TSC Group Holdings Limited

Stock Code: 206

# BEYOND INTEGRATION

# SEAMLESS SOLUTIONS ™

ANNUAL REPORT 2016


GLOBAL PRODUCTS AND SERVICES TO ONSHORE AND
OFFSHORE OIL AND GAS E&P AND DECOMMISSIONING INDUSTRIES
YOUR ULTIMATE TOTAL SOLUTIONS COMPANY
SALES SERVICE SOLUTION

# CONTENTS

**1845**

Ansell Jones

Ansell Jones founded in England

**1989**

M·O·S

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

**1990**

PATRIOT MECHANICAL HANDLING, INC.

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

**1995**

EMER

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

**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

**2007**

EMER acquired Zhengzhou Highlight (Solid Control Equipment)

**2008**

TSC

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

**2010**

CRUISER

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 jack-up drilling 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

**2015**

Established of US NHR plant and new manufacturing facility in Qingdao

**2016**

Completed the spinoff of OGS Business Group under TSC OGS Group. Quotation of its Shares on NEEQ was approved on 19 July 2016

**2017**

Established OIM Pte Ltd with Offshore Innovation Management for alternative rig solutions markets

## GLOBAL SOLUTIONS

Designing, Manufacturing and Packaging Solutions for the Onshore and Offshore Oil and Gas E&P and Decommissioning Industries


North America
Calgary
Casper
Midlands
Kilgore
Alice
Houston
Mexico City
Del Carmen
Maracaibo
Bogota
Quito
South America
Macaé
Rio de Janeiro


TSC GROUP HOLDINGS LIMITED (THE "COMPANY" OR "TSC") IS A GLOBAL PRODUCT AND SERVICE PROVIDER SERVING THE WORLDWIDE ONSHORE AND OFFSHORE OIL AND GAS E&P AND DECOMMISSIONING INDUSTRIES.

Shipley Office in UK

Zhengzhou Office in China


Macaé Facility in Brazil

Qingdao Manufacturing Facility in China

Houston NHR Facility in USA

Dalian Facility in China

The Company was incorporated in the Cayman Islands and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company and its subsidiaries (collectively the "Group") develop, manufacture, market, install and service a comprehensive line of products for the Onshore and Offshore Oil and Gas Exploration and Production ("E&P") and Decommissioning industries. With a successful track record in the industry, the Group successfully provides innovative solutions to a wide network of global customers.

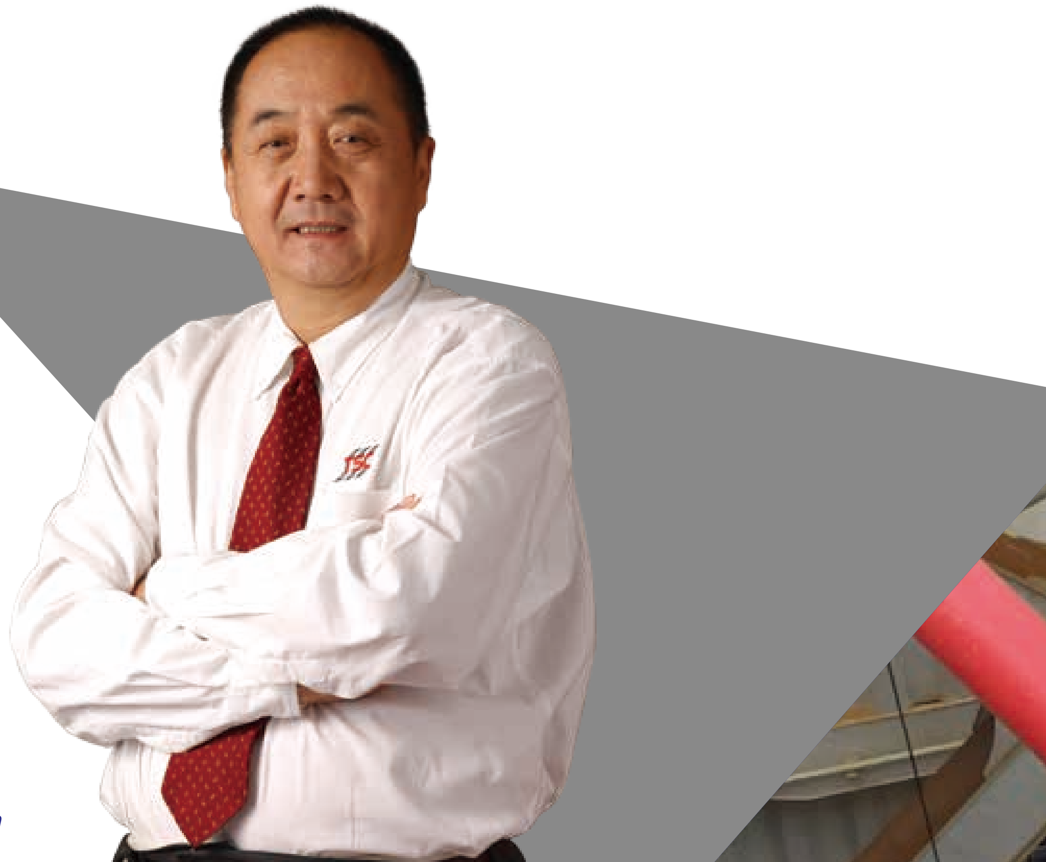
Our Capital Equipment and Packages business segment comprises a comprehensive line of highly engineered automated drilling, mechanical handling, solid control, power control and drives, tensioning and compensation systems for various offshore drilling, completion, intervention and workover vessels for E&P and Decommissioning industries. The Group 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.


Offshore Qingdao Facility in China

Xi'an Facility in China



Jiang Bing Hua
*Executive Chairman*

## DEAR SHAREHOLDERS,

**The transformation of TSC through these turbulent times for the Oil & Gas industry has been the key focus of 2016. Many excellent opportunities continue to exist but are presented in different forms. The market landscape has changed significantly. Our ability to change, adapt and reposition TSC determines our future success. We are optimistic about these new opportunities for TSC even whilst expecting oil prices to remain lower for longer.**

### BUILDING RESILIENCE, GETTING BACK TO GROWTH

The 2016 financial year was another challenging year for the industry and TSC as Major Oil and Gas ("O&G") companies slashed Capital Expenditure ("CAPEX") by further 49% in 2016, and by more than 60% since 2014.

The reduction in CAPEX was driven in part by project deferrals and cancellations as O&G companies struggled to conserve cash and reduce service costs. This has led to an oversupply of services resulting in 20%-50% reductions in rig day rates during 2016. These conditions imposed significant adjustments to valuations on the Group's tangible and intangible assets and the Group adopted a conservative approach towards recognizing impairments which has been reflected in this year's results.

Oil prices dipped below US$30 in February 2016 but gradually climbed to around US$40 by mid-2016 and has further recovered to around US$50 per barrel since October 2016. In November 2016, the Organization of Petroleum


Exporting Countries ("OPEC") reached a historic accord with 11 other exporters to reduce total production by 1.8 million barrels a day in a bid to reduce crude oil stockpiles. The accord lifted oil prices firmly above $50 per barrel but stockpiles remain high and a lower cost of increasing production of shale oil adds caution to any expectation that oil prices may increase significantly any time soon.

Expecting oil prices to remain lower for longer, TSC has identified two main areas, namely decommissioning and services, which still provide unique opportunities for long-term growth. These areas also provide excellent transformational drivers with which TSC can thrive in an environment which will continually be characterized by volatility, uncertainty, complexity, and ambiguity ("VUCA"). Through identifying different value drivers and radically transforming our organization at all levels and boundaries we have become more reliable and efficient as a provider of total solutions. However, as normally associated with all such process of changes and transformations we had to make difficult decisions on costs discipline and judicious deployment of resources whilst improving safety and operational performance. To achieve these goals in 2016, TSC announced on 28th April 2016, a major structural reorganization into two main business groups ("BGs") comprising the Oil and Gas Services ("OGS") BG and the Offshore ("OFS") BG to reduce overall costs and sharpening focus whilst essentially achieving higher efficiency through a more simple organisation structure.

We took decisive action in response to the prolonged deterioration in the market, reducing our headcount by around 44.7 per cent from 1,353 to 747, cutting operating costs, and reducing all capital expenditure. As we entered 2016, our strategic priorities were clear: maximise cash flow from existing operations; deliver on-going projects on-time and on-budget; aggressively develop new business areas; maintain liquidity whilst working towards our long-term goal of reducing debt; and positioning the Company for renewed growth when market conditions improve.

In addition to the above restructure, TSC has also diversified its core competencies to include solutions for offshore well plugging and abandonment of end-of-life offshore oil wells ("P&A") and decommissioning and removal of aged offshore installations ("Decommissioning") through a new subsidiary incorporated with a Norwegian owned Offshore Innovation Management ("OIM"). OIM is the originator and owner of innovative jack-up solutions capable of operating in the harsh North Sea environment. Solutions include the capability to carry out P&A and Decommissioning operations simultaneously which will significantly reduce cost to operators.

The combination of fundamental factors such as age of offshore installations, expectation of lower oil prices for a longer period, uneconomical oil reservoirs, inherent unknowns and unavailability of purpose built P&A and Decommissioning assets culminates in a unique opportunity for the entry of OIM's Jack-up solutions. Several major oil companies have already expressed interest in deploying these Jack-up solutions in their Decommissioning Programs.

