 1,034 | (1,034) | – | – | – |
| Dividends paid to non-controlling shareholder | – | – | – | – | – | – | – | – | – | – | (1,062) | (1,062) |
| **Balance at 31 December 2013** | **8,884** | **121,611** | **2,161** | **4,053** | **6,061** | **512** | **627** | **5,724** | **46,765** | **196,398** | **7,846** | **204,244** |

| | Attributable to equity shareholders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** *US$'000* | **Share premium** *US$'000* | **Merger reserve** *US$'000* | **Exchange reserve** *US$'000* | **Employee share-based compen-sation reserve** *US$'000* | **Capital reserve** *US$'000* | **Revaluation reserve** *US$'000* | **Reserve funds** *US$'000* | **Retained profits** *US$'000* | **Total** *US$'000* | **Non-controlling interests** *US$'000* | **Total equity** *US$'000* |
| **Balance at 1 January 2014** | **8,884** | **121,611** | **2,161** | **4,053** | **6,061** | **512** | **627** | **5,724** | **46,765** | **196,398** | **7,846** | **204,244** |
| **Changes in equity for 2014:** | | | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | - | - | 20,502 | 20,502 | 440 | 20,942 |
| Other comprehensive income | - | - | - | (427) | - | - | - | - | - | (427) | (127) | (554) |
| Total comprehensive income | - | - | - | (427) | - | - | - | - | 20,502 | 20,075 | 313 | 20,388 |
| Shares issued under share option schemes | 74 | 1,650 | - | - | (531) | - | - | - | - | 1,193 | - | 1,193 |
| Equity-settled share-based transactions | - | - | - | - | 409 | - | - | - | - | 409 | - | 409 |
| Transferred to reserve funds | - | - | - | - | - | - | - | 1,565 | (1,565) | - | - | - |
| Acquisition of non-controlling interest without a change in control | 108 | 4,224 | - | - | - | - | - | - | (520) | 3,812 | (3,812) | - |
| Dividends paid to non-controlling shareholder | - | - | - | - | - | - | - | - | - | - | (1,067) | (1,067) |
| **Balance at 31 December 2014** | **9,066** | **127,485** | **2,161** | **3,626** | **5,939** | **512** | **627** | **7,289** | **65,182** | **221,887** | **3,280** | **225,167** |

*Note:*

## 1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2014 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 measurement basis used in the preparation of the financial statements is the historical cost basis.

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with Hong Kong Financial Reporting Standards ("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.

## 2 STATEMENT OF COMPLIANCE AND CHANGES IN ACCOUNTING POLICIES

**Statement of compliance**

These financial statements have been prepared in accordance with all applicable 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") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that 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").

**Changes in accounting policies**

The HKICPA has issued the following amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- HK(IFRIC) 21, *Levies*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

**Amendments to HKAS 32, *Offsetting financial assets and financial liabilities***

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

**Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets***

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on these financial statements as the Group has no impaired non-financial assets.

**HK(IFRIC) 21, *Levies***

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

## 3 TURNOVER AND SEGMENT REPORTING

### (a) Turnover

The principal activities of the Group are the design, manufacture, installation and commissioning of capital 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:

| | **2014** | 2013 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Capital equipment and packages | | |
| – Sales of capital equipment | **24,926** | 32,784 |
| – Construction contracts revenue | | |
| – Rig products and technology | **45,691** | 37,851 |
| – Rig turnkey solutions | **133,792** | 67,617 |
| | **204,409** | 138,252 |
| Oilfield expendables and supplies | | |
| – Sales of expendables and supplies | **52,148** | 44,924 |
| Engineering services | | |
| – Service fee income | **14,029** | 18,752 |
| | **270,586** | 201,928 |

The Group's customer base is diversified and includes two customers (2013: one customer) with whom transactions have exceeded 10% of the Group's revenues. In 2014, revenues from sales of capital equipment and packages to these customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately $107 million and $30 million respectively (2013: $44 million).

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, other financial asset, 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 bank loans and other borrowings, 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 associate, 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.

