TSC Group Holdings Limited

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www.t-s-c.com

BEYOND INTEGRATION SEAMLESS SOLUTIONS™

2014 ANNUAL REPORT

TSC

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

TSC

Your Ultimate
Total Solutions Company

Sales Service Solution

CONTENTS

CORPORATE MILESTONES

1845

Ansell Jones

Ansell Jones founded in England

1989

Miko Oilfield Supplies founded in England and traded as M·O·S

M·O·S

1990

PATRIOT MECHANICAL HANDLING, INC.

Patriot Cranes founded in Houston, Texas, U.S.A.

1995

EMER International started business in Houston, Texas, U.S.A.

EMER

2001

HHCT, EMER's 1st manufacturing facility founded in Xi'an, China

2004

M·O·S acquired Ansell Jones and Patriot Cranes

2005

M·O·S rebranded as Global Marine Energy ("GME")
EMER listed on Hong Kong Stock Exchange

CORPORATE MILESTONES

2007

EMER acquired Zhengzhou Highlight (Solid Control Equipment)

2008

EMER acquired Zhengzhou GEAR and GME, and was rebranded as TSC offshore

2010

TSC acquired 51% of Jurun (Cruiser Top Drive Equipment)

2011

TSC Offshore rebranded as TSC Group

2012

Alliance with Zentech and CSSC shipyard to construct high spec rigs

2013

Alliance Offshore Drilling ("AOD") incorporated

Acquisition of land in Qingdao, China

2014

Began production of first high spec R-550D jack-up drilling rig

TSC GROUP HOLDINGS WORLDWIDE LOCATIONS

GLOBAL SOLUTIONS

Designing, Manufacturing and Packaging Solutions for the Onshore and Offshore Industries

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.

Houston office in USA

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

CORPORATE
PROFILE

Xi'an factory I in China

Qingdao factory I in China

Dalian factory in China

Shipley office in UK

Qingdao factory II in China

Macaé facility in Brazil

Zhengzhou factory in China

Xi'an factory II in China

EXECUTIVE CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S STATEMENT

Jiang Bing Hua
Executive Chairman

Zhang Menggui, Morgan
Chief Executive Officer

DEAR SHAREHOLDERS

The transformation journey in TSC towards a sustained growth company remains apace. In 2014, we have achieved a spectacular all-time record top and bottom line results despite strong headwinds encountered in the final quarter of 2014. We continue to hone our strategy execution capabilities and expand our global footprint to provide quality, costs effective solutions to clients' operations.

TSC's operations are geographically dispersed and well positioned in major oil and gas exploration and development areas globally. We exist and operate in a single, global onshore and offshore drilling market because of our clients' operating profile; which are primarily the Drilling Contractors and indirectly to the Oil Companies.

A CHALLENGING ENVIRONMENT

The significant rapid decline in oil prices has accelerated the decrease in demand in the global drilling market. Since 2010 until mid-2014, world oil prices had been fairly stable, at around US$110 a barrel which has been the assumption for most exploration and development projects. But since June 2014 oil prices have more than halved. Brent crude oil has now dipped below US$50 a barrel for the first time since May 2009 and US crude is down to below US$48 a barrel. This has a direct impact on most pre-sanctioned projects being pushed back to drive down costs.

We currently expect the overall pace of contracting for the global floater and jack-up fleet to slow down in the near to medium term, resulting in excess capacity, lower competitive day rates and idle time for some rigs. The short term overcapacity of higher specification jack-up rigs will likely drive a shift in clients' preference to higher specification or newer standard specification units during such periods of overcapacity. In addition, this excess capacity may result in some lower capability assets in the industry being permanently retired and ultimately reducing the available supply of drilling rigs, all else being equal.

The volatility in oil prices is expected to continue through 2015 and possibly longer. We have to work closely with clients to deliver superior value in this new costs curve paradigm; scaling back capital spending and reducing costs, while always maintaining our primary focus on quality and safety.

Weather the Turbulence

Our efforts over the past four years have helped in preparing us to face the new oil price challenge with greater resilience. We have built up a steadfast foundation to weather cyclical downturns. Leveraging on our global footprint, we have reconfigured and strengthened our global presence and deployed more resources to the "frontline" to serve our clients and bring more revenues.

Operationally, we are taking measures to reduce costs to bring about efficiency and put in place middle-level managerial empowerment to propel results. We continue to work hard at delivering a strategy based on clear targets and goals.

We have also put in tremendous efforts in building up a scalable, cloud based IT infrastructure to better serve our clients' in terms of response turnaround time and building up core organizational capabilities.

TSC, through its wholly-owned subsidiary Alliance Offshore Drilling Pte. Ltd. ("AOD"), is managing the newbuild; Zentech Design R-550D Jack-up drilling rig which is currently well under construction at the CSSC Huangpu Wenchong Shipyard in China. This project execution is on track and AOD is currently engineering for a cost-effective fit-for-purpose 400ft Jack-up rig of the same Zentech design. AOD continues to pursue one of the Group's long-term strategies in creating demand and generating track records for TSC's products through this AOD demand driven platform.

EXECUTIVE CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S STATEMENT

Our second Houston manufacturing facility was formally opened in March. This 26,305 square meter facility with both fabrication and rig-up capacities will provide us the needed capacity for our land rig business unit. The third Qingdao facility will be fully online in the first half of 2015, which will add a further 100,000 square meter of manufacturing space; total built-up facilities of 36,305 square meters of covered manufacturing space to enable the Company's long-term goals. Presently TSC already has two plants with approximately 70,000 square meters of manufacturing facilities. In addition to the expanded manufacturing capacities in Houston and in Qingdao, we are expanding our repairing, services and overhaul capability and footprints globally so we will be able to provide timely services locally.

Our long-term view of the offshore drilling market remains favorable, particularly for high-specification assets at a reduced asset prices. We expect the near to medium-term to be challenging, given clients' decisions to focus on optimizing capital allocation, reduce costs and delay various exploration and development programs.

Financial Results

In 2014, we delivered record breaking top and bottom line results. The Company also attained a higher return on equity ("ROE") and earning per share ("EPS") compared with previous years through improved efficiency, costs control and productivity, a reflection of the solid execution of our business plans in a challenging global environment.

For the fiscal year 2014, TSC achieved revenues of US$270.6 million, up by 34% over the previous year of US$201.9 million and profit attributable to equity shareholders of the Company was up 40% to US$20.5 million from US$14.6 million in 2013. In addition, a backlog of US$229.6 million was also achieved which will lay a solid foundation to the business growth in 2015.

Prospects and Outlook

In 2015, we are operating in a very different landscape from that of last year. The lower oil price presents daunting challenges for the industry. We also see volatility due to the diverging growth between the US, and the rest of the world (Eurozone, Japan, China) with the varying monetary policies being pursued. These major factors will likely have unintended consequences for the global economy, market liquidity and the oil and gas industry. With that in mind, we have fine-tuned our overall global strategy for the "new norm" and will focus our efforts to provide the most cost-effective solutions to our clients. With the backlog in hand and our strategic position in the market, we are expecting another record breaking year in 2015 and continuing growth for the coming years.

Appreciation

We take this opportunity to emphasise and place on record our acknowledgement of the Board's appreciation of the significant effort put in by every member of our team that enabled TSC to achieve the sustained good results in 2014. With a global footprint of over nine countries offering products from seven business units with production facilities spread over six manufacturing plants we recognise the myriad of challenges faced by our staff. These efforts are further brought together by the excellent teams, bringing us our engineering and technological content, project realisation, quality, safety standards and corporate support services with which we have met and exceeded our clients' expectations. We are proud of what the TSC team has achieved in 2014.

The TSC of 2015 is a global team that has been through some of the most difficult times an organization can face and emerged stronger and better than before. Our goal is to be the supplier of choice offering world class solutions to all our clients. We are committed to make this vision a reality. We are prepared for the challenges ahead!