In addition to P&A and Decommissioning, OIM also has innovative solutions on vessels which extends the application of Jack-up rigs beyond conventional drilling operations. Such extension of capabilities to offshore accommodations, production and support services are key factors to drive through transformation of the Group's core competencies to thrive in a challenging environment.

In 2016, the OGS BG was grouped under TSC Oil and Gas Services Holdings Ltd ("TSC OGS") as the holding company to focus primarily on MRO supplies and oil & gas equipment services. TSC OGS has received an agreement letter from the National Equities Exchange And Quotations System ("NEEQ") confirming the listing of TSC OGS on the system which will now be able to leverage on access to China's capital markets to develop high value oil field and industrial solutions and technology.

TSC continues to develop partnerships and alliances to broaden and deepen market penetration for its comprehensive range of products accumulated over the years. We are consistently developing expertise with new business models and partnerships to gain access to specialized capabilities and opportunities beyond the current scope of TSC products and services. We are also constantly developing alliances with various yards and major fabricators in China and other countries such as Malaysia and Indonesia for engineering, consultancy and turnkey solutions for marine and yard equipment projects.

The R-550D Jack-up drilling rig H6001 ("Rig") is currently in the process of meeting operator's final acceptance criteria. The Rig has been successfully qualified and approved by the Directorate General of Sea Transportation and the Indonesian Classification Society – Biro Klasifikasi Indonesia. In 2016, on a specific tender, the rig was one of only two rigs in Indonesia that met Indonesian PM200 flag requirements. Meeting this mandatory local content conditions paves the way for the Rig to be qualified for future operations in Indonesia at a competitive day-rate compared to non-Indonesian rigs. TSC continues to extend support to our rig customer PT Harmoni Drilling Services to qualify and win major tenders with Pertamina Hulu Energi and other major oil operators in Indonesia.

## FINANCIAL RESULTS

| | 2016<br>US$'000 | 2015<br>US$'000 |
|---|---|---|
| Revenue | **142,531** | 194,899 |
| Profit from operations before impairment losses and provisions | **11,639** | 9,420 |
| Finance costs | **(4,363)** | (4,545) |
| Income tax | **(264)** | (738) |
| Profit for the year before impairment losses and provisions | **7,012** | 4,137 |
| Impairment losses and provisions | **(118,588)** | (2,840) |
| (Loss)/profit for the year | **(111,576)** | 1,297 |

During 2016 the Group undertook significant transformation and restructuring measures which resulted in a write-down of goodwill and recognition of impairment losses on certain inventories, trade and contract receivables. The write-down of goodwill was mainly in respect of an overseas subsidiary primarily related to drilling sector capital equipment and packages business. With our diversification to P&A and Decommissioning activities as new growth areas, the write down of goodwill was resulting from the revised forecast taking into account these new developments. Similarly, the overall conditions of the oil and gas economy had cast some uncertainties over some receivables from customers which were highly dependent on recovery of oil prices. As such the recognition of impairment losses were considered adequate, however, the Group continues and will not spare any effort to secure future settlement of all debts due to the Group.

Excluding the write-downs and impairment provision, the Group achieved an operating profit from operations of US$11.6 million for the year representing an increase of 23.6% from US$9.4 million in the previous year.

## PROSPECTS AND OUTLOOK

In this challenging operating environment, we not only continue to focus on what we can do well, but we will also extend partnerships to deepen expertise to gain access to markets with sustainable high growth prospects. The P&A and Decommissioning market mentioned earlier is an example of such areas.

Asset prices will continue to be kept low due to oversupply and oil prices could be kept lower for longer due to cheaper shale oil and increasing global stockpiles of crude oil. Cost awareness, controls and efficiency will continue to be TSC's primary basis for operations. These adjustments will be painful and difficult for TSC and the O&G industry as a whole, but we will emerge lean and strong as we adjust to the new market conditions on the back of an oil price recovery in the medium term.

The demand for equipment and services relating to P&A and Decommissioning is likely to gain importance and momentum. In the United Kingdom and Norwegian North Sea region alone, there are over 1,800 oil wells due for P&A, over 100 platforms and about 1,000,000 tonnes of offshore structures to be removed and about 7,500 kilometers of subsea pipelines to be decommissioned. With extensive marketing research and development already done with our partners in OIM, we are confident that the prospects for P&A and Decommissioning projects will be a strong revenue driver for TSC in the future.

Ultimately with already a comprehensive range of equipment and products accumulated over past years, the restructured Offshore BG and the new P&A and Decommissioning business, we will have a balanced portfolio of opportunities for TSC over the long term. The Group will be able to achieve more sustainable growth despite fluctuations in oil price over the long term and reduce exposure to mainly drilling related products. Our immediate focus is to conserve cash flow to enable us to put in place our new products through new efficiencies and new business models to address new markets as we recover from the substantial impact from the low oil price.

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 the Group's strategy will serve the market well. We recognise that market prospects present many new challenges. However, we are confident that the adjustment of the Group's strategy and our market positioning will help us to take advantage of some of the opportunities in this environment.

TSC remains pragmatic yet confident that the O&G market outlook should recover in second half of 2017.

## APPRECIATION

On behalf of all the TSC team, I want to thank our stakeholders for their confidence and support in this challenging period. We will continue to leverage on our international expertise and partnerships to bring about costs effective transformative changes to adequately meet the challenges of the future.

We are confident of what the TSC team has achieved in 2016 and stand ready to pivot towards better growth in 2017.

**JIANG Bing Hua**
*Executive Chairman*

Hong Kong, 30 March 2017

# CORPORATE VISION

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

## COMMITMENT, EXCELLENCE, ADAPTABILITY & LOYALTY

**TSC IS A GLOBAL PRODUCT AND SERVICE PROVIDER SERVING BOTH THE ONSHORE AND OFFSHORE OIL AND GAS E&P AND DECOMMISSIONING INDUSTRIES WORLDWIDE.**

## OVERVIEW

TSC is a global product and service provider serving both the onshore and offshore oil and gas E&P industries worldwide. In 2016, these principal activities were extended beyond the E&P sector to include decommissioning of offshore late-life assets and installations.

During the year as announced on 28 April 2016, the Group completed the restructure of our businesses into two Business Groups ("BGs"). The Offshore BG comprises design, manufacture, installation and commissioning of capital equipment and packages. Equipment included in the Offshore BG are for drilling, mechanical handling, jacking systems, power control and drives, tensioning and compensation systems for various offshore drilling rigs, completion, intervention and workover vessels for E&P and P&A and Decommissioning industries.

The Oil & Gas Field Services BG comprises the manufacture and sales of oilfield Maintenance, Repair and Operations ("MRO") expendables and spare parts, and the provision of a comprehensive range of engineering and maintenance services for our equipment 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 types of jack-up rigs. Our first

400 ft jack-up rig, R-550D, is in its final testing phase and estimated to be delivered in 2017. AOD's objective is to leverage resources and partnerships to seek and create new markets. In line with this strategy, a subsidiary, OIM Pte Ltd ("OIM") was incorporated in Singapore with 70% shares held by the Group. Its primary business is to meet the growing demand for cost effective and practical solutions for P&A and Decommissioning operations. This subsidiary will extend our market access and core competencies to include non-drilling sector solutions.

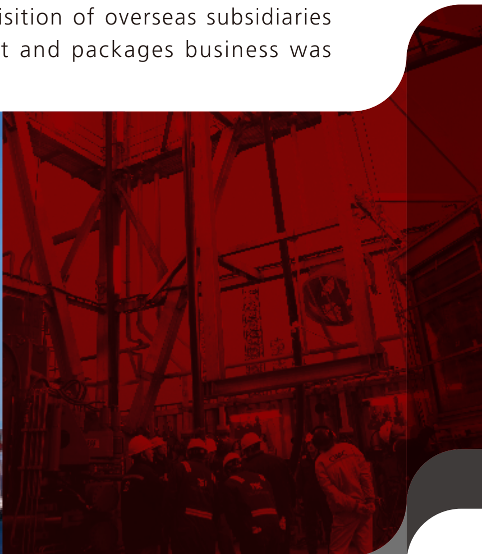
## FINANCIAL REVIEW

| | **2016 US$'000** | 2015 US$'000 | Change US$'000 | % |
|---|---|---|---|---|
| Revenue | **142,531** | 194,899 | (52,368) | (26.9) |
| Gross Profit | **37,786** | 54,356 | (16,570) | (30.5) |
| ***Gross Profit Margin*** | **26.5%** | 27.9% | | |
| (Loss)/profit before Interest and Taxation | **(106,949)** | 6,580 | (113,529) | N/A |
| Net (loss)/profit attributable to Equity Shareholders | **(110,450)** | 2,097 | (112,547) | N/A |
| ***Net (Loss)/Profit Margin*** | **(77.5%)** | 1.1% | | |
| (Loss)/earnings per Share (Basic) | **(US15.73 cents)** | US0.30 cent | (US16.03 cents) | N/A |
| (Loss)/earnings per Share (Diluted) | **(US15.73 cents)** | US0.30 cent | (US16.03 cents) | N/A |

### Revenue

Consolidated revenue decreased by 26.9% from US$194.9 million in 2015 to US$142.5 million in 2016. The decrease mainly came from a 37.7% decrease in Capital Equipment and Packages recognised revenue and partly offset by 4.1% increase in Oilfield Expendables and Supplies sales. Engineering Services revenue decreased by 61.0% from US$14.3 million to US$5.6 million in 2016.