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 2014 and 2013 is set out below.

| | Capital equipment and packages | | Oilfield expendables and supplies | | Engineering services | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| Revenue from external customers | **204,409** | 138,252 | **52,148** | 44,924 | **14,029** | 18,752 | **270,586** | 201,928 |
| Inter-segment revenue | **1,969** | 585 | **7,821** | 8,314 | **131** | 201 | **9,921** | 9,100 |
| **Reportable segment revenue** | **206,378** | 138,837 | **59,969** | 53,238 | **14,160** | 18,953 | **280,507** | 211,028 |
| **Reportable segment results** | **29,592** | 22,179 | **5,295** | 4,831 | **403** | 974 | **35,290** | 27,984 |
| Depreciation and amortisation for the year | **4,851** | 4,656 | **825** | 800 | **1,648** | 1,636 | **7,324** | 7,092 |
| **Reportable segment assets** | **354,874** | 242,412 | **42,275** | 34,361 | **22,733** | 24,556 | **419,882** | 301,329 |
| Additions to non-current segment assets during the year | **10,804** | 5,941 | **4,185** | 4,473 | **33** | 267 | **15,022** | 10,681 |
| **Reportable segment liabilities** | **(177,568)** | (91,627) | **(11,975)** | (9,604) | **(4,831)** | (4,711) | **(194,374)** | (105,942) |

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

| | **2014** | 2013 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| **Revenue** | | |
| Reportable segment revenue | **280,507** | 211,028 |
| Elimination of inter-segment revenue | **(9,921)** | (9,100) |
| Consolidated turnover *(note 3(a))* | **270,586** | 201,928 |
| **Profit** | | |
| Segment results | **35,290** | 27,984 |
| Share of results of associate | **–** | (54) |
| Finance costs | **(3,221)** | (3,372) |
| Unallocated head office and corporate income and expenses | **(7,762)** | (7,121) |
| Consolidated profit before taxation | **24,307** | 17,437 |
| **Assets** | | |
| Reportable segment assets | **419,882** | 301,329 |
| Other financial asset | **4,561** | – |
| Cash at bank and in hand | **52,337** | 37,909 |
| Pledged bank deposits | **4,382** | 2,718 |
| Deferred tax assets | **11,355** | 11,500 |
| Unallocated head office and corporate assets | **1,476** | 1,224 |
| Consolidated total assets | **493,993** | 354,680 |
| **Liabilities** | | |
| Reportable segment liabilities | **(194,374)** | (105,942) |
| Bank loans and other borrowings | **(65,203)** | (36,869) |
| Current taxation | **(7,930)** | (6,145) |
| Deferred tax liabilities | **(467)** | (699) |
| Unallocated head office and corporate liabilities | **(852)** | (781) |
| Consolidated total liabilities | **(268,826)** | (150,436) |

*(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, other financial asset 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, other financial asset and non-current portion of prepayments.

| | **Revenue from external customers** | | **Specified non-current assets** | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| Hong Kong | **–** | – | **68** | 144 |
| Mainland China | **65,823** | 87,337 | **55,256** | 48,668 |
| North America | **131,803** | 25,908 | **6,494** | 1,650 |
| South America | **16,133** | 14,791 | **407** | 1,104 |
| Europe | **13,145** | 19,675 | **27,185** | 30,180 |
| Singapore | **32,519** | 45,921 | **5** | 2 |
| Others (other part of Asia, India, Russia etc.) | **11,163** | 8,296 | **2,320** | 2,806 |
| | **270,586** | 201,928 | **91,735** | 84,554 |

## 4 OTHER REVENUE AND NET INCOME

| | **2014** | 2013 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Interest income | **134** | 112 |
| Gain on disposal of property, plant and equipment | **–** | 1,014 |
| Others | **749** | 855 |
| | **883** | 1,981 |

## 5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

| | | 2014 | 2013 |
|---|---|---|---|
| | | ***US$'000*** | *US$'000* |
| ***(a)*** | ***Finance costs*** | | |
| | Interest on bank loans and other borrowings wholly repayable within five years | **3,338** | 3,341 |
| | Interest on other loans | **–** | 31 |
| | Less: Interest expense capitalised into property under development* | **(117)** | – |
| | | **3,221** | 3,372 |

* The borrowing costs have been capitalised at a rate of 6.71% - 7.21% per annum (2013: Nil).

| | | 2014 | 2013 |
|---|---|---|---|
| ***(b)*** | ***Staff costs#*** | | |
| | Contributions to defined contribution retirement plans | **4,431** | 4,095 |
| | Equity-settled share-based payment expenses | **409** | 252 |
| | Salaries, wages and other benefits | **38,705** | 33,910 |
| | | **43,545** | 38,257 |
| ***(c)*** | ***Other items*** | | |
| | Amortisation of interest in leasehold land held for own use under operating leases# | **254** | 172 |
| | Amortisation of intangible assets | **2,691** | 2,618 |
| | Depreciation# | **4,741** | 4,570 |
| | Impairment losses on doubtful debts | **1,696** | 541 |
| | Write-off of trade debtors | **363** | – |
| | Research and development costs | **1,282** | 1,676 |
| | Net foreign exchange loss | **341** | 1,078 |
| | Loss on disposal of property, plant and equipment | **247** | – |
| | Auditors' remuneration | **513** | 546 |
| | Minimum lease payments under operating leases in respect of land and buildings | **3,615** | 3,065 |
| | Cost of inventories# | **192,147** | 133,226 |