Jiang Bing Hua
Executive Chairman

Zhang Menggui, Morgan
Chief Executive Officer

Hong Kong, 26 March 2015

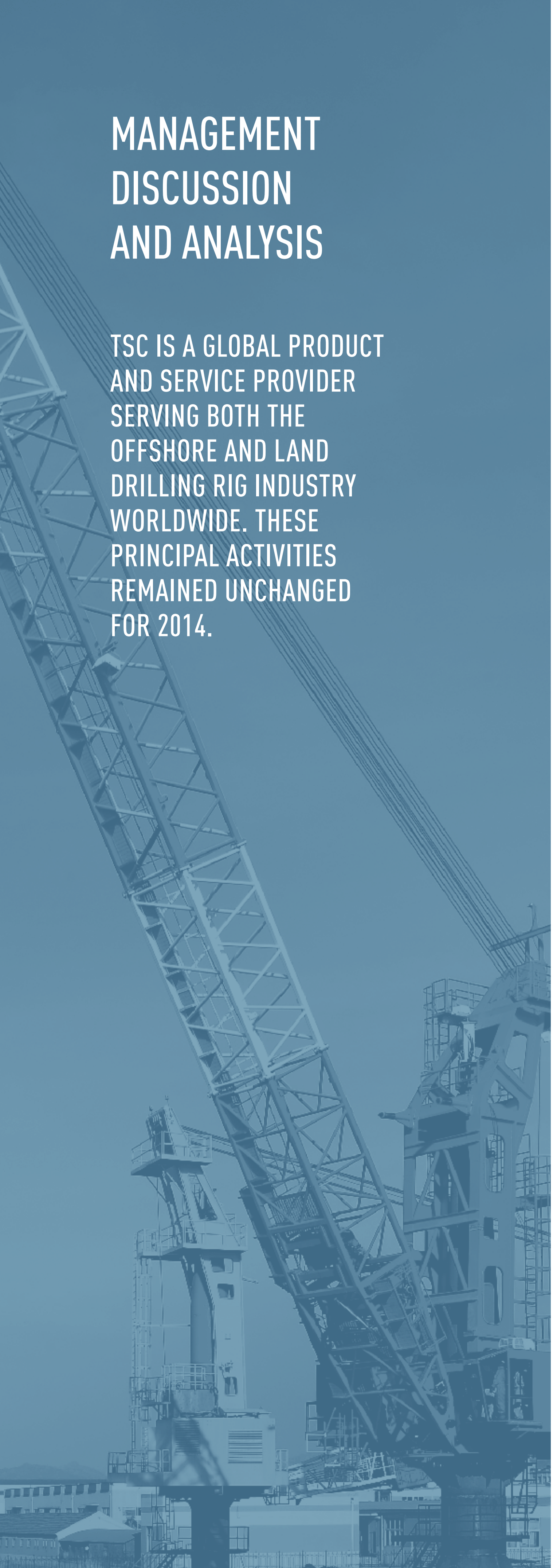
CORPORATE VISION

TO BECOME A WORLD CLASS OFFSHORE SOLUTIONS PROVIDER, BY CATERING TO CLIENT'S NEEDS THROUGH

COMMITMENT,
EXCELLENCE,
ADAPTABILITY &
LOYALTY

MANAGEMENT DISCUSSION AND ANALYSIS

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.



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.

FINANCIAL REVIEW

	2014 US$'000	2013 US$'000	Change 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Segment Information by Business Segments

	2014 US$'000	%	2013 US$'000	%	Increase/ (decrease) 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 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 US$'000	%	2013 US$'000	%	Increase/ (decrease) 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	68,658	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 continue 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 Investments 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.

As disclosed in the Company's announcement dated 23 October 2014 and the Company's circular dated 13 November 2014 in compliance with Chapter 14A of the Listing Rules, on 23 October 2014, Petro Equip Leaders Limited ("Purchaser", a wholly-owned subsidiary of the Company) entered into an agreement with Xingbo Limited (星博有限公司) ("Vendor") and Mr. Li Yong Hu ("Guarantor") pursuant to which the Purchaser agreed to acquire for, and the Vendor has conditionally agreed to dispose of 2,562 shares with par value of US$1.00 each of Jurun Limited ("Jurun"), representing approximately 28% of the issued share capital of the Jurun, at the consideration of HK$33,616,000 which was satisfied in full by the allotment and issue of the 8,404,000 new shares of the Company to the Vendor at the issue price of HK$4 per share. As at 23 October 2014, Jurun was owned as to approximately 51% by the Purchaser (and as such is a subsidiary of the Group) and approximately 49% by the Vendor. Immediately after the completion of the transaction on 12 December 2014, Jurun was owned as to approximately 79% by the Purchaser and approximately 21% by the Vendor. The transaction was approved by the Company's independent shareholders on 5 December 2014.

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. 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 director during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

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 had been breached.

In October and November 2014, the Company issued a total of US$30.0 million (equivalent to HK$217 million) 5% notes due 2018 ("Notes"). The aggregate net proceeds of approximately US$25.0 million (equivalent to HK$193.9 million) was utilized as general working capital (including but not limited to repayment of bank loans of the Group and/or for future development of the Group). Details about the issuance of the Notes were disclosed in the announcements of the Company dated 25 September 2014 and 20 November 2014, respectively.

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 utilise 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.

The Company's independent non-executive directors have reviewed the continuing connected transactions and have confirmed that the continuing connected transactions have been entered into (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

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$100.9 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 U.S.A., 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.

The 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

MANAGEMENT DISCUSSION AND ANALYSIS

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 putting pressures on all the service companies to cut prices. Lower day rates 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 staying 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, high back-log and growing market share, we feel that the revenue impact in the China market is minimal. 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 presence in certain emerging markets such as Mexico and the Middle East. We have timely reduced our Brazil presence and mobilised our resources to enhance the Middle East efforts. The newly established Mexico region has also started to bear results with the award 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. 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 that is being carried out for the 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 customers' 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 decline in 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 value, 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 annual report.

Subsequent Events

Save as disclosed in the annual report, no subsequent event occurred after 31 December 2014 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 64, is a 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 41 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, Morgan, *Chief Executive Officer*

Mr. ZHANG Menggui, Morgan, aged 56, is a 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 32 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, Michael, Group vice president and also the president of TSC Manufacturing and Supply, LLC. ("TSC M&S"), a subsidiary of the Group.

NON-EXECUTIVE DIRECTORS

Mr. JIANG Longsheng, aged 70, has been a non-executive Director of the Company since May 2006. Mr. Jiang is a veteran in the offshore oil industry in China and has over 42 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.

JIANG Longsheng, *Non-Executive Director*

Mr. Brian CHANG, aged 72, has been a non-executive Director of the Company since July 2009. Mr. Chang is the chairman and chief executive officer of Brian Chang Holdings Limited. With over 40 years of experience in the oil and gas industry, he has accomplished more than 600 projects and renowned for many "firsts" in design and engineering of offshore projects. Mr. Chang is also the chairman of TrollDrilling & Services Ltd, Blue Capital Pte. Ltd. and Calm Oceans Pte. Ltd., and is a director of Bergen Group ASA, a company listed on the Oslo Stock Exchange. He was also the founder of Promet Pte Ltd (now known as PPL Shipyard Pte Ltd) and Yantai Raffles Offshore Ltd (now known as Yantai CIMC Raffles Offshore Ltd). Mr. Chang holds a degree in Electrical Engineering from the City University, London, U.K. in 1965.

Brian CHANG, *Non-Executive Director*

Mr. YU Yuqun, aged 49, was appointed as a 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 a 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 a non-executive director of Pteris Global Limited, whose shares are listed on Singapore Stock Exchange with stock code 574.

YU Yuqun, *Non-Executive Director*

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Mr. CHAN Ngai Sang, Kenny, aged 50, 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 five years' experience in accounting, taxation, auditing and corporate finance and has been involved in several mergers, acquisitions 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 is the current president of the Hong Kong Branch of the Association of International Accountants and also serves on several tribunals of the HKSAR Government including the Mandatory Provident Fund Schemes Appeal Board, the Fight Crime Committee of Tsuen Wan District and an Observer of the Independent Police Complaints Council. Mr. Chan is an independent non-executive director of Combest Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange.

BIAN Junjiang, *Independent Non-Executive Director*

Mr. BIAN Junjiang, aged 72, 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.

GUAN Zhichuan, *Independent Non-Executive Director*

Mr. GUAN Zhichuan, aged 56, 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).

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

Mr. Robert William FOGAL JR, aged 79, 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 also served as director of business development for Zentech, Inc. Mr. Fogal studied Lamar University in Beaumont, Texas with degrees in mechanical. 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").

SENIOR MANAGEMENT

ZHANG Menggui, Morgan, *Chief Executive Officer*

Mr. ZHANG Menggui, Morgan, aged 56, is a 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 32 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, Michael, the president of TSC M&S, a subsidiary of the Group.

WANG Yong, *Senior Group Vice President and Chief Operations Officer*

Mr. WANG Yong, aged 53, joined TSC in April 2012 as the senior Group 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.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

LIM Joo Heng, Paul, *Senior Group Vice President*

Mr. LIM Joo Heng, Paul, aged 59, is a Senior Vice President of the Group and also President of the wholly owned subsidiary, Alliance Offshore Group Ltd. He is primarily responsible for the execution of group projects. Mr. Lim is a fellow of the Association of Chartered and Certified Accountants. He was previously chief financial officer of the group till 20 May 2014 when he was promoted to his present position. He has a distinguished career in business, financial and commercial management. He began 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.

WANG Qing, Boris *Group Vice President and Chief Financial Officer*

Mr. Wang Qiang, Boris, aged 53, is the chief financial officer and vice president of the Group. He joined TSC in May 2014. Mr. Wang holds MBA from Oklahoma City University and he has worked at various financial management positions in the past 20 years. Prior to joining TSC he worked as finance director of APAC for Invensys Controls. He worked as CFO of Schneider Electronics GmbH in Germany and CFO of TTE (TCL-Thomson Electronics) North America in USA during his career with TCL. He worked for Motorola for nine years as finance controller, both in China and USA.

Mr. CHEN Yunqiang, aged 49, 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 a 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.

CHEN Yunqiang, *Group Vice President and Managing Director – TSC China*

Mr. Robert Stuart SHINFIELD, aged 44, is the regional manager for region 3 ("R03"). Mr. Shinfield joined TSC as general manager of 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 TSC operations in South America, the United Kingdom, the Middle East and business development in these regions. Mr. Shinfield graduated from the University of Derby in mechanical engineering in 1992. He has over 20 years of experience in the oil and gas industry and held various technical and management positions with National Oilwell Varco prior to joining TSC.