The net loss attributable to equity shareholders in 2016 was mainly due to the substantial write downs of assets and provision for receivables as a result of the challenging business environment of the oil and gas industry. As at 31 December 2016, goodwill of US$19.6 million arising on previous acquisition of overseas subsidiaries in the capital equipment and packages business was



fully impaired in light of the transformation of business emphasis away from E&P sector, which resulted in a drop in expected cash flows to be generated from this business as compared to that forecast as at 31 December 2015. The challenging environment also raised concerns over recoverability of certain trade receivables and gross amount due from customers for contract work, resulting in provision of US$56.9 million and US$29.9 million during 2016 respectively. The recoverability of these balances is to a certain extent tied with the pace of recovery of the industry.

Excluding the write down of inventories, goodwill and impairment losses on assets, the Group achieved an operating profit from operations of US$11.6 million for the year. This is an increase of 23.6% over the profit from operations of US$9.4 million in the previous year.

## Segment Information by Business Segments

| | **2016** | | 2015 | | Increase/(decrease) | |
|---|---|---|---|---|---|---|
| | **US$'000** | **%** | US$'000 | % | US$'000 | % |
| Capital Equipment and Packages | **76,067** | **53.4** | 122,070 | 62.6 | (46,003) | (37.7) |
| Oilfield Expendables and Supplies | **60,874** | **42.7** | 58,500 | 30.0 | 2,374 | 4.1 |
| Engineering Services | **5,590** | **3.9** | 14,329 | 7.4 | (8,739) | (61.0) |
| Total revenue | **142,531** | **100.0** | 194,899 | 100.0 | (52,368) | (26.9) |

## Capital Equipment and Packages

Revenue recognised based on progress achieved on Capital Equipment and Packages projects decreased by 37.7% in 2016 compared to 2015. The decrease of US$46.0 million is mainly due to the downturn in Oil and Gas industry, which resulted in less drilling activities as well as no new orders for rig-turnkey package in 2016.

## Oilfield Expendables and Supplies

The increase of 4.1% from US$58.5 million in 2015 to US$60.9 million in 2016 in Oilfield Expendables and Supplies was mainly arisen from the stable demand for expendables worldwide in 2016.

## Engineering Services

Engineering Services revenue decreased significantly from US$14.3 million in 2015 to US$5.6 million in 2016 mainly due to reduced offshore drilling activities and reduced global demand for offshore engineering services. Operations in Brazil and the United States have been scaled down due to the reduced activity levels.

## Segment Information by Geographical Regions

| | 2016 US$'000 | 2016 % | 2015 US$'000 | 2015 % | Increase/(decrease) US$'000 | Increase/(decrease) % |
|---|---|---|---|---|---|---|
| Mainland China | **69,230** | **48.5** | 61,373 | 31.5 | 7,857 | 12.8 |
| North America | **13,790** | **9.7** | 27,483 | 14.1 | (13,693) | (49.8) |
| South America | **39,333** | **27.5** | 26,832 | 13.8 | 12,501 | 46.6 |
| Europe | **1,500** | **1.1** | 4,535 | 2.3 | (3,035) | (66.9) |
| Singapore | **4,800** | **3.4** | 17,446 | 9.0 | (12,646) | (72.5) |
| Indonesia | **8,208** | **5.8** | 56,129 | 28.8 | (47,921) | (85.4) |
| Others | **5,670** | **4.0** | 1,101 | 0.5 | 4,569 | 415.0 |
| Total revenue | **142,531** | **100.0** | 194,899 | 100.0 | (52,368) | 26.9 |

### Gross Profit and Gross Profit Margin

The Group's Gross Profit of US$37.8 million for the year of 2016 decreased by 30.5% from US$54.4 million in the previous year. Gross Profit Margin decreased slightly from 27.9% in 2015 to 26.5% in 2016.

### Other Revenue

The increase in Other Revenue from US$3.8 million to US$5.7 million was due to a subsidy received from local government.

### Selling and Distribution Expenses

Selling and Distribution Expenses decreased by US$7.4 million from US$12.6 million in 2015 to US$5.2 million in 2016. Selling and Distribution Expenses mainly comprised of sales staff salaries, commissions, marketing expenses including participation in trade shows, travel costs and other sales promotional expenditure. The decrease in Selling and Distribution Expenses was mainly due to the scale down of operations in North America.

### General and Administrative Expenses

General and Administrative Expenses remained stable in 2015 and 2016 at US$33.1 million and US$33.4 million respectively. Cost control, and improving efficiency and productivity continues to be the focus at all levels of management in the Group.

### Other Operating Expenses

The increase in Other Operating Expenses from US$4.0 million in 2015 to US$5.4 million in 2016 was mainly due to the impairment losses on other financial assets amounting to US$2.4 million.

### Finance Costs

Finance Costs, primarily interest on bank loans and other borrowings, amounted to approximately US$4.4 million in 2016 and remained stable compared to US$4.5 million in the previous year.

### Group's Liquidity and Capital Resources

As at 31 December 2016, the Group had intangible assets of approximately US$3.6 million (2015: US$29.5 million). The decrease was mainly due to the deterioration of E&P sector which resulted in full impairment of goodwill amounting to US$19.6 million in 2016. As at 31 December 2016, the Group carried tangible assets of approximately US$66.3 million (2015: US$69.2 million) being property, plant and equipment, investment properties, and interest in leasehold land held for own use under operating leases. During the year, some of the properties were leased to third parties and the corresponding carrying value was reclassified to investment properties during 2016.

As at 31 December 2016, the Group's interest in associate was approximately US$0.2 million (2015: US$0.2 million) and deferred tax assets was approximately US$13.7 million (2015: US$12.0 million). Non-current portion of prepayments was nil (2015: US$0.1 million).

As at 31 December 2016, the Group had current assets of approximately US$326.7 million (2015: US$454.1 million). Current assets mainly comprised cash and bank balances of approximately US$10.0 million (2015: US$46.5 million), pledged bank deposits of approximately US$1.5 million (2015: US$5.0 million), inventories of approximately US$39.7 million (2015: US$58.5 million), trade and other receivables of approximately US$76.1 million (2015: US$107.3 million), amount due from a related company of approximately US$0.1 million (2015: US$0.1 million), and gross amount due from customers for contract work of approximately US$199.2 million (2015: US$236.5 million). The decrease in gross amount due from customers for contract work was mainly due to a provision of US$29.9 million on a contract with uncertainties attached to its outcome.

The decrease in trade and other receivables was mainly due to recognition of impairment loss on doubtful debts of US$56.9 million during 2016 in view of uncertain recovery of certain debtors. A provision of US$9.8 million (2015: US$0.9 million) was also made for write down on inventories.

As at 31 December 2016, current liabilities amounted to approximately US$275.4 million (2015: US$312.3 million), mainly comprising trade and other payables of approximately US$259.5 million (2015: US$278.2 million), bank loans and other borrowings of approximately US$8.1 million (2015: US$28.7 million), and current tax payables of approximately US$7.8 million (2015: US$5.3 million).

As at 31 December 2016, the Group had non-current liabilities of approximately US$41.4 million (2015: US$38.5 million), comprising bank loans and other borrowings of approximately US$41.3 million (2015: US$38.2 million) and deferred tax liabilities of approximately US$0.1 million (2015: US$0.3 million). 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 2016 was 77% (2015: 62%).

## Significant Investments and Disposals

There were no significant investments or disposals during the year.

## Capital Structure

At 1 January 2016, there were 707,120,204 shares in issue and the Company carried a share capital of approximately US$9,094,000.

## Charges on Assets

To secure the loans from banks, the Group has charged 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$50.2 million (2015: US$38.2 million).

(ii) Corporate guarantees given by Qingdao TSC Offshore Equipment Co. Ltd, TSC-HHCT (Xian) Control Technologies Limited, Zhengzhou TSC Offshore Equipment Co. Ltd., TSC Offshore China Limited and TSC Oil and Gas Services Holdings Ltd. to the extent of banking facilities outstanding of US$2.1 million (2015: US$16.3 million) as at 31 December 2016.

(iii) Corporate guarantee given by the Company to the extent of banking facilities outstanding of US$0.7 million (2015: US$2.0 million) as at 31 December 2016.

(iv) Guarantees given by the directors of the Company (the "Director") to the extent of banking facilities outstanding of US$0.3 million (2015: US$0.4 million) as at 31 December 2016. No guarantee fee was received by the director during the Year.

Certain bank loans of the Group are subject to the fulfilment of covenants relating to certain aspects of the subsidiaries' statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. The drawn down loan balances would become payable on demand if the covenants were breached.

The Group closely monitors its compliance with these covenants. As at 31 December 2016, the Group did not meet certain covenants of a bank loan of US$0.3 million (2015: Nil), which was fully repaid subsequent to the year end. Other than that, none of the covenants relating to the Group's bank loans had been breached.

## Foreign Currency Exchange Exposures

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The Group has foreign exchange exposure resulting from most of the Group's subsidiaries in the PRC carrying out production locally using Renminbi while approximately 50% of the Group's revenue was denominated in United States dollars. As at 31 December 2016, 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 10 April 2015, 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 certain equipment under a number of turnkey projects to CIMC Raffles. The New Master Agreement is valid for a period starting from 5 June 2015 and ending on 31 December 2017.

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 | 10 April 2015 |
| 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 2017. |
| Contract Values and Other Details | The annual caps under the New Master Agreement for three years ending 31 December 2017 are approximately US$100 million (equivalent to approximately HK$780 million) each year. |
| Detailed announcement and shareholder approval | Details of the transaction were announced on 10 April 2015 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 5 June 2015. |

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 5 June 2015. The abovementioned contracts cover the supply of drilling packages, electrical power packages and a jacking system with a total contract value of approximately US$6.6 million, which is within the cap of US$100 million for the year ended 31 December 2016 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$1.8 million for the year ended 31 December 2016 (2015: US$14.0 million).