\# Cost of inventories includes $24,339,000 (2013: $21,698,000) relating to staff costs, depreciation and amortisation expenses which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

## 6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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

| | 2014 | 2013 |
|---|---|---|
| | *US$'000* | *US$'000* |
| **Current tax** | | |
| Provision for the year | | |
| – PRC enterprise income tax | **2,783** | 2,538 |
| – Overseas corporation income tax | **1,428** | 381 |
| | **4,211** | 2,919 |
| Over-provision in respect of prior years | | |
| – PRC enterprise income tax | **(781)** | (115) |
| | **3,430** | 2,804 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(65)** | (666) |
| | **3,365** | 2,138 |

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. During the year, certain PRC subsidiaries are subject to tax at a reduced rate of 15% (2013: 15%) under the relevant PRC tax rules and regulations.

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

| | 2014 | 2013 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Profit before taxation | **24,307** | 17,437 |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned | **5,729** | 4,284 |
| Tax effect of non-deductible expenses | **1,062** | 923 |
| Tax effect of non-taxable income | **(3,474)** | (3,056) |
| Tax effect of profits entitled to tax reductions in the PRC | **(1,938)** | (1,408) |
| Tax effect of unused tax losses not recognised | **2,767** | 1,510 |
| Over-provision in prior years | **(781)** | (115) |
| Actual tax expense | **3,365** | 2,138 |

## 7 DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2014 (2013: $Nil).

## 8 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 $20,502,000 (2013: $14,550,000) and the weighted average number of 695,582,000 (2013: 686,456,000) ordinary shares in issue during the year, calculated as follows:

**Weighted average number of ordinary shares**

| | **2014** | 2013 |
|---|---|---|
| | ***'000*** | *'000* |
| Issued ordinary shares at 1 January | **690,754** | 682,782 |
| Effect of share issue for acquisition of non-controlling interest | **460** | – |
| Effect of share options exercised | **4,368** | 3,674 |
| Weighted average number of ordinary shares at 31 December | **695,582** | 686,456 |

### (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 $20,502,000 (2013: $14,550,000) and the weighted average number of 713,790,000 (2013: 702,309,000) ordinary shares, calculated as follows:

**Weighted average number of ordinary shares (diluted)**

| | **2014** | 2013 |
|---|---|---|
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares at 31 December | **695,582** | 686,456 |
| Effect of deemed issue of shares under the Company's share option schemes for nil consideration | **18,208** | 15,853 |
| Weighted average number of ordinary shares (diluted) at 31 December | **713,790** | 702,309 |

## 9 TRADE AND OTHER RECEIVABLES

| | 2014 | 2013 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Trade debtors and bills receivable | **90,334** | 106,870 |
| Less: allowance for doubtful debts | **(5,767)** | (4,208) |
| | **84,567** | 102,662 |
| Other receivables, prepayments and deposits | **13,147** | 12,377 |
| | **97,714** | 115,039 |
| Less: Non-current portion of prepayments | **(56)** | (419) |
| | **97,658** | 114,620 |

### (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:

| | 2014 | 2013 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Current | **31,222** | 58,555 |
| Less than 1 month past due | **9,436** | 10,449 |
| 1 to 3 months past due | **16,529** | 11,581 |
| More than 3 months but within 12 months past due | **13,130** | 11,018 |
| More than 12 months past due | **14,250** | 11,059 |
| Amounts past due | **53,345** | 44,107 |
| | **84,567** | 102,662 |

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 capital equipment and packages are negotiated on a case-by-case basis. Deposits ranging from 10% to 30% of the contract sum are usually required. The balance of 60% to 85% would be payable in 1 to 2 months after delivery and acceptance of products. The remaining 5% to 10% of the contract sum represents the retention money and is payable within up to 18 months after delivery of the products or 1 year after completion of the onsite testing, whichever is earlier.

Included in "Trade and other receivables" of the Group are trade debtors and bills receivable of $90,334,000 (2013: $106,870,000) of which $14,550,000 (2013: $23,841,000) 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.

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

| | **2014** | 2013 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| At 1 January | **4,208** | 3,638 |
| Exchange adjustments | **(4)** | 29 |
| Impairment losses recognised | **1,696** | 541 |
| Uncollectible amounts written-off | **(133)** | – |
| At 31 December | **5,767** | 4,208 |

At 31 December 2014, the Group's trade debtors of $6,020,000 (2013: $5,371,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $5,767,000 (2013: $4,208,000) were recognised. The Group does not hold any collateral over these balances.