Robert Stuart SHINFIELD, *Group Vice President and Regional Manager – R03*

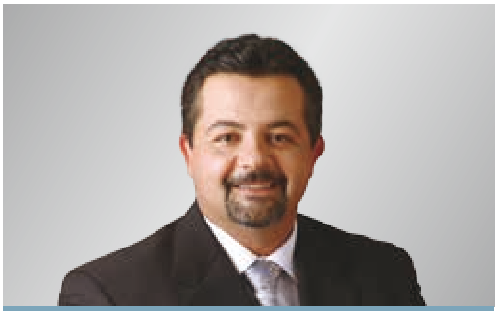
Mr. ZHANG Mengzhen, Michael, aged 48, is the Group vice president and the president of TSC M&S. He is responsible for the overall management of the Group's maintenance, repair and operating supplies business unit. Mr. Zhang graduated in 1989 from the Xi'an Institute of Metallurgy & Construction Engineering with a Bachelor Degree in Science (Engineering) and holds a Master's in Business Administration from the Tulane University in New Orleans, Louisiana. Mr. Zhang has been with the TSC Group since 20 August 2002 and has served in various positions from engineering to operations and business development. He is the younger brother of Mr. Zhang Menggui, Morgan, an executive Director of TSC.

ZHANG Mengzhen, *Group Vice President and President – TSC M&S*

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Wang Jing, Carrie, *Group Vice President*

Ms. WANG Jing, Carrie, aged 37, is the Group vice president responsible for Group human resource, financing, marketing and administration. Prior to joining TSC, she had been working for General Electric (GE) for 13 years and held the position of Great China general manager for government loans, financing and enterprises solutions. Before that, she was a global product manager of GE base in GE America headquarter. While she was rotating under experienced commercial leadership program (ECLP), she held China Government relationship manager, Americas marketing manager, global fundamental care director and global BD director. She obtained her bachelor's degree majoring in finance and English literature from the Ocean University of China in 1999 and received an EMBA from China Europe International Business School in 2012.



William Richard LEWIS, *Regional Manager – Mexico*

Mr. William Richard LEWIS, age 44, is a general manager of the Mexico Region and is responsible for operations and business development in Mexico. Mr. Lewis holds a Bachelor Degree in business management. After serving 9 years in the United States Navy as a nuclear submarine mechanic, he joined National Oilwell Varco ("NOV") in 1997 and held several managerial positions in product development and project management. In 2005 he joined Aker Solutions as a business development manager based in Houston, Texas before joining TSC in July 2008. He is a member of the International Association of Drilling Contractors, Society of Petroleum Engineers, and the American Association of Drilling Engineers.

Charles SMITH, *Regional Manager – R01*

Mr. Charles SMITH, aged 41, is the regional manager for region 1 ("R01"). Mr. Smith joined TSC in February 2011 as a vice president, project management of TSC Offshore Corp ("TSC Corp"). Mr. Smith has over 17 years experience in the oil and gas industry specializing in project assets and operations management. He was most recently an asset manager with Hercules Offshore working for Saudi Aramco. Mr. Smith has served in numerous roles such as project manager and drilling superintendent on many semi-submersibles and jack-up projects during his former career with Noble Corporation. He has been involved in managing operations globally and stationed in Middle East, Africa, China and U.S during his career. A highlight during this time was when he was selected as drilling superintendent for the Noble Roger Lewis Rig (JU-2000E), 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 2014 is set out in the financial statements on pages 53 to 135.

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 2014, are extracted from the audited financial statements of the relevant annual reports of the Company, and are set out on page 136. 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 30(b) to the financial statements. Details of the Company's share option schemes are set out in note 29 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 30(a) to the financial statements and in the consolidated statement of changes in equity on page 60, respectively.

REPORT OF THE DIRECTORS

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 2014 (2013: Nil), as computed in accordance with the Companies Law of the Cayman Islands. The details are set out in note 30(d) to the financial statements. The Company's share premium account, with a balance of approximately US$127,485,000 (2013: US$121,611,000), may be distributed in the form of fully paid bonus Shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the Year under review, sales to the Group's five largest customers accounted for approximately 61% of the Group's total sales for the Year and sales to the largest customer included therein accounted for approximately 40% of the Group's total sales.

In the Year under review, the sales to CIMC Raffles Group amounted to US$29.2 million, accounting for approximately 11% of the total sales of the Group.

Purchases from the Group's five largest suppliers accounted for approximately 5.4% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 1.6% of the Group's total purchases.

Save as disclosed under the paragraph headed "RELATED PARTY TRANSACTIONS" and note 33 to the financial statements, 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, Morgan

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. Zhang Menggui, Morgan, Mr. Chan Ngai Sang, Kenny, Mr. Bian Junjiang, Mr. Guan Zhichuan and Mr. Yu Yuqun 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, Candy, (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 Directors have 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, 28 November 2011 and 28 November 2014 respectively unless terminated by giving either party to the other not less than three months' prior written notice.

Each of the independent non-executive Directors (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, 20 October 2011 and 20 October 2014 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 and expiring on 14 March 2014, renewable automatically for successive terms of three years from 15 March 2014 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.

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 section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap 32).

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.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

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

SHARE OPTION SCHEMES

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

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, and there are no more share options available as at 31 December 2014.

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 16,562,000 share options remain valid and outstanding as at 31 December 2014.

SHARE OPTION SCHEMES *(Continued)*

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, (iv) 10,780,000 share options at HK$1.02 each to 18 employees of the Group on 4 September 2012, (v) 6,025,000 share options at HK$2.9 each to 23 employees of the Group on 30 August 2013, (vi) 2,400,000 share options at HK$4.16 each to 6 employees of the Group on 2 September 2014, and (vii) 1,500,000 share options at HK$2.11 each to 9 employees of the Group on 24 December 2014. Based on a valuation report done by an independent valuers of Jones Lang LaSalle Sallmanns and Ascent Partners, the value of the options granted on 18 September 2009, 1 September 2010, 21 February 2011, 4 September 2012, 30 August 2013, 2 September 2014, and 24 December 2014 under the New Scheme were HK$18,701,000, HK$4,602,100, HK$1,973,100, HK$6,934,500, HK$11,305,500, HK$5,232,000 and HK$1,652,000 respectively. The closing price of the Company's Shares on the preceding option granted on 17 September 2009, 31 August 2010, 18 February 2011, 3 September 2012, 29 August 2013, 1 September 2014 and 23 December 2014 under the New Scheme were HK$1.85, HK$1.23, HK$1.92, HK$1.01, HK$2.78, HK$3.99 and HK$2.03 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 32,508,000 share options remain valid and outstanding as at 31 December 2014. Save as disclosed above, no option had been granted or agreed to be granted by the Company pursuant to the New Scheme.

REPORT OF THE DIRECTORS

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 3,784,040 Shares, representing 0.54% of the issued share capital of the Company.

Details of movement of options under the Post-IPO Scheme including the Refreshment for the twelve months ended 31 December 2014 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 01.01.2014	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 31.12.2014
(i)	Employees	10.05.2007	10.11.2007 to 09.05.2017	2.43	4,282,000	–	–	–	(300,000)	3,982,000
	Sub-total				4,282,000	–	–	–	(300,000)	3,982,000
(ii)	Employees	12.11.2007	12.05.2008 to 11.11.2017	5.60	6,190,000	–	–	–	(200,000)	5,990,000
	Consultants	12.11.2007	12.05.2008 to 11.11.2017	5.60	200,000	–	–	–	(200,000)	0
	Sub-total				6,390,000	–	–	–	(400,000)	5,990,000
(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, Morgan	29.12.2008	29.06.2009 to 28.12.2018	0.54	240,000	–	(240,000)	–	–	0
	Mr. Jiang Bing Hua	29.12.2008	29.06.2009 to 28.12.2018	0.54	240,000	–	(240,000)	–	–	0
	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	60,000	–	–	–	–	60,000
					1,790,000	–	(480,000)	–	–	1,310,000
	Employees and other	29.12.2008	29.06.2009 to 28.12.2018	0.54	2,115,000	–	(500,000)	–	(35,000)	1,580,000
	Sub-total				3,905,000	–	(980,000)	–	(35,000)	2,890,000
Total					18,277,000	–	(980,000)	–	(735,000)	16,562,000

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 2014.

Details of movement of options under the New Scheme for the twelve months ended 31 December 2014 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 01.01.2014**	**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 31.12.2014**
(i)	Employees	18.09.2009	18.03.2010 to 17.09.2019	2.06	13,220,000	–	(3,307,000)	–	(1,355,000)	8,558,000
(ii)	Employees	01.09.2010	01.03.2011 to 31.08.2020	1.27	6,240,000	–	(570,000)	–	(425,000)	5,245,000
(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	9,380,000	–	(755,000)	–	(1,300,000)	7,325,000
(v)	Employees	30.08.2013	28.02.2014 to 29.08.2023	2.9	6,025,000	–	(145,000)	–	(800,000)	5,080,000
(vi)	Employees	02.09.2014	02.03.2015 to 01.09.2024	4.16	–	2,400,000	–	–	–	2,400,000
(vii)	Employees	24.12.2014	24.06.2015 to 23.12.2024	2.11	–	1,500,000	–	–	–	1,500,000
Total					37,265,000	3,900,000	(4,777,000)	–	(3,880,000)	32,508,000

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 2014.