### Staff Employees and Remuneration Policy

As at 31 December 2016, the Group had approximately 747 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.

## FUTURE PLANS FOR MATERIAL INVESTMENTS, CAPITAL ASSETS AND CAPITAL COMMITMENT

Present available capital assets are adequate for the requirements of the Group. We do not require further material investments in capital assets at this stage.

Our Qingdao facility with approximately 382,000 square feet (35,500 square meters) was officially put into use in the first half of 2016. 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 was approximately US$32.3 million and was funded partly from internal sources and partly from long-term bank loans.

To improve the co-operation between the Group and CSSC Huangpu Wenchong Shipyard Co. Ltd., an associate, namely "廣州星際海洋有限公司" was established. The total investment amount is US$0.2 million. The investment was aimed at jointly developing engineering solutions for mutual benefits of both parties.

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

The Group continually seek ways to reduce costs and to improve operational and financial efficiency.

## QUOTATION OF TSC OGS GROUP ON THE NATIONAL EQUITIES EXCHANGE AND QUOTATIONS SYSTEM (THE "NEW THIRD BOARD")

During the Year, the Group completed the spinoff of OGS Business Group under TSC OGS (formerly known as "TSC (Qingdao) Manufacture Co., Ltd"). Quotation of its shares on the NEEQ was approved and quotation of TSC OGS commenced on 19 July 2016 under the stock code of 837290. The successful listing of TSC OGS will provide a viable financing channel and broader capital markets environment for the Group.

## SHARE AWARD PLAN

The Company adopted a share award plan on 16 January 2015 (the "Adoption Date"). The share award plan does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules and is at discretion of the Company. The purpose of the share award plan is to recognise the contributions of officers and employees of the Group (the "Eligible Persons"), excluding any Directors and any other connected persons of the Group, towards the development of the Group in the past or as incentives to selected grantees to achieve higher than target profits for the Group and to align the interests of the selected grantees with sustainable growth and development of the Group.

The total number of Shares purchased under the share award plan shall not exceed 3% of the issued Shares at the Adoption Date. A trust has been set up and Treasure Maker Investments Limited has been appointed as the trustee. Pursuant to the share award plan, the trustee may purchase Shares from the public market out of cash contributed by the Company from time to time. Shares purchased under the share award plan will be held in trust for the Eligible Persons until such Shares are vested in accordance with the provisions of the rules relating to the share award plan. The share award plan will be effective for a period until 15 January 2025 unless terminated at the discretion of the Board at an earlier date.

No grant was made for the year ended 31 December 2016. As at 31 December 2016, the trustee held 5,095,000 Shares (representing 0.72% of the issued share capital of the Company) on trust under the share award plan.

## SHARE AWARD INCENTIVE SCHEME

The Company adopted a share award incentive scheme ("Share Award Incentive Scheme") on 27 May 2016 (the "Adoption Date of Share Award Incentive Scheme"). The purposes of the Share Award Incentive Scheme are (i) to align the interests of Eligible Persons with those of the Group through ownership of Shares, dividends and other distributions paid on Shares and/or the increase in value of the Shares; and (ii) to encourage and retain Eligible Persons to make contributions to the long-term growth and profits of the Group. The Share Award Incentive Scheme is a separate scheme from the Share Award Plan adopted by the Company on 16 January 2015, which is specifically for granting Share awards sourced from existing Shares purchased from the stock market. The Share Award Incentive Scheme will give the Company flexibility in granting Awards of new Shares. The Share Award Incentive Scheme will be effective for a period until 26 May 2026 unless terminated at the discretion of the Board at an earlier date.

The Company has approved the adoption of the Share Award Incentive Scheme on 27 May 2016 by the shareholders by poll at the AGM, pursuant to which new Shares of not more than 3% of the total number of issued Shares as at the Adoption Date of Share Award Incentive Scheme (i.e. 21,213,606 new Shares) will be allotted and issued to the Trustee by the Company, and will be held on trust by the Trustee for the Selected Participants before vesting. For details, please refer to the Company's announcement dated 7 April 2016 and the Company's circular dated 8 April 2016.

No grant was made for the year ended 31 December 2016. As at 31 December 2016, the total number of shares that may be granted under the Share Award Incentive Scheme is 21,213,606 Shares, representing 3% of the issued share capital of the Company.

## STRATEGY, PROSPECTS AND ORDER BOOK

### Market Review

The current downturn has been particularly damaging for TSC drilling equipment related business as oil prices have dropped approximately 75% from $106 per barrel in July 2014 to $26 per barrel in January 2016. Even though prices have recovered to around $50 per barrel, market conditions remain challenging as the low prices weigh on our sector performance. Demand for oilfield services is weak in many parts of the world, with a few exceptions of some areas in the United States and the Middle East. Although in November 2016 OPEC agreed to a new quota agreement to reduce outputs for the first half of 2017, the oil and gas market recovery remains uncertain. The lower cost of production of shale oil from the United States further adds to the uncertainties of oil price recovery. As price increases, it has been seen that rig counts have increased in response, which puts pressure on further oil price increases. Cash flow preservation, operating and capital cost reductions have become the main theme across almost all oil and gas related companies. Efficiency gains with lower costs further adds to expectations that oil price may remain low for a longer period of time compared to pre-2014 levels.

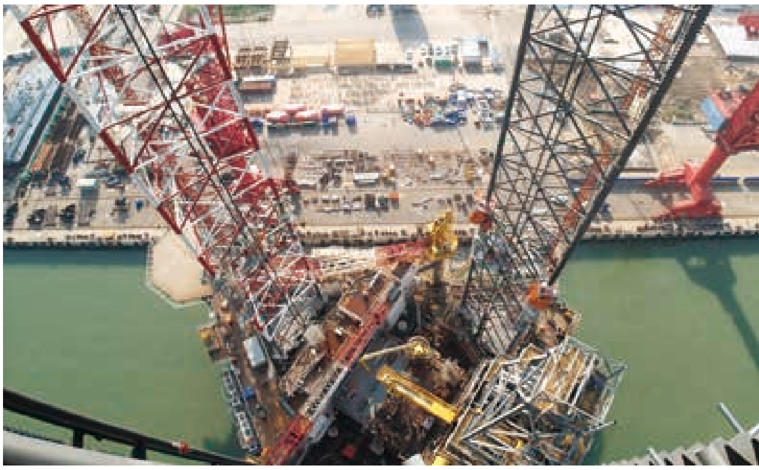
### Strategy and Prospects

As the new norm prevails for longer periods of low oil price, the demand for equipment and services relating to the closure of uneconomical oil wells (referred to in the industry as P&A) followed by the removal of offshore installations (referred to in the industry as "Decommissioning") is likely to gain importance and momentum. In the United Kingdom and Norwegian North Sea region alone, there are over 1,800 oil wells due for P&A, over 100 platforms and about 1,000,000 tonnes of offshore structures to be removed and about 7,500 kilometers of subsea pipelines to be decommissioned. The combination of several factors such as lower oil price, age of installations, depleted oil reserves, environmental threats, higher cost of continuing to maintain offshore installation will accelerate the pace of P&A and Decommissioning activities. Even though some factors such as lack of funding and the need to maximise oil recovery from existing infrastructure before permanent removal may cause some deferment in the process, it is likely that demand for decommissioning will still grow rapidly. TSC, together with our partners in OIM have identified sufficient specific situations where the requirement for P&A and Decommissioning will definitively proceed as required by various oil companies. Furthermore, OIM brings on board many years of technical capabilities and market access and has several concept designs which brings unique cost saving solutions to oil companies.

Oilfield services has also been identified by the Group as an area which will continue to grow despite general decline globally. In particular, oilfield services in North and Central America will continue to be areas of focus as further means to enable TSC to overcome our vulnerability to concentration on a limited market sector. The separation of activities of the Group into two main Business Groups ("BG") is to provide an overall environment for both the BGs to expand and grow independently of one another. The Oil and Gas Field Service BG was listed on the NEEQ Board to achieve higher efficiency and productivity management as well as to effectively optimize the use of resources and potential available at the various locations of the Group.

In response to lower revenues, the Company implemented several rounds of cost cuts by reducing workforce, pay reductions at all levels, closing down unprofitable locations, downsizing service teams and accelerated restructuring plans. At the same time we have strived to raise efficiency, increase focus and revenue per employee to achieve higher efficiency with a leaner simplified organization structure.

Ultimately with already a comprehensive range of equipment and products accumulated over past years, the restructured Offshore Business Group and the new P&A and Decommissioning business, we will have a balanced portfolio of opportunities for TSC over the long term. The Group will be able to achieve more sustainable growth despite fluctuations in oil price over the long term and reduce exposure to mainly drilling related products. Our immediate focus is to conserve cash flow to enable us to put in place our new products through new efficiencies and new business models to address new markets as we recover from the substantial impact from the low oil price. We will eventually rebuild our balance sheet with important lessons learnt from the past years.



## 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 the Group's strategy will serve the market well. We realise that the market prospects present many new challenges, however, we are confident that the adjustment of the Group's strategy and our market positioning will help us to take advantage of some of the opportunities in this environment.