**(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:

| | **2014** | 2013 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Neither past due nor impaired | **31,222** | 58,555 |
| Less than 1 month past due | **9,436** | 10,449 |
| 1 to 3 months past due | **16,529** | 11,581 |
| More than 3 months but within 12 months past due | **13,130** | 11,011 |
| More than 12 months past due | **13,997** | 9,903 |
| | **53,092** | 42,944 |
| | **84,314** | 101,499 |

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 good track record 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.

## 10 TRADE AND OTHER PAYABLES

| | **2014** | 2013 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Trade creditors and bills payable | **156,747** | 54,214 |
| Other payables and accrued charges | **38,479** | 51,053 |
| | **195,226** | 105,267 |

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:

| | **2014** | 2013 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Within 1 month | **132,411** | 39,081 |
| More than 1 month but within 3 months | **9,597** | 6,300 |
| More than 3 months but within 12 months | **10,642** | 5,546 |
| More than 12 months but within 24 months | **1,340** | 1,125 |
| More than 24 months | **2,757** | 2,162 |
| | **156,747** | 54,214 |

## REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2014. The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny, Mr. Bian Junjiang and Mr. Guan Zhichuan.

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2014 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the Year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditors.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 1. OVERVIEW

TSC is a global product and service provider serving both the offshore and land drilling rig industry worldwide. These principal activities remained unchanged for 2014.

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

Our rig Maintenance, Repair and Operations ("MRO") segments comprise two business units; the MRO Supplies business unit which comprises the manufacture and sales of oilfield expendables and spares, and the MRO Services business unit which provides a comprehensive range of engineering and maintenance services for our products as well as equipment manufactured by other suppliers.

Alliance Offshore Drilling Pte. Ltd. ("AOD"), incorporated and based in Singapore, is a wholly-owned subsidiary of the Group. Its primary business is to implement the alliance strategy with our partners, Zentech Incorporated and CSSC Huangpu Wenchong Shipbuilding Company Ltd. to build, sell and lease certain type of jack-up rigs. Our first 400 ft jack-up rig, R-550D, is under construction with estimated delivery at the end of 2015. Leverage resources and partnership to create "All-Win" relationship will continue to be one of the primary strategies for us to grow the Company.

## 2. FINANCIAL REVIEW

| | **2014** | 2013 | **Change** | |
|---|---|---|---|---|
| | ***US$'000*** | *US$'000* | ***US$'000*** | % |
| Turnover | **270,586** | 201,928 | **68,658** | 34.0 |
| Gross Profit | **75,247** | 63,777 | **11,470** | 18.0 |
| ***Gross Profit Margin*** | **27.8%** | **31.6%** | | |
| Profit before Interest and Taxation | **27,528** | 20,863 | **6,665** | 31.9 |
| Net Profit attributable to Equity Shareholders | **20,502** | 14,550 | **5,952** | 40.9 |
| ***Net Profit Margin*** | **7.6%** | **7.2%** | | |
| Earnings per Share (Basic) | **US2.95 cents** | US2.12 cents | **US0.83 cent** | 39.2 |
| Earnings per Share (Diluted) | **US2.87 cents** | US2.07 cents | **US0.80 cent** | 38.6 |

### Turnover

Consolidated group turnover increased 34.0% to US$270.6 million from US$201.9 million in 2013. The increase came mainly from a 47.9% increase in Capital Equipment and Packages recognised revenue and 16.1% increase in Oilfield Expendables and Supplies sales. However, Engineering Services revenue decreased 25.2% compared to the previous year.

The 40.9% increase in net profit attributable to equity shareholders was mainly due to the increased revenue from Capital Equipment and Packages business segment and the improvements in overall operational efficiency and cost reduction measures. Overall the Group was able to execute its business and operational strategies well.

### Segment Information by Business Segments

| | 2014 | | 2013 | | Increase/ (decrease) | |
|---|---|---|---|---|---|---|
| | *US$'000* | % | *US$'000* | % | *US$'000* | % |
| Capital Equipment and Packages | **204,409** | **75.5** | 138,252 | 68.5 | 66,157 | 47.9 |
| Oilfield Expendables and Supplies | **52,148** | **19.3** | 44,924 | 22.2 | 7,224 | 16.1 |
| Engineering Services | **14,029** | **5.2** | 18,752 | 9.3 | (4,723) | (25.2) |
| Total turnover | **270,586** | **100.0** | 201,928 | 100.0 | 68,658 | 34.0 |

### Capital Equipment and Packages

Revenue recognised based on progress achieved on Capital Equipment and Packages projects increased 47.9% in 2014 compared to the previous year 2013. This increase of US$66.2 million came mainly from the rig turnkey package for the R-550D jack-up drilling rig. The remaining Capital Equipment and Packages revenue was fairly consistent with the previous year coming from the various capital equipment business units.