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 2014, 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, Morgan (Note 1)	4,656,000	–	116,028,200	–	120,684,200	0	17.12%
Mr. Jiang Bing Hua (Note 1)	4,656,000	–	116,028,200	–	120,684,200	0	17.12%
Mr. Jiang Longsheng	–	–	–	–	–	400,000	0.06%
Mr. Brian Chang (Note 2)	–	–	66,072,800	–	66,072,800	–	9.37%
Mr. Chan Ngai Sang, Kenny	–	–	–	–	–	500,000	0.07%
Mr. Bian Junjiang	–	–	–	–	–	350,000	0.05%
Mr. Guan Zhichuan	240,000	–	–	–	240,000	60,000	0.04%

Notes:

1. Global Energy Investors, LLC. is the beneficial owner of 116,028,200 Shares. The entire shares capital of Global Energy Investors, LLC, is beneficially owned as to 50% each by Mr. Zhang Menggui, Morgan and Mr. Jiang Bing Hua, both are the executive Directors of the Company. Accordingly, both Mr. Zhang Menggui, Morgan and Mr. Jiang Bing Hua are deemed to be interested in the 116,028,200 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 2014, 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 29 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 2014, 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	120,684,200 Shares	17.12%
Madam Zhang Jiuli (Note 2)	Interest of the spouse	120,684,200 Shares	17.12%
Global Energy Investors, LLC. (Note 3)	Corporate	116,028,200 Shares	16.46%
Windmere International Limited (Note 4)	Corporate	66,072,800 Shares	9.37%
China International Marine Corporate Containers (Group) Co., Ltd. (Note 5)	Corporate	92,800,000 Shares	13.16%
China International Marine Corporate Containers (Hong Kong) Ltd. (Note 5)	Corporate	92,800,000 Shares	13.16%
Harmony Master Fund (Note 6)	Corporate	63,444,800 Shares	9%

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, Morgan, 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, Morgan, 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. These interests represent the same block of corporate interest held by Mr. Zhang Menggui, Morgan, 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
Jurun Limited	Xingbo Limited	21%
TSC Manufacturing and Supply De Colombia S.A.S.	Independence Drilling S.A.	40%

Save as disclosed above, as at 31 December 2014, 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 33 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"):

On 24 April 2012, the Company and CIMC Raffles entered into a new master agreement (the "New Master Agreement") to renew certain continuing connected transactions. Pursuant to the New Master Agreement, the Group shall provide equipment under certain 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.

REPORT OF THE DIRECTORS

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS *(Continued)*

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 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 New 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 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$100.9 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 these 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).

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.56 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.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2014.

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, Morgan
Chief Executive Officer

Hong Kong, 26 March 2015

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 the Company and its shareholders' interests as a whole.

CORPORATE GOVERNANCE PRACTICES

For the year ended 31 December 2014, the Board is of the view that, the Company has complied with the code provisions on the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules, save for the deviation which is explained below.

Code A.6.7

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.

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, Morgan. 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 background 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, Morgan; 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 in the management of the Company, the Board is 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 2014, the Board had at all times complied with the requirement of the Listing Rules of having 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 state 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 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, 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. Pursuant to Article 87, Mr. Zhang Menggui, Morgan, Mr. Chan Ngai Sang, Kenny, Mr. Bian Junjiang, Mr. Guan Zhichuan and Mr. Yu Yuqun will retire, and being eligible for election, offer themselves for re-election at the forthcoming annual general meeting to be held on 5 June 2015.

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 twelve 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 2013; (ii) review of all executive directors' performance in the year 2013; (iii) change of CFO; (iv) approval of interim results 2014; (v) approval of issuance of notes; (vi) acquisition of 28% of Jurun Limited; (vii) acquisition of 2.5% of Persta Canadian Company; and (viii) approval of directors to deal in purchasing of shares of the Company pursuant to the Model Code.

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 2014, 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 to 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 were committed to complying with the Code A6.5 on Directors' training. Some Directors have attended seminars and conferences, which covered topics including the New Companies Ordinance, taxation, quality control, and corporate governance issues, 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 during the Year is as follows:

Name of Directors	Type of Trainings
Executive Directors:	
Mr. Jiang Bing Hua	A,B
Mr. Zhang Menggui, Morgan	B
Non-executive Directors:	
Mr. Jiang Longsheng	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 seminars and/or conferences and/or forums relating to directors' duties or other relevant topics

B: reading seminar materials, newspapers, journals and updates relating to economy, 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	12/12		3/3	1/1		2/2
Mr. Zhang Menggui, Morgan	12/12		3/3	1/1	2/2	1/2
Non-executive Directors:						
Mr. Jiang Longsheng	12/12					0/2
Mr. Brian Chang	1/12					0/2
Mr. Yu Yuqun	4/12					1/2
Independent non-executive Directors:						
Mr. Chan Ngai Sang, Kenny	8/12	4/4	3/3	1/1	2/2	2/2
Mr. Bian Junjiang	9/12	3/4	3/3	1/1	1/2	0/2
Mr. Guan Zhichuan	12/12	4/4	3/3	1/1	2/2	0/2
Mr. Robert William Fogal Jr.	7/12					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 2014.

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, Morgan.

The role and function of the remuneration committee include 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 made 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 2013, proposed bonuses and salary adjustments, renewed the appointment contracts for two executive Directors, three independent non-executive Directors and one 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 2014 is set out below:

Remuneration band (US$)	**Number of individuals**
100,000 to 200,000	3
200,001 to 300,000	5
300,001 to 400,000	1
400,001 to 500,000	1
500,001 to 600,000	–

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, Morgan, 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.

The nomination committee has adopted the Diversity Policy, which sets out the approach to diversity of Board members. In determining the Board composition, the Company considers a range of diversity elements, including but not limited to gender, age, cultural and education background, professional experience, skills and knowledge. All appointments of the Board will be made based on merit and objective criteria while taking into full account of the interest of Board's diversity.

The selection of candidate will be based on a range of diversity elements. The final decision will be made according to the strengths of the candidate and his/her contribution that would bring to the Board.

As at the date of this report, the Board comprises nine directors. Four of them are independent non-executive Directors, three of them are non-executive Directors thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, nationality, professional background and skills.

During the Year, one meeting of the nomination committee was held. The nomination committee identified individual suitably qualified to become chief financial officer of the Company and made recommendations to the Borad. The chairman of the nomination committee has reported the findings and provided recommendation 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, review the structure, size and composition of the Board and to monitor the implementation of the Board diversity policy. 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, Morgan (being the chairman), Mr. Bian Junjiang, Mr. Chan Ngai Sang, Kenny, Mr. Guan Zhichuan and two other members, namely, Mr. Chung Man Lai, Desmond and Ms. Cheung Wai Sze, Candy.

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 were 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.

CORPORATE GOVERNANCE REPORT

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 54 of this annual report.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing non-audit functions (if any) performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the Year under review, the Company has paid an aggregate of approximately US$513,000 (2013: US$546,000) to the external auditor for its audit services. The Company has paid an aggregate of approximately US$30,000 (2013: US$2,000) to the external auditor for its non-audit service 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 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.

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 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.

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 2014, has been reviewed by the audit committee.

INTERNAL CONTROL

During the Year, the Company has conducted reviews of its system of internal control periodically to ensure the effectiveness and adequacy of the system of internal control.

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 recognises 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 maintain regular dialogues 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.t-s-c.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 30 May 2014 and 5 December 2014 respectively to answer questions at these 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.

PROCEDURE FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to the Articles, 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.

CORPORATE GOVERNANCE REPORT

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 2014.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of TSC Group Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 55 to 135, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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 2014 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

26 March 2015

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

(Expressed in United States dollars)

	Note	2014 $'000	2013 $'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	9	**20,502**	14,550
Non-controlling interests		**440**	749
Profit for the year		**20,942**	15,299
Earnings per share	10		
Basic		**2.95 cents**	2.12 cents
Diluted		**2.87 cents**	2.07 cents

The notes on pages 63 to 135 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

(Expressed in United States dollars)

	2014 $'000	2013 $'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

The notes on pages 63 to 135 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

(Expressed in United States dollars)

	Note	2014 $'000	2013 $'000
Non-current assets			
Property, plant and equipment	11(a)	34,490	36,940
Property under development	12	10,644	–
Interest in leasehold land held for own use under operating leases	13	8,726	10,021
Goodwill	14	24,089	25,177
Other intangible assets	15	9,169	11,997
Interest in associate	17	–	–
Other financial asset	18	4,561	–
Prepayments	20	56	419
Deferred tax assets	26(b)	11,355	11,500
		103,090	96,054
Current assets			
Inventories	19	50,466	47,008
Trade and other receivables	20	97,658	114,620
Gross amount due from customers for contract work	21	182,489	56,270
Amount due from a related company	22	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	23	3,470	–
		390,903	258,626
Current liabilities			
Trade and other payables	24	195,226	105,267
Bank loans and other borrowings	25	27,310	29,796
Current taxation	26(a)	7,930	6,145
Provisions	27	–	1,456
		230,466	142,664
Net current assets		160,437	115,962

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2014 $'000	2013 $'000
Total assets less current liabilities		**263,527**	212,016
Non-current liabilities			
Bank loans and other borrowings	25	**37,893**	7,073
Deferred tax liabilities	26(b)	**467**	699
		38,360	7,772
NET ASSETS		**225,167**	204,244
CAPITAL AND RESERVES			
Share capital	30(b)	**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

Approved and authorised for issue by the board of directors on 26 March 2015

Jiang Bing Hua
Director

Zhang Menggui, Morgan
Director

The notes on pages 63 to 135 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2014

(Expressed in United States dollars)

	Note	2014 $'000	2013 $'000
Non-current assets			
Property, plant and equipment	11(b)	67	141
Interest in subsidiaries	16	154,380	132,333
		154,447	132,474
Current assets			
Other receivables, prepayments and deposits	20	39	21
Cash at bank and in hand		10,555	348
		10,594	369
Current liabilities			
Other payables and accrued charges	24	838	577
Amounts due to subsidiaries	16	87	23
		925	600
Net current assets/(liabilities)		9,669	(231)
Total asset less current liabilities		164,116	132,243
Non-current liability			
Other borrowings	25	25,118	–
NET ASSETS		138,998	132,243
CAPITAL AND RESERVES	30(a)		
Share capital		9,066	8,884
Reserves		129,932	123,359
TOTAL EQUITY		138,998	132,243