## Order Book

As at 31 December 2016, the Group as a whole carried an order backlog of approximately US$105.3 million for capital equipment and packages, expendables and services. Subsequent to 31 December 2016, the Group had secured further new orders amounting to US$8.0 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 2016 which may have significant effects on the assets and liabilities of future operations of the Group.

## EXECUTIVE DIRECTOR

**JIANG Bing Hua**, *Executive Chairman*

**Mr. JIANG Bing Hua**, aged 66, 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 43 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.

## NON-EXECUTIVE DIRECTORS

**ZHANG Menggui, Morgan**, *Non-executive Director*

**Mr. ZHANG Menggui, Morgan**, aged 58, is a co-founder of the Group has been re-designated from executive Director to non-executive Director of the Company since 28 April 2016. He serves as the executive chairman of TSC OGS Group on NEEQ. He was the chief executive officer and an executive Director of the TSC OGS Group. 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 34 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, vice president of TSC OGS Group and also the president of TSC Manufacturing and Supply, LLC. ("TSC M&S"), a subsidiary of the Group.

**JIANG Longsheng**, *Non-executive Director*

**Mr. JIANG Longsheng**, aged 72, 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 44 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 (a company listed on the Main Board of the Stock Exchange) from 2000 to 2005 and has held the position of vice president of CNOOC from 1998 to 2005. From 1994 to 1998, he was the general manager of China Offshore Oil Southern Drilling Company. From 1991 to 1994, Mr. Jiang served as the deputy chief drilling engineer and was later appointed as the chief drilling engineer of China Offshore Oil Western South China Sea Corporation. Mr. Jiang presently serves as an independent non-executive director of Metallurgical Corporation of China Limited, a company listed on the Main Board of the Stock Exchange.

**Brian CHANG**, *Non-executive Director*

**Mr. Brian CHANG**, aged 74, 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 50 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 Blue Capital Pte. Ltd. and Calm Oceans Pte. Ltd.. 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.

**WANG Jianzhong,** *Non-executive Director*

**Mr. WANG Jianzhong**, aged 43, has been appointed as a non-executive director of the Company with effect from 4 July 2016. Mr. Wang graduated from Beijing Normal University in China with a Master degree in Management, Business Administration in 1998. Mr. Wang started working in 1998 and he is currently the president of CIMC Raffles Offshore (Singapore) Limited ("CIMC Raffles"). From 1998 to 2006, Mr. Wang was senior manager of capital operation department of China Ocean Shipping (Group) Corporation ("COSCO"). From 2006 to 2007, Mr. Wang was deputy general manager of Taicang CIMC Container Co., Ltd. From 2007 to 2014, Mr. Wang was general manager of the enterprise management department of CIMC, where he notably created and promoted the CIMC "LEAN ONE" management model – based on the LEAN concept which significantly improved the group's annual revenue. The LEAN ONE Concept attracted favourable reviews from the "Harvard Business Review" and "Tsinghua Business Review". From 2010 to 2014, Mr. Wang acted as secretary-general of group leadership council of CIMC (中集集團升級領導委員會) to promote upgraded changes for CIMC. From June 2014 to December 2015, Mr. Wang was vice president of CIMC Raffles. From December 2015 to date, Mr. Wang has been president of CIMC Raffles.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

**Mr. CHAN Ngai Sang, Kenny**, aged 52, 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 six 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 Chartered Accountants Australia and New Zealand, the Association of International Accountants, CPA Australia, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He is also a fellow member of the Hong Kong Institute of Directors. Mr. Chan served as president of the Hong Kong Branch of the Association of International Accountants in the years 2012-2015 and also serves on several tribunals of the HKSAR Government including the Mandatory Provident Fund Schemes Appeal Board, Occupational Retirement Schemes Appeal Board, Youth Programme Co-ordinating Committee of the Commission on Youth and the Fight Crime Committee of Tsuen Wan District. Mr. Chan is an independent non-executive director of Convoy Financial Holdings Limited, Minsheng Education Group Company Limited & AMCO United Holding Limited, all are listed on the Main Board of the Stock Exchange, and Combest Holdings Limited, WLS Holdings Limited & Sing On Holdings Limited, all are listed on the Growth Enterprise Market of the Stock Exchange.

**BIAN Junjiang,** *Independent Non-executive Director*

**Mr. BIAN Junjiang**, aged 74, 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 58, 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 81, has been an independent non-executive Director of the Company since July 2009. Mr. Fogal Jr. 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 Jr. also served as director of business development for Zentech, Inc. Mr. Fogal Jr. 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

**Mr. WANG Yong**, aged 55, is the President of the Group with effect from 28 April 2016. He is responsible for the daily operations and business activities of the Group. He is also the director and chief executive officer of a subsidiary, OIM Pte. Ltd. He 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 his 16 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.

**WANG Yong,** *President*

**Mr. LIM Joo Heng, Paul**, aged 61, is an Executive Vice President and is currently Acting Chief Financial Officer of the Group. He is also President of the wholly-owned subsidiary, Alliance Offshore Group Ltd., which is responsible for the execution of group integrated solutions 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.

**LIM Joo Heng, Paul,** *Executive Group Vice President and Acting Chief Financial Officer*

**Mr. CHEN Yunqiang**, aged 51, is the Managing Director of TSC Offshore China Limited ("TSC China") in China. He is also and the President of TSC OGS Group. He is responsible for overall business of TSC OGS Group. 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,** *President – TSC OGS Group and Managing Director – TSC China*

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

**Mr. ZHANG Mengzhen, Michael**, aged 50, is the Group Vice President of TSC OGS Group. He is responsible for the overall management of TSC OGS Group maintenance, repair and operating supplies business. 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, a non-executive Director of TSC.

Mr. Wang Ziqiang, *OGS Vice President and Cheif Financial Officer*

**Mr. WANG Ziqiang,** aged 53, is currently the Vice President and CFO of TSC OGS. He is responsible for the overall financial management of TSC OGS. Mr. Wang graduated from the Corporate Finance Department of Renmin University of China in 1988. He holds a bachelor of economics degree and a master degree of Economics. Mr. Wang is also a certified public accountant and senior accountant. Mr. Wang joined the Group in December 2007 and has served as deputy general manager and audit director of the Group. Prior to joining the Group, Mr. Wang worked as a financial manager and chief financial officer in China Petrochemical Materials and Equipment Company, Datang Telecom Gaohong Technology Co., Ltd. and Mei Cheng Group Technology Co., Ltd.

SHI Zhanqi, *Offshore Vice President*

**Mr. SHI Zhanqi**, aged 51, is the Offshore Vice President, in charge of the Offshore Group Integrated Solution business. Mr. Shi studied petroleum engineering at China Petroleum University, joined TSC in October 2007 as the group engineering director and promoted to the president of TSC offshore Group Engineering & Research Institute (Qingdao) Co. Ltd in 2013. Prior to joining TSC, Mr. Shi worked at CNOOC design institute and NOV China project offices, mainly at position of project managers for design/fabrication of production topside and rig facilities.

**Mr. Robert Stuart SHINFIELD**, aged 46, is the Vice President in charge of Offshore BG East Hemisphere business. Mr. Shinfield joined TSC as general manager of TSC Offshore Ltda (Brazil) in August 2004 and was promoted to Group Vice President in January 2010. He is responsible for TSC operations in Europe, 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,** *Offshore Vice President*

**Mr. WANG Fudong**, aged 45, is the Vice President of the Offshore Group, in charge of the Offshore BG China business. Mr. Wang graduated in 1992 from China University of Petroleum, majoring in Mining Machinery and holds an EMBA from CEIBS (China Europe International Business School) and a PhD in Oil and Gas Well Engineering. Mr. Wang has been with the TSC Group since 2005 and has served successively as General Manager of TSC-OE, a subsidiary in Qingdao, China, Deputy General Manager of China Region and then as General Manager. He has more than 20 years of experience in Oil and Gas industry and served for Shengli Drilling Technology Research Institute of Sinopec prior to joining TSC.

**WANG Fudong,** *Offshore Vice President*

**Mr. Wes CHAIN**, aged 38, is the Vice President of TSC Offshore BG. Mr. Chain joined TSC in July 2012 as the Sales Manager and was promoted to Operations Manager for the Crane Business Unit in 2013, and the General Manager for Cranes and Handling in 2015. In 2016, Mr. Chain was appointed Vice President of the Offshore Business Group's capital equipment division (OE). Prior to joining TSC, Mr. Chain spent 10 years working in the offshore capital equipment industry in sales and marketing roles. Mr. Chain graduated from Texas A&M University in College Station, Texas with a degree in Agricultural Engineering Systems Management. Mr. Chain is also a member of NOMADS, The National Oil Equipment Manufacturers And Delegates Society.

**CHAIN Wes,** *Offshare Vice President*

Mr. Oddgeir Ivar INDRESTRAND, *CEO – OIM Pte. Ltd.*

**Mr. Oddgeir Ivar, INDRESTRAND,** aged 51, founder and chief executive officer ("CEO") of OIM Pte. Ltd. Mr. Indrestrand's professional background is gained from 32 years of Oil & Gas offshore project experience, both working for Oil Majors as well as for EPCI Contractors across the world. Mr. Indrestrand holds a degree in Welding Engineering and a Diploma in International Welding Engineering. Mr. Indrestrand is responsible for business and technical developments of Jack-Up rig Solutions including Pre-Qualifications and Tender processes towards different Well Plug & Abandonment and Platform Decommissioning projects, and for other Jack-Up rig applications such as Well Intervention and Production Jack-Up units.