### Oilfield Expendables and Supplies

The increase of 16.1% from US$44.9 million in 2013 to US$52.1 million in 2014 in Oilfield Expendables and Supplies turnover came from the continuing expansion of the Group's distribution network with established drilling contractors and the development of products for Original Equipment Manufacturers. In the year 2014, the distribution network in North America, Mexico and Colombia is well developed and provided the base for the good growth in this segment.

### Engineering Services

Engineering Services revenue decreased from US$18.8 million in 2013 to US$14.0 million in 2014 mainly due to the slowdown in the exploration activities and less operating rigs in Europe.

**Segment Information by Geographical Regions**

| | 2014 | | 2013 | | Increase/ (decrease) | |
|---|---|---|---|---|---|---|
| | *US$'000* | % | *US$'000* | % | *US$'000* | % |
| Mainland China | **65,823** | **24.3** | 87,337 | 43.3 | (21,514) | (24.6) |
| North America | **131,803** | **48.7** | 25,908 | 12.8 | 105,895 | 408.7 |
| South America | **16,133** | **6.0** | 14,791 | 7.3 | 1,342 | 9.1 |
| Europe | **13,145** | **4.9** | 19,675 | 9.7 | (6,530) | (33.2) |
| Singapore | **32,519** | **12.0** | 45,921 | 22.7 | (13,402) | (29.2) |
| Others | **11,163** | **4.1** | 8,296 | 4.2 | 2,867 | 34.6 |
| Total turnover | **270,586** | **100.0** | 201,928 | 100.0 | 65,658 | 34.0 |

Due to the change of ultimate customer of the R-550D jack-up drilling rig from a customer in China to a customer in North America, the turnover in North America in 2014 increased significantly compared to 2013.

**Gross Profit and Gross Profit Margin**

The Group's Gross Profit of US$75.2 million for the Year increased 18.0% from US$63.8 million in the previous year. Gross Profit Margin decreased from 31.6% in 2013 to 27.8% in 2014, resulting from recognising the sales of the R-550D jack-up drilling rig, which has a lower gross profit margin.

**Other Revenue**

The decrease in Other Revenue from US$2.0 million to US$0.9 million was mainly due to the gain on disposal of a property in 2013 while there was no such income in 2014.

**Operating Expense and Profit Attributable to Equity Shareholders of the Company**

**General and Administrative Expenses**

General and Administrative Expenses remained consistent with the previous year at US$33.3 million. Cost control, higher efficiency and productivity continues to be the focus at all levels of management in the Group.

**Selling and Distribution Expenses**

Selling and Distribution Expenses increased by US$2.8 million from US$7.0 million in 2013 to US$9.8 million in 2014. Selling and Distribution Expenses comprised mainly of sales staff salaries, commissions, marketing expenses including participation in trade shows, travel costs and other sales promotional expenditure. The increase in Selling and Distribution Expenses was due to the expansion of the distribution network and sales forces in North America and Mexico.

**Other Operating Expenses**

The increase in Other Operating Expenses from US$4.9 million in 2013 to US$5.5 million in 2014 was mainly due to the increase in impairment of trade receivable during the year.

**Finance Costs**

Finance Costs, primarily interest on bank loans and other borrowings, amounted to approximately US$3.2 million in 2014 compared to US$3.4 million in the previous year. The decrease was due to the repayment of bank and other borrowings during the year, but partly offset by the interest-bearing bond issued near the end of 2014.

**Group's Liquidity and Capital Resources**

As at 31 December 2014, the Group had intangible assets of approximately US$33.3 million (2013: US$37.2 million). As at 31 December 2014, the Group carried fixed assets of approximately US$53.9 million (2013: US$47.0 million) being property, plant and equipment, property under development and interest in leasehold land held for own use under operating leases. The increase in the Group's fixed assets was due to the addition of construction of a new facility in Qingdao, P.R.C..

As at 31 December 2014, the Group's interest in associate was nil (2013: nil) and deferred tax assets was approximately US$11.4 million (2013: US$11.5 million). Non-current portion of prepayments was approximately US$0.1 million (2013: US$0.4 million).