Approved and authorised for issue by the board of directors on 26 March 2015

Jiang Bing Hua
Director

Zhang Menggui, Morgan
Director

The notes on pages 63 to 135 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

(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 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 (note 30(b)(ii))	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 and 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 (note 30(b)(ii))	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

The notes on pages 63 to 135 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

(Expressed in United States dollars)

	Note	2014 $'000	2013 $'000
Operating activities			
Profit before taxation		**24,307**	17,437
Adjustments for:			
Depreciation	5(c)	**4,741**	4,570
Impairment losses on doubtful debts	5(c)	**1,696**	541
Write-off of trade debtors	5(c)	**363**	–
Amortisation of interest in leasehold land held for own use under operating leases	5(c)	**254**	172
Amortisation of intangible assets	5(c)	**2,691**	2,618
Finance costs	5(a)	**3,221**	3,372
Interest income	4	**(134)**	(112)
Share of results of associate		**–**	54
Loss/(gain) on disposal of property, plant and equipment	5(c), 4	**247**	(1,014)
Equity-settled share-based payment expenses	5(b)	**409**	252
Foreign exchange loss		**1,379**	143
Operating profit before changes in working capital		**39,174**	28,033
(Increase)/decrease in inventories		**(3,629)**	2,642
Increase in trade and other receivables and gross amount due from customers for contract work		**(111,744)**	(35,457)
Increase in trade and other payables		**90,260**	16,970
Decrease in provisions		**(1,456)**	–
Cash generated from operations		**12,605**	12,188
People's Republic of China ("PRC") enterprise income tax and overseas tax paid		**(1,645)**	(2,222)
Net cash generated from operating activities		**10,960**	9,966

CONSOLIDATED CASH FLOW STATEMENT

	2014 $'000	2013 $'000
Investing activities		
Payment for purchase of property, plant and equipment	(5,729)	(3,986)
Payment for acquisition of leasehold land held for own use	(2)	(5,705)
Payment for addition of intangible assets	(148)	(1,114)
Interest received	134	112
Dividends received from associates	–	1,018
(Increase)/decrease in pledged bank deposits	(1,682)	714
Proceeds from disposal of property, plant and equipment	552	4,501
Construction expenditure on property under development	(10,177)	–
Payment for purchase of other financial asset	(4,561)	–
Net cash used in investing activities	(21,613)	(4,460)
Financing activities		
Net proceeds from issue of bond	25,001	5,849
Proceeds from shares issued under share option scheme	1,193	1,091
Capital contribution from non-controlling shareholder	–	623
Interest paid	(2,877)	(2,843)
Proceeds from new bank loans	35,550	42,949
Repayment of bank loans	(32,378)	(45,547)
Dividends paid to non-controlling shareholder	(1,067)	(1,062)
Net cash generated from financing activities	25,422	1,060
Net increase in cash and cash equivalents	14,769	6,566
Cash and cash equivalents at 1 January	37,909	30,988
Effect of foreign exchange rate changes	(341)	355
Cash and cash equivalents at 31 December	52,337	37,909

The notes on pages 63 to 135 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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") 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"). 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 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 (see note 1(y)).

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

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

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

(c) Changes in accounting policies

The HKICPA has issued 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

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 cash generating units ("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.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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, transactions and cash flows 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 the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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 (see note 1(y)).

(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 (see note 1(y)). 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 investee's 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Associates *(Continued)*

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.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, 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, investment in an associate is stated at cost less impairment losses (see note 1(l)), unless classified as held for sale (see note 1(y)).

(f) Goodwill

Goodwill represents the excess of

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in equity securities are initially stated at fair value, which are their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 1(v)(iv) and (v).

Investments in securities which do not fall into the above category are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(l)). Dividend income from equity securities is recognised in profit or loss in accordance with the policies set out in note 1(v)(iv). Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 1(l)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group or the Company commits to purchase/sell the investments or they expire.

(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)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

– Freehold land is not depreciated.

– Buildings situated on freehold land are depreciated over their estimated useful lives, 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 l(l)), and is not depreciated. Cost comprises the direct cost of construction and borrowings costs (see note l(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

Both the period and method of amortisation are reviewed annually.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Leased assets *(Continued)*

(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.

(l) Impairment of assets

(i) Impairment of investments in an associate and other receivables

Investments in an associate 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Impairment of assets *(Continued)*

(i) Impairment of investments in an associate and other receivables *(Continued)*

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

– For investment in an associate accounted for under the equity method in the consolidated financial statements (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.

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Impairment of assets *(Continued)*

(i) Impairment of investments in an associate 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;

– non-current portion of prepayments; and

– investments in subsidiaries in the Company's statement of financial position.

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 of disposal 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 of disposal (if measurable), 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, available-for-sale equity securities and unquoted equity securities carried at cost 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Inventories

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

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

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

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

(n) Construction contracts

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

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".

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Employee benefits *(Continued)*

(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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Income tax *(continued)*

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

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

– the same taxable entity; or

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(i) Financial guarantees issued *(continued)*

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)(ii) 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) Other provisions and contingent liabilities

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Revenue recognition

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

(i) Sale of goods

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

(ii) Engineering services fee income

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

(iii) Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total 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) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(v) 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 at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Translation of foreign currencies *(continued)*

The results of the foreign operations are translated into United States dollars at the exchange rates approximating the foreign exchange rates 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.

(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) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition.

A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Non-current assets held for sale *(continued)*

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(z) 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Related parties *(continued)*

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

(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.

(aa) 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, 29 and 31 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.

(c) Other impairment losses

If circumstances indicate that the carrying value of investments in subsidiaries and associates, property, plant and equipment, 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 of disposal and the value in use. It is difficult to estimate precisely fair value less costs of disposal 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.

2 ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

(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. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management reassess these estimates at the end of each reporting period. Additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(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 2014, the directors of the Company have reviewed the construction contracts and consider that no provision for loss is required. Material adjustments to the budgeted costs may occur in future if there is a significant change in the market environment.

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 $'000	2013 $'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). Details of concentrations of credit risk arising from this customer are set out in note 31(a).

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

3 TURNOVER AND SEGMENT REPORTING *(Continued)*

(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.

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 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
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'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)

3 TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(continued)*

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

	2014 $'000	2013 $'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)

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, 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 $'000	2013 $'000	**2014 $'000**	2013 $'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 $'000	2013 $'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 $'000	2013 $'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 $'000	2013 $'000
(b) Staff costs#		
Contributions to defined contribution retirement plans	4,431	4,095
Equity-settled share-based payment expenses (note 29)	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# (note 19(b))	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 $'000	2013 $'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 (note 26(b))	(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.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

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

	2014 $'000	2013 $'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 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	Directors' fees		Salaries, allowances and benefits in kind		Retirement scheme contributions		Sub-total		Share-based payments (note)		Total	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Executive directors:												
Mr Zhang Menggui	–	–	740	605	8	8	748	613	–	1	748	614
Mr Jiang Bing Hua	–	–	696	553	9	9	705	562	–	1	705	563
Independent non-executive directors:												
Mr Bian Junjiang	15	15	–	–	–	–	15	15	–	1	15	16
Mr Chan Ngai Sang, Kenny	31	31	–	–	–	–	31	31	–	1	31	32
Mr Guan Zhichuan	15	15	–	–	–	–	15	15	–	–	15	15
Mr Robert William Fogal Jr.	15	15	–	–	–	–	15	15	–	–	15	15
Non-executive directors:												
Mr Jiang Longsheng	15	15	–	–	–	–	15	15	–	1	15	16
Mr Brian Chang	15	15	–	–	–	–	15	15	–	–	15	15
Mr Yu Yuqun	15	15	–	–	–	–	15	15	–	–	15	15
	121	121	1,436	1,158	17	17	1,574	1,296	–	5	1,574	1,301

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 29.

NOTES TO THE FINANCIAL STATEMENTS

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2013: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2013: three) individuals are as follows:

	2014 $'000	2013 $'000
Salaries and other emoluments	1,127	1,230
Share-based payments	61	109
Retirement scheme contributions	21	11
	1,209	1,350

The emoluments of the three (2013: three) individuals with the highest emoluments are within the following bands:

	2014 Number of individuals	2013 Number of individuals
HK$2,000,001 – HK$2,500,000	–	1
HK$2,500,001 – HK$3,000,000	2	–
HK$3,000,001 – HK$3,500,000	–	1
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 profit of $922,000 (2013: loss of $1,546,000) which has been dealt with in the financial statements of the Company.