Mr. Graham Christopher COMPORT, *Vice President*

**Mr. Graham Christopher, COMPORT,** aged 52, is Vice President TSC Offshore Integrated Solutions Project Management and Operations Director for Alliance Offshore Drilling Pte. Ltd. He heads the New Build operation. He graduated from Warsash Maritime Academy, part of Southampton Solent University with a HND in Marine Engineering. He began his career in the Merchant Navy, followed by over 25 years' experience in Offshore Shipyards throughout the world, where he has held several Managerial and Director positions in Construction or Project Management on various New Build Offshore Oil & Gas Projects. He also has extensive knowledge and experience regarding feasibility studies, design, layout and building and construction of shipyards and their associated equipment infrastructure.

Mr. Kåre ANTHONSEN, *Vice President Commercial – OIM Pte. Ltd.*

**Mr. Kåre ANTHONSEN**, aged 45, has been with OIM Pte. Ltd. since April 2016. He holds the role of Vice President Commercial. Before joining OIM Pte. Ltd. Mr. Anthonsen was Director of Sales and Marketing for OSM Offshore AS, part of the OSM Maritime Group. He is responsible for the commercial and business development function within OIM Pte. Ltd. which includes contract strategies developing new business areas. Mr. Anthonsen holds a dual Executive MBA (Hons.) in Finance, Shipping and Offshore from Nanyang Technical University in Singapore and BI Norwegian Business School. He has also held various Project and Commercial management positions in the industry more than 20 years.

The board of the Directors (the "Board") hereby presents 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 15 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 results for the year ended 31 December 2016 is set out in the financial statements on pages 79 to 159.

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 2016, are extracted from the audited financial statements of the relevant annual reports of the Company, and are set out on page 160. 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 10 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

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

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association ("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, sold or redeemed any of the Company's listed securities during the Year. As at 31 December 2016, the trustee held a total 5,095,000 TSC shares under the share award plan.

## RESERVES

Details of movements in the reserves of the Company and of the Group during the Year are set out in note 28(a) to the financial statements and in the consolidated statement of changes in equity on page 83, respectively.

## DISTRIBUTABLE RESERVES

The Company had no reserves available for cash distribution and/or distribution in specie to shareholders of the Company as at 31 December 2016 (2015: Nil), as computed in accordance with the Companies Law of the Cayman Islands. The details are set out in note 28(d) to the financial statements. The Company's share premium account, with a balance of approximately US$127,805,000 (2015: US$127,805,000), 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 64% of the Group's total sales for the Year and sales to the largest customer included therein accounted for approximately 23% of the Group's total sales.

In the Year under review, the sales to CIMC Raffles Group amounted to US$5.3 million, accounting for approximately 3.7% of the total sales of the Group.

Purchases from the Group's five largest suppliers accounted for approximately 9.8% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 5.4% of the Group's total purchases.

Save as disclosed under the paragraph headed "RELATED PARTY TRANSACTIONS" and note 31 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 Director:

Mr. JIANG Bing Hua

### Non-executive Directors:

Mr. ZHANG Menggui, Morgan (re-designated from executive Director to non-executive Director on 28 April 2016)
Mr. JIANG Longsheng
Mr. Brian CHANG
Mr. WANG Jianzhong (appointed on 4 July 2016)
Mr. Yu Yuqun (resigned on 4 July 2016)

### Independent non-executive Directors:

Mr. CHAN Ngai Sang, Kenny
Mr. BIAN Junjiang
Mr. GUAN Zhichuan
Mr. Robert William FOGAL JR.

In accordance with Articles 86 and 87 of the Company's Articles, Mr. Jiang Bing Hua, Mr. Bian Junjiang, Mr. Guan Zhichuan and Mr. Wang Jianzhong 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

The executive Director has entered into a service contract with the Company for a term of three years commencing from 28 November 2005 and expiring on 27 November 2008, renewable automatically for successive terms of three years from 28 November 2008, 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 and 10 July 2015 respectively 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. Zhang Menggui has entered into a letter of appointment with the Company for a term of 3 years commencing on 28 April 2016 subject to retirement by rotation and re-election in accordance with the Articles of Association, unless and until terminated by not less than 3 months' prior notice in writing served by either party to the other.

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, 1 May 2012 and 1 May 2015 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 and 10 July 2015 respectively 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. Wang Jianzhong has entered into a letter of appointment with the Company for a term of three years commencing from 4 July 2016 and expiring on 3 July 2019, 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 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefit of Directors) Regulation.

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.

## CHANGE IN INFORMATION OF DIRECTORS

The change in the information of directors since the publication of the 2015 annual report is set out below pursuant to Rule 13.51(B)(1) of the Listing Rules:

### Director's position

- Mr. Zhang Menggui, Morgan ("Mr. Zhang"), resigned as Chief Executive Officer from the Company to serve as the Executive Chairman of Oil and Gas Services Business Group. Mr. Zhang has been re-designated from Executive Director to Non-executive Director of the Company since 28 April 2016.

### Directors' Emoluments

- The basic annual salary of Mr. Jiang Bing Hua in 2016 has been adjusted from HK$2,700,000 to HK$1,940,000, and the basic annual salary of Mr. Zhang Menggui, Morgan in 2016 has also been adjusted from HK$2,700,000 to HK$1,940,000.

## CHANGE OF NON-EXECUTIVE DIRECTOR

On 29 June 2016, Mr. Wang Jianzhong was recommended by the Company's nomination committee to be appointed as Non-Executive Director of the Company. Subsequently, the Company convened the meeting of the Board and resolved to appoint Mr. Wang Jianzhong as Non-Executive Director of the Company with effect from 4 July 2016. On the same day, Mr. Yu Yuqun resigned as Non-Executive Director of the Company. Mr. Yu Yuqun has resigned to devote more time to his personal commitments.

The Company would like to take this opportunity to thank Mr. Yu Yuqun for his valuable contribution during his tenure as non-executive Director of the Company.

## CHANGE OF CHIEF FINANCIAL OFFICER

With effect from 2 May 2016, Mr. Chung Man Lai, Desmond, has resigned from the position of Acting Chief Financial Officer of the Company due to family issues; and Mr. Lim Joo Heng, Paul, has been appointed as Acting Chief Financial Officer of the Company to take over the management of financial matters of the Company.

## APPOINTMENT OF NON-EXECUTIVE DIRECTOR

On 30 March 2017, Mr. Wang Yong was recommended by the Company's nomination committee to be appointed as Non-Executive Director of the Company. The Company will convene the meeting of the Board to appoint Mr. Wang Yong as Non-Executive Director of the Company and will be effective from 11 April 2017. Mr. Wang Yong is also the President of the Group since 28 April 2016.

## DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries, fellow subsidiaries or its parent company was a party or were parties and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year under review or at any time during the Year.

## DIRECTORS' INDEMNITIES

The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Company.

## BUSINESS REVIEW

### Key financial and business performance indicators

The key financial and business performance indicators comprise profitability growth, return on equity and gearing ratio. Details of profitability analysis are shown in the "Management Discussion and Analysis" section of this annual report. The Group's return on equity, based on (Loss)/Profit to Equity Shareholders to Total Equity to Equity shareholders, decreased from 1.0% to -116.8% in the year under review as compared to the previous year, which was mainly due to the substantial write downs of assets and provision for receivables as a result of the challenging business environment of the oil and gas industry. The Group's gearing ratio, calculated based on total liabilities to total assets, increased from 61.6% in 2015 to 76.7% in the Year under review; the Group will continue to safeguard its capital adequacy position, whilst maintaining a balance between business growth and risk management.

A review of the business of the Group and its subsidiaries for the year ended 31 December 2016 is set out in the sections of "Executive Chairman's Statement" and "Management Discussion and Analysis" of this annual report.

### Risk Management

It is the Group's development strategy to establish a risk management system covering all the business segments to monitor, assess and manage various risks in the Group's activities. The management has identified the top risks and conduct regular review of industry, policy, operational and currency risks.

### Major Risk Identified

*Industry risk:* In an oversupply market environment, O&G companies have been facing increasingly fierce competition, and lower demand will have impact on the operating results of the Company to a certain extent in the future. In light of this, the Company will enhance the operational efficiency, enrich its product portfolio, raise its product quality and put emphasis on value maximization and increase its competitiveness. In addition, the Company has diversified its business from Oil and Gas E&P industry to P&A and Decommissioning industry.

*Government Policy risk:* The O&G industry is one of the industries that the PRC Government supports in its 5 year development plan. The development of the Company will be affected by the direction of such policies which will have some impact on the level of support from PRC Government.

## BUSINESS REVIEW *(Continued)*

### Major Risk Identified *(Continued)*

*Operational risk:* As stated in the annual report, the Group is relying on a few customers, such as CSSC Huangpu Wenchong Shipyard Co. Ltd. If the Group fails to secure new contracts from such customers, the Group's operating results will be affected significantly. In light of the above, the Group has established certain level of alliance with these customers for maintaining long term relationship and to enhance the Company's future development.

*Currency Risk:* The value of the Renminbi is affected by the global economic and political environment which has led to a significant depreciation recently. As an international company, sales contracts are usually signed in US currency while production costs are denominated in Renminbi as the major production center is located in Mainland China. Given the nature of our business, the Group will use more domestic bank borrowing in order to mitigate its currency risk.

### Sustainability initiatives

The Group is committed to contributing to the sustainability of the environment and maintaining a high standard of corporate social governance essential for creating a framework for motivating staff and promoting sustainable relationships with customers, suppliers, service vendors, regulators and shareholders, and contributes to the community in which we conduct our businesses for creating a sustainable return to the Group. The Group has implemented energy saving practices in offices and branch premises where applicable.