As at 31 December 2014, the Group had current assets of approximately US$390.9 million (2013: US$258.6 million). Current assets mainly comprised cash and bank balances of approximately US$52.3 million (2013: US$37.9 million), non-current assets classified as held for sales of approximately US$3.5 million (2013: nil), pledged bank deposits of approximately US$4.4 million (2013: US$2.7 million), inventories of approximately US$50.5 million (2013: US$47.0 million), trade and other receivables of approximately US$97.7 million (2013: US$114.6 million), amount due from a related company of approximately US$0.1 million (2013: US$0.1 million), and gross amount due from customers for contract work of approximately US$182.5 million (2013: US$56.3 million). The increase in the gross amount due from customers for contract work was due mainly to work performed on the R-550D jack-up drilling rig towards the end of the year which had not yet reached invoicing milestones.

As at 31 December 2014, current liabilities amounted to approximately US$230.5 million (2013: US$142.7 million), mainly comprising trade and other payables of approximately US$195.2 million (2013: US$105.3 million), bank loans and other borrowings of approximately US$27.3 million (2013: US$29.8 million), current tax payables of approximately US$7.9 million (2013: US$6.1 million), and provision for contract loss amounted to approximately nil (2013: US$1.5 million). The increase in trade and other payables was mainly due to the increase in project advances received for capital equipment and packages contracts signed towards the end of the year.

As at 31 December 2014, the Group had non-current liabilities of approximately US$38.4 million (2013: US$7.8 million), comprising bank loans and other borrowings of approximately US$37.9 million (2013: US$7.1 million) and deferred tax liabilities of approximately US$0.5 million (2013: US$0.7 million). The increase in non-current liabilities is manly due to the bond issue near the end of 2014. 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 total assets, under 100%. The gearing ratio as at 31 December 2014 was 54% (2013: 42%).

Details of movements in the statement of financial position balances are further provided in the Consolidated Cash Flow Statement and accompanying notes to the financial statements.

**Significant Investment and Disposals**

During the Year, the Group acquired 2.5% equity interest in Persta Resources Inc. with purchase consideration of US$4.6 million. The purpose of this investment is to form a strategic partnership in order to explore land rig market in North America.

**Capital Structure**

At the 1 January 2014, there were 690,754,204 shares in issue and the Company carried a share capital of approximately US$8,884,000.

During the Year, the Company issued 5,747,000 shares to option holders who exercised their options under the Company's employee share option schemes. In addition, the Company issued 8,404,000 shares for the acquisition of 28% of Jurun Ltd.. At 31 December 2014, the Company had 704,915,204 Shares in issue, and a paid up capital of approximately US$9,066,000.

**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, trade receivables and plant and machinery with aggregate net book value of US$43.6 million (2013: US$37.1 million).

(ii) Corporate guarantees given by Qingdao TSC Offshore Equipment Co. Ltd, TSC-HHCT (Xian) Control Technologies Limited, Zhengzhou TSC Offshore Equipment Co. Ltd. and TSC (Qingdao) Manufacture Co., Limited to the extent of banking facilities outstanding of US$12.2 million (2013: US$14.1 million) as at 31 December 2014.

(iii) Corporate guarantee given by the Company to the extent of banking facilities outstanding of US$2 million (2013: nil) as at 31 December 2014.

(iv) Guarantees given by the directors of the Company (the "Director") to the extent of banking facilities outstanding of US$0.4 million (2013: US$6.9 million) as at 31 December 2014. No guarantee fee was received by the directors during the Year.

Certain bank loans of the Group are subject to the fulfilment of covenants relating to certain aspects 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 2014, 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 carrying out production locally with Renminbi while approximately 50% of the Group's turnover was denominated in United States dollars. As at 31 December 2014, 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"):

On 24 April 2012, the Company and CIMC Raffles entered into new master agreement (the "New Master Agreement") to renew certain continuing connected transactions. Pursuant to the New Master Agreement, the Group shall provide the Equipment under the Turnkey Project(s) to CIMC Raffles. The New Master Agreement is valid for a period starting from 4 June 2012 and ending on 31 December 2014.

Details of the continuing connected transactions under the New Master Agreement are as follows:

**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 New Master Agreement with CIMC Raffles by which the Group can provide the Equipment and the Turnkey Project(s) to CIMC Raffles for three years ending 31 December 2014. |
| Contract Values and Other Details | The annual caps under the New 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 was published on the websites of the Stock Exchange and the Company. The New 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 jacking system with a total contract value of approximately US$1.8 million, which is within the cap of US$200 million for the year ended 31 December 2014 approved by the independent shareholders of the Company. The actual sales amount of the continuing connected transactions between the Group and CIMC Raffles was approximately US$29.2 million for the year ended 31 December 2014 (2013: US$44.2 million).