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 $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 '000	2013 '000
Issued ordinary shares at 1 January	690,754	682,782
Effect of share issue for acquisition of non-controlling interest (note 16)	460	–
Effect of share options exercised (note 30(b)(ii))	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 '000	2013 '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 (note 29)	18,208	15,853
Weighted average number of ordinary shares (diluted) at 31 December	713,790	702,309

NOTES TO THE FINANCIAL STATEMENTS

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 2013	24,881	5,267	17,857	1,170	3,271	52,446
Exchange adjustments	614	91	311	29	55	1,100
Additions	2,305	1,197	1,297	348	267	5,414
Disposals	(3,890)	(162)	(68)	(79)	(303)	(4,502)
At 31 December 2013	23,910	6,393	19,397	1,468	3,290	54,458
At 1 January 2014	23,910	6,393	19,397	1,468	3,290	54,458
Exchange adjustments	(89)	(92)	(90)	(3)	(35)	(309)
Additions	4	1,991	3,387	63	284	5,729
Disposals	(229)	(301)	(589)	–	(118)	(1,237)
Transfer to non-current assets classified as held for sale	(2,804)	–	–	–	–	(2,804)
At 31 December 2014	20,792	7,991	22,105	1,528	3,421	55,837

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 2013	3,212	2,315	5,929	487	1,687	13,630
Exchange adjustments	97	48	146	10	32	333
Charge for the year	1,085	913	1,819	248	505	4,570
Written back on disposals	(542)	(140)	(48)	(47)	(238)	(1,015)
At 31 December 2013	3,852	3,136	7,846	698	1,986	17,518
At 1 January 2014	3,852	3,136	7,846	698	1,986	17,518
Exchange adjustments	(20)	(49)	(43)	–	(22)	(134)
Charge for the year	1,083	1,131	1,845	325	357	4,741
Written back on disposals	(96)	(278)	(18)	–	(46)	(438)
Transfer to non-current assets classified as held for sale	(340)	–	–	–	–	(340)
At 31 December 2014	4,479	3,940	9,630	1,023	2,275	21,347
Net book value:						
At 31 December 2014	16,313	4,051	12,475	505	1,146	34,490
At 31 December 2013	20,058	3,257	11,551	770	1,304	36,940

The Group has submitted applications for the issue of property ownership certificate in respect of buildings held for own use carried at cost of $2,128,000 to the relevant PRC government authorities. At 31 December 2014, the certificate has not yet been issued.

11 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) The Company

	Office equipment, furniture and fixtures $'000
Cost:	
At 1 January 2013, 31 December 2013 and 1 January 2014	311
Disposal	(75)
At 31 December 2014	236
Accumulated depreciation:	
At 1 January 2013	96
Charge for the year	74
At 31 December 2013	170
At 1 January 2014	170
Charge for the year	73
Written back on disposl	(74)
At 31 December 2014	169
Net book value:	
At 31 December 2014	67
At 31 December 2013	141

11 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

	The Group	
	2014 $'000	2013 $'000
Outside Hong Kong		
– freehold	690	690
– medium-term leases	15,623	19,368
	16,313	20,058

12 PROPERTY UNDER DEVELOPMENT

The Group's properties under development are situated on two pieces of leasehold lands in Qingdao, the PRC, held under land use rights for a period of 50 years up to 2063.

13 INTEREST IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

	The Group	
	2014 $'000	2013 $'000
Cost:		
At 1 January	10,870	4,947
Exchange adjustments	(40)	218
Additions	2	5,705
Transfer to non-current assets classified as held for sale	(1,137)	–
At 31 December	9,695	10,870
Accumulated amortisation:		
At 1 January	849	655
Exchange adjustments	(3)	22
Charge for the year	254	172
Transfer to non-current assets classified as held for sale	(131)	–
At 31 December	969	849
Net book value:		
At 31 December	8,726	10,021

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.

14 GOODWILL

	The Group	
	2014 $'000	2013 $'000
Cost		
At 1 January	25,177	24,822
Exchange adjustments	(1,088)	355
At 31 December	24,089	25,177

Impairment test for cash-generating units containing goodwill

Goodwill is allocated to the Group's CGU identified according to the reportable segment as follow:

	The Group	
	2014 $'000	2013 $'000
Capital equipment and packages	24,089	25,177

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:

	2014	2013
– Gross margin	17% – 32%	17% – 32%
– Growth rate	2%	2%
– Discount rate	12%	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 capital equipment and packages segment.

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 2013	7,687	11,591	4,906	1,998	552	660	365	27,759
Exchange adjustments	125	146	17	61	14	–	–	363
Additions	371	–	–	743	–	–	–	1,114
At 31 December 2013	8,183	11,737	4,923	2,802	566	660	365	29,236
At 1 January 2014	8,183	11,737	4,923	2,802	566	660	365	29,236
Exchange adjustments	(250)	(556)	(57)	(10)	(3)	–	–	(876)
Additions	–	–	–	–	148	–	–	148
Disposal	–	–	–	–	(7)	–	–	(7)
At 31 December 2014	7,933	11,181	4,866	2,792	704	660	365	28,501
Accumulated amortisation:								
At 1 January 2013	4,108	5,000	2,668	1,967	401	77	106	14,327
Exchange adjustments	100	112	16	61	5	–	–	294
Charge for the year	800	1,021	610	31	77	33	46	2,618
At 31 December 2013	5,008	6,133	3,294	2,059	483	110	152	17,239
At 1 January 2014	5,008	6,133	3,294	2,059	483	110	152	17,239
Exchange adjustments	(174)	(349)	(57)	(8)	(3)	–	–	(591)
Charge for the year	778	1,079	610	137	8	33	46	2,691
Written back on disposal	–	–	–	–	(7)	–	–	(7)
At 31 December 2014	5,612	6,863	3,847	2,188	481	143	198	19,332
Net book value:								
At 31 December 2014	2,321	4,318	1,019	604	223	517	167	9,169
At 31 December 2013	3,175	5,604	1,629	743	83	550	213	11,997

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

16 INTEREST IN SUBSIDIARIES

	The Company	
	2014 $'000	2013 $'000
Unlisted shares/capital contributions, at cost	1	26,340
Amounts due from subsidiaries	154,379	105,993
	154,380	132,333
Amounts due to subsidiaries	(87)	(23)

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.

			Proportion of ownership interest		
Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Group's effective interest	Held by a subsidiary	Principal activity
Emer International Limited	Hong Kong	2,000,000 shares	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	$13,100,000	100%	100%	Manufacturing and trading of oilfield expendables and supplies
TSC-HHCT (Xian) Control Technologies Limited ("TSC-HHCT") #* (海爾海斯(西安)控制技術有限公司)	PRC	RMB17,000,000	100%	100%	Manufacturing and trading of rig electrical control system
TSC Manufacturing and Supply, LLC	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

16 INTEREST IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activity
Qingdao TSC Offshore Equipment Co., Ltd. ("TSCOE") # (青島天時海洋石油裝備有限公司)	PRC	$24,600,000	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. ("TSC Dalian")^* (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
NN Petroleum Engineering (HK) Co., Limited ("NN Petroleum") (Note)	Hong Kong	16,450,000 shares	79%	100%	Trading of oilfield expendables and supplies and provision of engineering services
TSC Offshore (UK) Limited ("TSCUK")	United Kingdom	73,074,952 shares of GBP0.025 each	100%	100%	Investment holding
TSC Engineering Limited	United Kingdom	GBP1	100%	100%	Design and manufacture of mechanical handling equipment, trading of oilfield expendables and supplies and provision of engineering services

16 INTEREST IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
			Group's effective interest	Held by a subsidiary	
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
TSC Offshore Corporation	USA	$6,100	100%	100%	Design and manufacture of rig equipment
TSC Offshore Limiteda	Brazil	BRL1,800,000	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

Note: During the year ended 31 December 2014, the Group acquired 28% additional equity interest in NN Petroleum for a consideration of HK$33,616,000 (equivalent to $4,332,000). The consideration was settled by issuing 8,404,000 ordinary shares at HK$4 per share.

16 INTEREST IN SUBSIDIARIES *(Continued)*

The following table lists out the information relating to NN Petroleum, the only subsidiary of the Group which has material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2014 $'000	2013 $'000
NCI percentage	**21%**	49%
Current assets	**16,894**	13,034
Non-current assets	**6,155**	11,267
Current liabilities	**(8,939)**	(8,707)
Non-current liabilities	**(460)**	(651)
Net assets	**13,650**	14,943
Carrying amount of NCI	**2,867**	7,322
Revenue	**12,759**	13,737
Profit for the year	**910**	1,629
Total comprehensive income	**886**	1,813
Profit allocated to NCI	**429**	798
Dividend paid to NCI	**1,067**	1,062
Cash flows from operating activities	**(756)**	3,026
Cash flows from investing activities	**(13)**	(426)
Cash flows from financing activities	**288**	(1,491)

17 INTEREST IN ASSOCIATE

	The Group	
	2014 $'000	2013 $'000
Share of net assets	**–**	–

During the year ended 31 December 2014, Goldman Offshore Design, LLC was deregistered. No gain or loss has been recognised in consolidated income statement.

18 OTHER FINANCIAL ASSET

	The Group	
	2014 $'000	2013 $'000
Unlisted available-for-sale equity securities, at cost	4,561	–

During the year ended 31 December 2014, the Group acquired 2.5% equity shareholding of unlisted available-for-sale equity, securities at a consideration of $4,561,000.

19 INVENTORIES

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

	The Group	
	2014 $'000	2013 $'000
Raw materials	7,870	8,984
Work in progress	21,162	18,905
Finished goods	21,434	19,119
	50,466	47,008

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

	The Group	
	2014 $'000	2013 $'000
Carrying amount of inventories sold	191,214	131,966
Write down of inventories	933	1,260
	192,147	133,226

20 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Trade debtors and bills receivable	**90,334**	106,870	**–**	–
Less: allowance for doubtful debts (note 20(b))	**(5,767)**	(4,208)	**–**	–
	84,567	102,662	**–**	–
Other receivables, prepayments and deposits	**13,147**	12,377	**39**	21
	97,714	115,039	**39**	21
Less: Non-current portion of prepayments	**(56)**	(419)	**–**	–
	97,658	114,620	**39**	21

(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	
	2014	2013
	$'000	$'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

20 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 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 (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	
	2014	2013
	$'000	$'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.

20 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	
	2014	2013
	$'000	$'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.

21 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 2014 is $189,203,000 (2013: $85,493,000).