The Group has compliance and risk management policies and procedures, and members of the senior management are delegated with the continuing responsibility to monitor adherence and compliance with all significant legal and regulatory requirements. These policies and procedures are reviewed regularly. As far as the Company is aware, it has complied in material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries.

## 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 2015.

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.

## SHARE OPTION SCHEMES *(Continued)*

Based on a valuation report done by an independent valuer, 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 13,192,000 share options, representing 1.87% of the issued share capital of the Company, remain valid and outstanding as at 31 December 2016.

### New Scheme

On 5 August 2009 (the "Adoption Date"), the adoption of the new Share Option Scheme for granting up to 56,254,040 share options (the "New Scheme") 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. This became effective from the Adoption Date and will expire on 5 August 2019. 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 valuation reports done by independent valuers, 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 23,628,000 share options, representing 3.34% of the issued share capital of the Company, remain valid and outstanding as at 31 December 2016. Save as disclosed above, no option had been granted or agreed to be granted by the Company pursuant to the New Scheme.

The total number of share options that may be further granted under all the share option schemes as at the date of this annual report 2016 is 3,784,040 Shares, representing 0.54% of the issued share capital of the Company.

As at the date of the annual report 2016, the total number of share options granted and outstanding under all the share option schemes is 36,820,000 Shares, representing 5.21% of the issued share capital of the Company.

## SHARE OPTION SCHEMES *(Continued)*

Details of movement of options under the Post-IPO Scheme including the Refreshment, for the year ended 31 December 2016 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 01.01.2016 | 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 31.12.2016 |
| (i) | Employees | 10.05.2007 | 10.11.2007 to 09.05.2017 | 2.43 | 3,982,000 | – | – | – | – | 3,982,000 |
| | Sub-total | | | | 3,982,000 | – | – | – | – | 3,982,000 |
| (ii) | Employees | 12.11.2007 | 12.05.2008 to 11.11.2017 | 5.60 | 5,990,000 | – | – | – | (1,210,000) | 4,780,000 |
| | Consultants | 12.11.2007 | 12.05.2008 to 11.11.2017 | 5.60 | 0 | – | – | – | – | 0 |
| | Sub-total | | | | 5,990,000 | – | – | – | (1,210,000) | 4,780,000 |
| (iii) | Employees | 15.01.2008 | 15.07.2008 to 14.01.2018 | 5.23 | 2,000,000 | – | – | – | (1,000,000) | 1,000,000 |
| | Sub-total | | | | 2,000,000 | – | – | – | (1,000,000) | 1,000,000 |
| (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 | 0 | – | – | – | – | 0 |
| | Mr. Jiang Bing Hua | 29.12.2008 | 29.06.2009 to 28.12.2018 | 0.54 | 0 | – | – | – | – | 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 | 0 | – | – | – | – | 0 |
| | 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 | 0 | – | – | – | – | 0 |
| | | | | | 750,000 | – | – | – | – | 750,000 |
| | Employees and other | 29.12.2008 | 29.06.2009 to 28.12.2018 | 0.54 | 980,000 | – | – | – | – | 980,000 |
| | Sub-total | | | | 1,730,000 | – | – | – | – | 1,730,000 |
| | Total | | | | 15,402,000 | – | – | – | (2,210,000) | 13,192,000 |

## 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 semiannual 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 year ended 31 December 2016.

Details of movement of options under the New Scheme for the year ended 31 December 2016 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 01.01.2016** | **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 31.12.2016** |
| (i) | Employees | 18.09.2009 | 18.03.2010 to 17.09.2019 | 2.06 | 8,558,000 | – | – | – | (1,270,000) | 7,288,000 |
| (ii) | Employees | 01.09.2010 | 01.03.2011 to 31.08.2020 | 1.27 | 4,460,000 | – | – | – | (2,140,000) | 2,320,000 |
| (iii) | Employees | 21.02.2011 | 21.08.2011 to 20.02.2021 | 1.97 | 2,400,000 | – | – | – | (2,400,000) | 0 |
| (iv) | Employees | 04.09.2012 | 04.03.2013 to 03.09.2022 | 1.02 | 7,065,000 | – | – | – | – | 7,065,000 |
| (v) | Employees | 30.08.2013 | 28.02.2014 to 29.08.2023 | 2.9 | 5,080,000 | – | – | – | (975,000) | 4,105,000 |
| (vi) | Employees | 02.09.2014 | 02.03.2015 to 01.09.2024 | 4.16 | 2,400,000 | – | – | – | (150,000) | 2,250,000 |
| (vii) | Employees | 24.12.2014 | 24.06.2015 to 23.12.2024 | 2.11 | 1,500,000 | – | – | – | (900,000) | 600,000 |
| Total | | | | | 31,463,000 | – | – | – | (7,835,000) | 23,628,000 |

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 semiannual 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 year ended 31 December 2016.

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 for the year ended 31 December 2016.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, 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:

| Name of Directors | Number of issued ordinary Shares of HK$0.10 each in the Company | | | | | 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 |
|---|---|---|---|---|---|---|---|
| | Personal interests | Family interests | Corporate interests | Other interests | Total | | |
| Mr. Zhang Menggui, Morgan (Note 1) | 4,656,000 | – | 120,046,200 | – | 124,702,200 | 0 | 17.64% |
| Mr. Jiang Bing Hua (Note 1) | 4,656,000 | – | 120,046,200 | – | 124,702,200 | 0 | 17.64% |
| Mr. Jiang Longsheng | – | – | – | – | – | 400,000 | 0.06% |
| Mr. Brian Chang (Note 2) | – | – | 66,072,800 | – | 66,072,800 | – | 9.34% |
| Mr. Chan Ngai Sang, Kenny | 500,000 | – | – | – | 500,000 | 0 | 0.07% |
| Mr. Bian Junjiang | – | – | – | – | – | 350,000 | 0.05% |
| Mr. Guan Zhichuan | 300,000 | – | – | – | 300,000 | 0 | 0.04% |

Notes:

1. Global Energy Investors, LLC. is the beneficial owner of 120,046,200 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 Directors of the Company. Accordingly, both Mr. Zhang Menggui, Morgan and Mr. Jiang Bing Hua are deemed to be interested in the 120,046,200 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 2016, none of the Directors or chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to the required standard of dealings by the Directors as referred to in Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### Directors' Rights to Acquire Shares

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

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, 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 | 124,702,200 Shares | 17.64% |
| Madam Zhang Jiuli (Note 2) | Interest of the spouse | 124,702,200 Shares | 17.64% |
| Global Energy Investors, LLC. (Note 3) | Corporate | 120,046,200 Shares | 16.98% |
| Windmere International Limited (Note 4) | Corporate | 66,072,800 Shares | 9.34% |
| China International Marine Corporate Containers (Group) Co., Ltd. (Note 5) | Corporate | 92,800,000 Shares | 13.12% |
| China International Marine Corporate Containers (Hong Kong) Ltd. (Note 5) | Corporate | 92,800,000 Shares | 13.12% |
| Harmony Master Fund (Note 6) | Corporate | 71,106,800 Shares | 10.06% |

## 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 Islands. Harmony Fund is managed by DM Fund Management Limited, a company registered in Cayman Islands 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% |
| Forum Drilling Services Pte. Ltd. | Duhen Thomas, Francois, Marie | 20% |
| ATS Energy LLC | Axion Services Inc. | 33% |
| | Petromax Industry Inc. | 16% |
| Texas Unconventional Resources LLC | Mr. YANG Anping | 20% |
| OIM Pte. Ltd. | Offshore CC FZE | 30% |

Save as disclosed above, as at 31 December 2016, there was no person (other than the Directors and chief executives of the Company whose interests are set out under the paragraph headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES" above and section headed "SHARE OPTION SCHEMES" below), had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

## RELATED PARTY TRANSACTIONS

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

## NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

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

On 10 April 2015, 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 certain equipment under a number of turnkey projects to CIMC Raffles. The New Master Agreement is valid for a period starting from 5 June 2015 and ending on 31 December 2017.

## 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 | 10 April 2015 |
| 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 2017. |
| Contract Values and Other Details | The annual caps under the New Master Agreement for three years ended 31 December 2017 are approximately US$100 million (equivalent to approximately HK$780 million) each year. |
| Detailed announcement and shareholder approval | Details of the transaction were announced on 10 April 2015 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 5 June 2015. |

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 5 June 2015. The abovementioned contracts cover the supply of drilling packages, electrical power packages and a jacking system with a total contract value of approximately US$6.6 million, which is within the cap of US$100 million for the year ended 31 December 2016 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$1.8 million for the year ended 31 December 2016 (2015: US$14.0 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 (Revised) "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 2016.

## 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 48 to 56 of this annual report.

ON BEHALF OF THE BOARD
**TSC Group Holdings Limited**

**JIANG Bing Hua**
*Executive Chairman*

**ZHANG Menggui, Morgan**
*Non-executive Director*

Hong Kong, 30 March 2017

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 2016, 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

One Executive Director (who was subsequentially redesigned as a non-executive Director), three independent non-executive Directors and three non-executive Directors were absent from the last annual general meeting of the Company held on 27 May 2016 as they were away from Hong Kong due to other important engagements at the time of this meeting. The Board considered that sufficient measures had been taken for the absent Directors to understand the views of shareholders.