**Employees and Remuneration Policy**

As at 31 December 2014, the Group had approximately 1,559 full-time staff in the USA, the United Kingdom ("UK"), Brazil, United Arab Emirates, Russia, Singapore, Hong Kong and the PRC. The Group's remuneration policy is basically determined by the performance of individual employees and the market conditions. The Group also provides other benefits to its employees, including medical schemes, pension contributions and share option schemes.

**Market and Business Prospects**

The primary factors affecting our business are the exploration and production (E&P) activities in the oil and gas industry, especially the Capex and Opex from the E&P players, including all National Oil Companies ("NOC"), International Oil Companies ("IOC") and Independent Oil Companies ("Independents"). The sharp decline (over 50%) of oil prices since June 2014 has posed great challenges to the industry. Widespread slow-downs in E&P activities and cut-backs in capital expenditures are happening and expected to continue throughout the industry for a period of time. However as suggested by Chinese word for crisis – "Weiji" (meaning crisis and opportunity), this down turn also present both "Crisis" and "Opportunity" for TSC.

Oil and gas industry is experiencing slowdown as a result of the sharp decline in oil prices. The whole industry is currently feeling the pain that is represented by lower daily rates, reduced capital expenditures and lower active rig counts. However this new environment will demand for competitive, cost-effective products and services. The general concurrence on the oil price and market is that this down turn will last a while till the later part of 2016. During this period of time, new rig building activities will sharply decline for both land rigs and offshore rigs. To survive this down turn, oil companies are continue putting pressures on all the service companies to cut prices. Lower day rate for rigs will become the new norm for the industry. A new eco-system is being developed. Those who can handle the new system will survive and grow while the others may disappear.

Our strength lies in the great values that we create for our customers through flexible solutions. With the oil prices stay at the current level, customers in our industries become more and more sensitive to their spending versus values they receive. The competitive prices with our comprehensive range of products, innovative technology and expertise provide the best combination to address the current market needs.

Even with the depressed oil prices, OPEC and non-OPEC producers seems not interested in curtailing their productions. Drilling or work-over operations have to be done in order to maintain their productions. As long as oil and gas are being produced, there will be opportunities for TSC. The key is to respond to the market in a timely manner and adjust our strategy and focus accordingly.

Geographically, China has been our major market for many years. The slowdown of new offshore rig builds in the country will have certain impact to our growth. However, with our strong presence in China, record-high back-log and growing market shares, we feel that the revenue impact in the China market is minimum. Originally, we have also budgeted that the major revenue growth in 2015 is from North America region with the launching of our PDQ shale rigs. Because the US shale activities are the hardest hit market by this down turn, we will have to re-adjust this to address the market change by conducting more services work and build other components for rig upgrades. The strategic location for our land rig manufacturing facility in Houston will help us to address the needs in other markets such as South America.

In 2014, we made a major strategic decision to build-up more presences in certain emerging markets such as Mexico and the Middle East. We have timely reduced our Brazil presence and mobilize our resources to enhance the Middle East efforts. The newly established Mexico region also start to bear results with the awards of $63 million contract for land rig upgrade from Pemex. The energy reform in Mexico is coming along well. TSC is able to grasp the more and more opportunities the reform will bring in this market. As Saudi-led OPEC countries will not reduce their production which in turn will provide rooms for TSC to grow in the Middle East Market.

**Future Plans for Material Investments, Capital Assets and Capital Commitment**

To address the market changes, there will be more investment this year in aftermarket repair and services activities. We plan to build 2 to 3 such facilities in the Middle East and the second facility in Mexico.

Our Qingdao facility with approximately 382,000 square feet (35,500 square meters) will be officially put into use in the first half of 2015. The facility was constructed as the first phase on 24.7 acres (10.08 hectares) of industrial land and will be used for manufacturing of various products. Total cost of land and building, and plant and equipment is approximately US$32.3 million and will be funded partly by our working capital and partly by long-term bank loans.

Our Houston new facility with approximately 53,000 square feet (4,924 square meters) was formally opened on 26 March 2015. The facility with 4 overhead cranes (20 tons each) is a leasehold building and will be designated for land rig business including fabrication, repair and maintenance services. This new facility will work together with our existing set-ups to better serve the drilling companies in the region.

TSC invested US$4.6 million in Persta, a Canadian E&P company during the Year. The investment was aimed at participating in the upstream of the industry to help TSC penetrate the market with its capital equipment.

To provide better value to our clients and to grow the Company for our shareholders, TSC will continue to leverage our core competence and product offering to explore new avenues with innovative business models.