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 $19,842,000 (2013: $19,052,000).

NOTES TO THE FINANCIAL STATEMENTS

22 AMOUNT DUE FROM A RELATED COMPANY

	The Group	
	2014	2013
	$'000	$'000
Katy International Inc.:		
Balance at 1 January	**101**	101
Balance at 31 December	**101**	101
Maximum balance outstanding during the year	**101**	101

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

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

There was no provision made against the principal amount at 31 December 2013 and 2014.

23 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The Group committed to a plan to sell certain of its land and buildings held for own use and interest in leasehold land held for own use under operating lease (the "Disposable Assets") in the PRC to an independent third party, which generate minimal revenue to the Group, so as to focus on its capital equipment and packages business. In the opinion of the directors, the disposal of the Disposable Assets is expected to be completed within twelve months from the financial period.

24 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Trade creditors and bills payable	**156,747**	54,214	**–**	–
Other payables and accrued charges	**38,479**	51,053	**838**	577
	195,226	105,267	**838**	577

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	
	2014	2013
	$'000	$'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

25 BANK LOANS AND OTHER BORROWINGS

At 31 December 2014, the bank loans and other borrowings were repayable as follows:

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Within 1 year or on demand	27,310	29,796	–	–
After 1 year but within 2 years	7,514	555	–	–
After 2 years but within 5 years	30,221	6,308	25,118	–
After 5 years	158	210	–	–
	37,893	7,073	25,118	–
	65,203	36,869	25,118	–

At 31 December 2014, the bank loans and other borrowings were secured as follows:

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Secured bond	6,629	6,453	–	–
Unsecured notes	25,118	–	25,118	–
Bank loans				
– secured	21,294	15,682	–	–
– unsecured	12,162	14,734	–	–
	65,203	36,869	25,118	–

25 BANK LOANS AND OTHER BORROWINGS *(Continued)*

(a) The bank loans carried interest at rates ranging from 3.5% to 7.8% per annum (2013: 4.01% to 7.32% per annum) and were secured/guaranteed by:

(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 $43,643,000 (2013: $37,140,000).

(ii) Corporate guarantees given by TSCOE, TSC-HHCT, ZZOE and TSC(Qingdao) to the extent of banking facilities outstanding of $12,155,000 (2013: $14,100,000) as at 31 December 2014.

(iii) Corporate guarantee given by the Company to the extent of banking facilities outstanding of $2,000,000 (2013: $Nil) as at 31 December 2014.

(iv) Guarantees given by the directors of the Company to the extent of banking facilities outstanding of $395,000 (2013: $6,922,000) 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 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 31(b). As at 31 December 2014, none of the covenants relating to the Group's bank loans had been breached.

(b) In January 2013, TSCOE issued a RMB denominated bond in aggregate principal amount of RMB40 million, bearing a coupon rate of 6% per annum, which would be due in 2016. The bond was secured/guaranteed by:

(i) Interest in leasehold land held for own use under operating leases and buildings with aggregate net book value of $5,244,000.

(ii) Corporate guarantees given by TSC(Qingdao), TSC-HHCT, ZZOE and TSC Dalian.

(iii) Guarantees given by the directors of the Company and the director of TSCOE. No guarantee fee was received by the directors during the year.

(c) The Company issued two HKD denominated unsecured notes in aggregate principal amounts of HK$144,000,000 and HK$73,000,000 on 3 October 2014 and 25 November 2014 respectively. The unsecured notes bear interest at 5% per annum and are repayable on a quarterly basis in arrears. The maturity dates of the unsecured notes are 3 April 2018 and 25 May 2018 respectively. The effective interest rates of the unsecured notes are 8.6% and 8.5% per annum respectively.

26 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

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

	The Group	
	2014 $'000	2013 $'000
Provision for the year	**4,211**	2,919
Provisional income tax paid	**(1,491)**	(951)
	2,720	1,968
Balance of income tax provision relating to prior years	**5,210**	4,177
	7,930	6,145

(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 allowances in excess of related depreciation $'000	Impairment losses on doubtful debts $'000	Write-down on inventories $'000	Intangible assets $'000	Tax losses $'000	Unrealised profits on inventories $'000	Total $'000
Deferred tax arising from:							
At 1 January 2013	7	(585)	(366)	3,139	(11,508)	(587)	(9,900)
Exchange adjustments	–	(6)	(4)	14	(239)	–	(235)
Charged/(credited) to profit or loss (note 6(a))	69	(182)	(312)	(628)	448	(61)	(666)
At 31 December 2013	76	(773)	(682)	2,525	(11,299)	(648)	(10,801)
At 1 January 2014	76	(773)	(682)	2,525	(11,299)	(648)	(10,801)
Exchange adjustments	–	–	4	(56)	30	–	(22)
(Credited)/charged to profit or loss (note 6(a))	(2)	(490)	(73)	(641)	1,263	(122)	(65)
At 31 December 2014	74	(1,263)	(751)	1,828	(10,006)	(770)	(10,888)

26 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION *(Continued)*

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

	The Group	
	2014	2013
	$'000	$'000
Reconciliation to the consolidated statement of financial position:		
Net deferred tax assets recognised in the statement of financial position	**(11,355)**	(11,500)
Net deferred tax liabilities recognised in the statement of financial position	**467**	699
	(10,888)	(10,801)

At 31 December 2014, the Group had temporary differences arising from undistributed profits of subsidiaries of $62,337,000 (2013: $48,713,000). 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 $18,247,000 (2013: $9,002,000) 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.

27 PROVISIONS

Provision for loss making construction contracts:

	The Group	
	2014	2013
	$'000	$'000
At 1 January	**1,456**	1,456
Reversal of provision	**(1,456)**	–
At 31 December	**–**	1,456

During the year ended 31 December 2014, the provision has been reversed as the directors considered that the probability of the claim was remote in view of the time of the provision made.

28 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$30,000 (HK$25,000 prior to June 2014). Contributions to the plan 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.

29 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Share Option Scheme

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").

29 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

Share Option Scheme *(Continued)*

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

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

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

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

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, 5,757,000 (2013: 7,540,000) share options under the Share Option Scheme were exercised and 4,615,000 (2013: 5,075,000) share options were forfeited.

Further to the Share Option Scheme as mentioned above, pursuant to written resolution of all shareholders of the Company on 19 October 2005, the Company adopted a Pre-IPO share option scheme. In 2013, 432,000 share options were exercised and the Company had nil share option outstanding since then.

29 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 29 December 2008	2,630,000	Note	10 years
Options granted to employees:			
– on 19 October 2005	432,000	Note	10 years
– on 10 May 2007	5,582,000	Note	10 years
– on 12 November 2007	7,240,000	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	5,530,000	Note	10 years
– on 18 September 2009	16,500,000	Note	10 years
– on 1 September 2010	7,770,000	Note	10 years
– on 21 February 2011	2,400,000	Note	10 years
– on 4 September 2012	10,780,000	Note	10 years
– on 30 August 2013	6,025,000	Note	10 years
– on 2 September 2014	2,400,000	Note	10 years
– on 24 December 2014	1,500,000	Note	10 years
Total share options	72,489,000		

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.

29 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

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

	2014		2013	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	HK$2.33	55,542,000	HK$2.12	62,564,000
Exercised during the year	HK$1.61	(5,757,000)	HK$1.06	(7,972,000)
Forfeited during the year	HK$2.16	(4,615,000)	HK$2.36	(5,075,000)
Granted during the year	HK$3.37	3,900,000	HK$2.90	6,025,000
Outstanding at the end of the year	HK$2.52	49,070,000	HK$2.33	55,542,000
Exercisable at the end of the year	HK$2.66	33,748,000	HK$2.66	34,613,000

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.73 (2013: HK$2.52).

The options outstanding at 31 December 2014 had an exercise price of HK$2.43, HK$5.6, HK$5.23, HK$2.32, HK$0.54, HK$2.06, HK$1.27, HK$1.97, HK$1.02, HK$2.9, HK$4.16 and HK$2.11 (2013: HK$2.43, HK$5.6, HK$5.23, HK$2.32, HK$0.54, HK$2.06, HK$1.27, HK$1.97, HK$1.02 and HK$2.9) and a weighted average remaining contractual life of 5.58 years (2013: 6.32 years).

29 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.

Grant date	24 December 2014	2 September 2014	30 August 2013	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	$0.14	$0.28	$0.24	$0.08	$0.11	$0.07	$0.12	$0.03	$0.12	$0.27	$0.29	$0.13	$0.09
Share price	HK$2.11	HK$4.16	HK$2.9	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$2.11	HK$4.16	HK$2.9	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	68%	69%	72%	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	10 years	10 years	10 years
Expected dividends	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate (based on Exchange Fund Notes)	1.96%	1.96%	2.34%	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.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

30 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:

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 2013	8,781	120,120	1,262	6,312	(4,029)	132,446
Changes in equity in 2013:						
Total comprehensive income for the year	–	–	–	–	(1,546)	(1,546)
Shares issued under share option schemes (note 30(b)(ii))	103	1,491	–	(503)	–	1,091
Equity-settled share-based transactions	–	–	–	252	–	252
Balance at 31 December 2013 and 1 January 2014	8,884	121,611	1,262	6,061	(5,575)	132,243
Changes in equity in 2014:						
Total comprehensive income for the year	–	–	(101)	–	922	821
Shares issued for acquisition of non-controlling interest	108	4,224	–	–	–	4,332
Shares issued under share option schemes (note 30(b)(ii))	74	1,650	–	(531)	–	1,193
Equity-settled share-based transactions	–	–	–	409	–	409
Balance at 31 December 2014	9,066	127,485	1,161	5,939	(4,653)	138,998

30 CAPITAL AND RESERVES *(Continued)*

(b) Share capital

(i) Authorised and issued share capital

	2014		2013	
	No. of shares '000	Amount $'000	No. of shares '000	Amount $'000
Authorised:				
Ordinary share of HK$0.1 each	2,000,000	25,746	2,000,000	25,746
Ordinary shares, issued and fully paid:				
At 1 January	690,754	8,884	682,782	8,781
Shares issued for acquisition of non-controlling interest	8,404	108	–	–
Shares issued under share option schemes	5,757	74	7,972	103
At 31 December	704,915	9,066	690,754	8,884

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 2014, options were exercised to subscribe for 5,757,000 ordinary shares (2013: 7,972,000 ordinary shares) in the Company at a consideration of $1,193,000 (2013: $1,091,000) of which $74,000 (2013: $103,000) was credited to share capital and the balance of $1,119,000 (2013: $988,000) was credited to the share premium account. $531,000 (2013: $503,000) 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).

30 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	2014 Number	2013 Number
10 November 2007 to 9 May 2017	HK$2.43	3,982,000	4,282,000
12 May 2008 to 11 November 2017	HK$5.60	5,990,000	6,390,000
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	2,890,000	3,905,000
18 March 2010 to 17 September 2019	HK$2.06	8,558,000	13,220,000
1 March 2011 to 31 August 2020	HK$1.27	5,245,000	6,240,000
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	7,325,000	9,380,000
28 February 2014 to 29 August 2018	HK$2.90	5,080,000	6,025,000
2 March 2015 to 1 September 2019	HK$4.16	2,400,000	–
24 June 2015 to 23 December 2019	HK$2.11	1,500,000	–
		49,070,000	55,542,000

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 29 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. The reserve is dealt with in accordance with the accounting policies set out in note 1(w).

30 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 2014, as computed in accordance with the Companies Law (Revised) of the Cayman Islands amounted to $122,832,000 (2013: $116,036,000).

(e) Dividend

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

Except for the bank loans which require the fulfilment of covenants relating to certain financial ratios as disclosed in note 25 to the financial statements, neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

31 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 exposure 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 20(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, 50% (2013: 27%) and 73% (2013: 55%) of the total trade debtors and bills receivable 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 20.

(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.

31 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:

Group

	2014 Contractual undiscounted cash outflow						2013 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	195,226	–	–	–	195,226	195,226	101,980	1,125	2,162	–	105,267	105,267
Bank loans	28,915	1,288	5,663	177	36,043	33,456	30,760	301	564	228	31,853	30,416
Secured bond	390	6,890	–	–	7,280	6,629	391	391	6,916	–	7,698	6,453
Unsecured notes	1,399	1,399	28,399	–	31,197	25,118	–	–	–	–	–	–
	225,930	9,577	34,062	177	269,746	260,429	133,131	1,817	9,642	228	144,818	142,136

Company

	2014 Contractual undiscounted cash outflow						2013 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	838	–	–	–	838	838	577	–	–	–	577	577
Amounts due to subsidiaries	87	–	–	–	87	87	23	–	–	–	23	23
Unsecured notes	1,399	1,399	28,399	–	31,197	25,118	–	–	–	–	–	–
	2,324	1,399	28,399	–	32,122	26,043	600	–	–	–	600	600
Financial guarantees issued: Maximum amount guaranteed (note 34)	2,000	–	–	–	2,000	–	–	–	–	–	–	–

31 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, bank loans and other borrowings. 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.

Group

	2014		2013	
	Effective interest rate	$'000	Effective interest rate	$'000
Fixed rate borrowings:				
Bank loans	4.25% – 7.38%	10,639	4.25% – 7.32%	6,975
Secured bond	9.71%	6,629	9.71%	6,453
Unsecured notes	8.5% – 8.6%	25,118	N/A	–
		42,386		13,428
Variable rate borrowings/ (deposits):				
Bank loans	3.5% – 7.8%	22,817	4.01% – 7.04%	23,441
Less: Pledged bank deposits	0.35% – 2.55%	(4,382)	0.50%	(2,718)
Cash at bank and in hand	0.01% – 1.55%	(52,337)	0.01% – 1.55%	(37,909)
		(33,902)		(17,186)
Total net borrowings/(deposits)		8,484		(3,758)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Interest rate risk *(Continued)*

(i) Interest rate profile *(Continued)*

Company

	2014		2013	
	Effective interest rate	$'000	Effective interest rate	$'000
Fixed rate borrowings:				
Unsecured notes	8.5% – 8.6%	25,118	N/A	–
Variable rate deposits:				
Cash at bank and in hand	0.01%	(10,555)	0.01%	(348)
Total net borrowings/(deposits)		14,563		(348)

(ii) Sensitivity analysis

At 31 December 2014, 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 $339,000 (2013: $172,000).

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 2013.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Currency risk

(i) Forecast transactions

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. 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 2014, no related hedges were made by the Group.

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

(ii) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to 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. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

Group

	Exposure to United States dollars (expressed in United States dollars)	
	2014	2013
	$'000	$'000
Trade and other receivables	**1,420**	1,314
Cash at bank and in hand	**2,295**	1,575
Trade and other payables	**(81)**	(272)
Net exposure arising from recognised assets and liabilities	**3,634**	2,617

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Currency risk *(Continued)*

(iii) Sensitivity analysis

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

Group

	2014		2013	
	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%	182	5%	131
	(5)%	(182)	(5)%	(131)

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 2013.

(e) Estimation of fair values

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013 and 2014.

32 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2014 not provided for in the financial statements were as follows:

	The Group	
	2014	2013
	$'000	$'000
Contracted for	**8,714**	335

(b) At 31 December 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2014	2013
	$'000	$'000
Within 1 year	**2,293**	3,195
After 1 year but within 5 years	**4,093**	6,056
After 5 years	**1,901**	2,746
	8,287	11,997

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

33 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:

	2014 $'000	2013 $'000
Salaries and other emoluments	**4,415**	4,072
Share-based payments	**187**	194
Retirement scheme contributions	**88**	63
	4,690	4,329

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:

	2014 $'000	2013 $'000
Sales of capital equipment and packages	**29,496**	44,213

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 33(b) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The amounts of connected transactions and continuing connected transactions were $308,000 (2013: $Nil) and $29,188,000 (2013: $44,213,000) 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.

34 CONTINGENT LIABILITIES

As at the end of the reporting period, the Company has issued financial guarantees to a wholly-owned subsidiary. The directors do not consider it is probable that a claim will be made against the Company under the guarantees. The maximum liability of the Company at the end of the reporting period under the guarantees issued is the facility drawn down by the subsidiary of $2,000,000 (2013: $Nil).

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2014 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
Annual improvements to HKFRSs 2010-2012 cycle	**1 July 2014**
Annual improvements to HKFRSs 2011-2013 cycle	**1 July 2014**
Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*	**1 January 2016**
HKFRS 15, *Revenue from contracts with customers*	**1 January 2017**
HKFRS 9, *Financial instruments*	**l January 2018**

The Group is in the process of making an assessment of what the impact of these amendments 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

	2014 US$'000	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000
Turnover	**270,586**	201,928	183,742	139,496	143,455
Cost of sales	**(195,339)**	(138,151)	(127,322)	(86,421)	(91,189)
Gross profit	**75,247**	63,777	56,420	53,075	52,266
Other revenue and net income	**883**	1,981	1,349	2,276	2,143
Selling and distribution expenses	**(9,849)**	(7,000)	(6,722)	(6,654)	(5,539)
General and administration expenses	**(33,292)**	(32,961)	(33,021)	(35,610)	(28,035)
Other operating expenses	**(5,461)**	(4,934)	(4,128)	(5,125)	(4,409)
Finance costs	**(3,221)**	(3,372)	(2,281)	(1,722)	(1,406)
Share of results of associate	**–**	(54)	(37)	(113)	38
Profit/(loss) before taxation	**24,307**	17,437	11,580	6,127	15,058
Income tax (expense)/credit	**(3,365)**	(2,138)	(3,400)	(2,096)	(1,467)
Profit/(loss) for the year	**20,942**	15,299	8,180	4,031	13,591

ASSETS AND LIABILITIES

	As at 31 December				
	2014 US$'000	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000
Non-current assets	**103,090**	96,054	95,168	94,054	94,715
Current assets	**390,903**	258,626	216,708	171,157	162,102
Current liabilities	**(230,466)**	(142,664)	(122,073)	(85,220)	(83,532)
Net current assets	**160,437**	115,962	94,635	85,937	78,570
Non-current liabilities	**(38,360)**	(7,772)	(4,702)	(6,270)	(6,554)
Net assets	**225,167**	204,244	185,101	173,721	166,731

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 2013 are as set out on page 53 to 54 of the audited financial statements.

2. The consolidated balance sheet of the Group as at 31 December 2013 are as set out on pages 55 to 56 of the audited financial statements.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Jiang Bing Hua *(Executive Chairman)*
Mr. Zhang Menggui, Morgan *(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, Morgan

CHIEF FINANCIAL OFFICER

Mr. Wang Qiang, Boris

COMPANY SECRETARY

Ms. Cheung Wai Sze, Candy

AUTHORISED REPRESENTATIVES

Mr. Zhang Menggui, Morgan
Mr. Jiang Bing Hua

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPLIANCE COMMITTEE

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

NOMINATION COMMITTEE

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

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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PRINCIPAL BANKERS

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

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