The Company is also in the process of implementing a global enterprise resource planning (ERP) system to enable business processes to operate from a unified platform to increase operational efficiency. The first phase was completed with implementation is being carried out for rest of the locations.

**Strategy, Prospects and Order Book**

*Strategies*

Our product offering will still be a 3-tier pyramid structure: MRO, Capital Equipment and Integrated Solution. MRO is the base comprises our cash cow business of MRO Supplies and Services (which include Repair and Offshore Services, Engineering, Training, Installation and Commissioning), Rack Cutting, Solids Control and other developed range of services and equipment. The mid-section of the pyramid comprises our individual sales of the wide range of capital equipment products such as Deck Cranes, Mechanical Handling, Mud Pumps, Jacking Systems, Electrical Controls and Drives. These are equipment which we design and supply individually. The top section of our strategy pyramid, our ‘growth engine’ is where we put together our range of products as an ‘Integrated Solution’, addressing customer needs by leveraging TSC’s product range, engineering capability, project execution and financial needs taken together as one product offering.

To transform TSC into a formidable player in the global oil and gas service and equipment industry, new business models and better ways of doing things to benefit our clients will become more and more important in today's competitive world. TSC's strategy is to offer customized solutions to certain focused markets and customers by teaming up with partners and by leveraging all partners' resources.

We stress on a corporate culture represented by the acronym "4D TOP-E" core value which stands for the four drivers of behavior, to be Customer-Driven, Service-Driven, Solution-Driven and Results-Driven in everything we do with emphasis on Teamwork, Openness, Passion and Entrepreneurship to achieve our common goals.

*Prospects*

The landscape of the industry has significantly changed as a result of the recent steep declines of oil prices. Oil companies and drilling contractors are reducing activities and cutting back their capital expenditures. With the possibility of low oil price being the new norm in the near future, our clients are looking for values, for cost-effective solutions and for innovative business models of serving them, we believe that TSC's strategy will serve the market well. We realise that the market prospects present many new challenges. There will be more obstacles to overcome this year than ever before in order to continue our growth in the depressed market. However, we feel that the adjustment of TSC's strategy and our market positioning will help us to take advantage of some of the opportunities in this down-turn environment.

*Order Book*

As at 31 December 2014, the Group as a whole carried an order backlog of approximately US$229.6 million for capital equipment and packages, expendables and services. Subsequent to 31 December 2014, the Group had secured further new orders amounting to US$22.5 million up to the date of this announcement.

*Subsequent Events*

Save as disclosed in the announcement, no subsequent event occurred after 31 December 2014 which may have significant effects on the assets and liabilities of future operations of the Group.

## CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company had received from each of the independent non-executive Directors an annual confirmation of his independence. The Company considered all the independent non-executive Directors are independent.

## 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 has the appropriate professional qualifications or accounting or related financial management expertise which 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.

Throughout the Year, the audit committee held four 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 to described the audit plan and scoping and identified the significant risks and other areas of focus to be addressed by external auditor.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2014.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director had a direct and indirect material interest, subsisted at the end of the year or at any time during the year ended 31 December 2014.

**COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company is committed to maintain a high standard of corporate governance practices to ensure transparency so that the interests of our shareholders and the cooperative development among customers, employees and the Group can be safeguarded. The Company has adopted the Code on Corporate Governance Practices of the Stock Exchange.

The Company has complied with the code provisions ("CG Codes") of the Code on Corporate Governance Practices for the year ended 31 December 2014 as set out in Appendix 14 to Listing Rules at that time except for the deviation from CG Code A.6.7 where three independent non-executive Directors and two non-executive Directors were absent from the last annual general meeting of the Company held on 30 May 2014, and one executive Director, three non-executive Directors and three independent non-executive Directors were absent from the extraordinary general meeting of the Company held on 5 December 2014 as they were away from Hong Kong due to other important engagements at the time of this meeting.

**PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

During the year ended 31 December 2014, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

**PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT**

A copy of annual report containing all information required by relevant paragraphs of Appendix 16 to the Listing Rules will be published on the Stock Exchange's website (http://www.hkex.com.hk) and the Company's website (http://www.t-s-c.com) in due course.

By Order of the Board
**TSC Group Holdings Limited**
**Jiang Bing Hua**
*Executive Chairman*

Hong Kong, 26 March 2015

*As of the date of this announcement, the Board comprises 2 executive Directors, namely Mr. Jiang Bing Hua and Mr. Zhang Menggui; 3 non-executive Directors, namely Mr. Jiang Longsheng, Mr. Brian Chang and Mr. Yu Yuqun; and 4 independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny, Mr. Bian Junjiang, Mr. Guan Zhichuan and Mr. Robert William Fogal Jr.*