## 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 president is Mr. Wang Yong. The roles of the executive chairman and the president 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, the Company's overall strategy planning and business development while the president is delegated with the authority and responsibility of daily operations and business activities of the Group's strategy determined by the Board in achieving its overall commercial objectives. Besides, there are some other management teams with responsibilities for the daily operations and business activities of the Group.

Details of background and qualifications of the executive chairman of the Company, other Directors and senior management 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. The 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 one executive Director, namely Mr. Jiang Bing Hua; four non-executive Directors, namely Mr. Zhang Menggui, Morgan, Mr. Jiang Longsheng, Mr. Brian Chang and Mr. Wang Jianzhong; 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 2016, 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 Articles 86 and 87, Mr. Jiang Bing Hua, Mr. Bian Junjiang, Mr. Guan Zhichuan and Mr. Wang Jianzhong will retire, and being eligible for election, offer themselves for re-election at the forthcoming annual general meeting to be held on 25 May 2017.

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 realising 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;

## BOARD OF DIRECTORS *(Continued)*

- whilst executive Director, who oversees the overall business of the Group, is 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 Director 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 six 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) the approval of annual results of 2015; (ii) to review executive directors' performance; (iii) to discuss the change in the senior management term of TSC Group, the redesignation of Mr. Zhang Menggui from executive Director to non-executive Director and the appointment of Mr. Paul Lim as acting chief financial officer; (iv) to appoint Mr. Wang Jianzhong as non-executive Director and to resign Mr. Yu Yuqun as non-executive Director; (v) the approval of interim results of 2016; and (vi) to propose the 2nd half year reorganization target.

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 2016, 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 Director:** | |
| MR. JIANG Bing Hua | B |
| **Non-executive Directors:** | |
| Mr. ZHANG Menggui, Morgan | B |
| Mr. JIANG Longsheng | B |
| Mr. Brian CHANG | B |
| Mr. WANG Jianzhong | 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, the 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 Director:** | | | | | | |
| Mr. JIANG Bing Hua | 6/6 | | 2/2 | 2/2 | | 1/1 |
| **Non-executive Directors:** | | | | | | |
| Mr. ZHANG Menggui, Morgan | 6/6 | | 2/2 | 2/2 | 2/2 | 0/1 |
| Mr. JIANG Longsheng | 6/6 | | | | | 0/1 |
| Mr. Brian CHANG | 3/6 | | | | | 0/1 |
| Mr. WANG Jianzhong | 0/2 | | | | | N/A |
| **Independent non-executive Directors:** | | | | | | |
| Mr. CHAN Ngai Sang, Kenny | 6/6 | 3/3 | 2/2 | 2/2 | 2/2 | 1/1 |
| Mr. BIAN Junjiang | 3/6 | 1/3 | 2/2 | 2/2 | 0/2 | 0/1 |
| Mr. GUAN Zhichuan | 6/6 | 3/3 | 2/2 | 2/2 | 2/2 | 0/1 |
| Mr. Robert William FOGAL JR. | 3/6 | | | | | 0/1 |

## 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 2016.

## 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, two meetings of the remuneration committee were held and the remuneration committee of the Company proposed to review executive directors performance and bonus to executive Directors and review the remuneration package for Mr. Wang Jianzhong. 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 2016 is set out below:

| Remuneration band (US$) | Number of individuals |
|---|---|
| 100,000 to 200,000 | 2 |
| 200,001 to 300,000 | 2 |
| 300,001 to 400,000 | 0 |
| 400,001 to 500,000 | 1 |
| 500,001 to 600,000 | 0 |
| 600,001 to 700,000 | 0 |
| 700,001 to 800,000 | 2 |

## 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 and four 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, two meetings of the nomination committee were held. The nomination committee was to review and discuss the resignation of Mr. Yu Yuqun and appointment of Mr. Wang Jianzhong as non-executive Director and to discuss the change in senior management team of TSC Group, such as Mr. Zhang Menggui from executive Director to non-executive Director and Mr. Paul Lim as chief financial officer, and made recommendations to the Board. 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 one other member, namely, 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.

## 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 69 to 78 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$451,000 (2015: US$436,000) to the external auditor for its audit services. The Company has paid an aggregate of approximately US$Nil (2015: US$34,000) 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 whom are independent non-executive Directors; and at least one member has the appropriate professional qualifications of accounting or related financial management expertise 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 following:

(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.

During the Year, the audit committee held three meetings to consider and review the interim and annual results of the Group, to discuss the audit plan and strategy, to discuss compliance with applicable accounting standards and requirements and to ensure adequate disclosure has been made. The audit committee also met the external auditor twice without the presence of the executive Directors to discuss the audit plan and scoping and identified significant risks and other areas of focus to be addressed by the 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 2016, has been reviewed by the audit committee.

## INTERNAL CONTROL

The Board is responsible for risk management and internal control of the Group and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. Procedures have been designed for safeguarding assets against unauthorised use or disposition, ensuring the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensuring compliance of applicable laws, rules and regulations.

The Board, through the established internal audit function, has conducted periodic reviews on the effectiveness of the Company's internal control system, including risk management and internal control, as well as the resources of the Company's financial and accounting reporting departments, in accordance with the applicable legal requirements and other internal control regulatory requirements. The reviews include evaluation methods of the Company Qualifications and experience, as well as staff training and management budget.

During the year the Group has implemented a series of internal control system procedures and measures to strengthen internal controls. The Board believes that there are no material internal controls deficiencies that may affect the Shareholders and an effective and adequate risk management and internal control system is in place to safeguard the assets of the Group. The Group will continue to enhance the system to cope with the changes in the business environment.

## 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 meeting held on 27 May 2016 to answer questions at this meeting.

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.

## 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 in Hong Kong of the Company:

| | |
|---|---|
| Registered Office: | Cricket Square<br>Hutchins Drive<br>P.O. Box 2681<br>Grand Cayman KY1-1111<br>Cayman Islands |
| Head Office in Hong Kong: | Unit 03, 19/F<br>Bangkok Bank Building<br>No.18 Bonham Strand West<br>Sheung Wan<br>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 2016.

## I. ABOUT THE REPORT

This Report provides an annual update on the corporate social responsibility performance of TSC Group Holdings Limited (hereinafter referred to as "the Group" or "TSC") in 2016.

### Reporting Scope

This Report covers the operating sites of the Group's wholly-owned subsidiaries, comprising TSC Group Holdings Qingdao Manufacturing Facility, Qingdao TSC Offshore Equipment Company Limited ("TSC-OE"), and TSC Oil and Gas Services Holdings Limited ("TSC (Qingdao)").

Reporting period: 1 January 2016 to 31 December 2016.

Report release cycle: This is a yearly report published concurrently with the Company's annual report.

### Report References

This Report is prepared pursuant to the revised "Environmental, Social and Governance ("ESG") Reporting Guide" under Appendix 27 of the rules governing the listing of securities issued by the Stock Exchange of Hong Kong Limited.

## II. COMPANY BACKGROUND INFORMATION

TSC was founded in 2005 and listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") on 5 June 2009 (Stock Code: HK00206). TSC currently has 54 wholly-owned subsidiaries worldwide.

The Group's main business areas are described on page 7 of the Company's annual report.

## III. CORPORATE SOCIAL RESPONSIBILITY (CSR) VISION, ASPIRATIONS, POLICIES AND STRATEGIES

TSC is dedicated to becoming an outstanding corporate citizen in each of the communities it operates in around the world.

"We view social responsibility, environmental protection, safety and a sustainable economy highly, as key factors in ensuring business continuity and success."

We pursue the values of tolerance, openness, reliability and cooperation in both our business development and in our social activities. We have introduced effective tools to ensure full implementation of social, safety and environmental policies within the Group. These areas of work involve our employees, business associates, supply chain partners and individual communities and cultures around the world.

## III. CORPORATE SOCIAL RESPONSIBILITY ("CSR") VISION, ASPIRATIONS, POLICIES AND STRATEGIES *(Continued)*

All TSC employees participate in and support our concept of corporate social responsibility, with an emphasis on the following:

- Human Resource Management;
- Corporate Citizenship Activities;
- Occupational Health and Safety;
- Supply Chain Management;
- Environmental Sustainability; and
- Business Ethics.

## IV. CORPORATE GOVERNANCE

All Directors recognise that good corporate governance is an indicator of company modernisation, as well as a prerequisite to business continuity. For a long time, TSC has invested large amounts of resources and manpower into developing appropriate business management practices according to the needs of the business. TSC continually integrates the essence of corporate governance into its management structures and internal control procedures. We strive to maintain the highest standards in ethics and integrity in all aspects of our business activities, and to ensure that our operations are fully compliant with applicable laws and regulations. All Directors believe that implementing comprehensive and high-standard corporate governance allows the Group to achieve greater efficiencies in all aspects of sustainable development, as well as safeguarding and maximizing the interests of stakeholders.

## V. STAKEHOLDER ENGAGEMENT

TSC consistently works to promote communication with its stakeholders. The Group's stakeholders comprise customers, employees, community groups, government bodies and the Group has had unscheduled communication through various means with its stakeholders, achieving transparency as well as a mutual understanding of the Group's aspirations for corporate social responsibility, catalysing TSC to achieve its goal of sustainable corporate development.

Key stakeholders and corresponding communication channels are as follows:

| **Key Stakeholder** | **Principal Communication Channels** |
|---|---|
| Customers | Visits and meetings<br>Telephone conferences<br>Customer questionnaires<br>E-mail |
| Employees | Employee newsletters<br>Group intranet |
| Community organisations | Volunteer activities<br>Charitable activities<br>Unscheduled meetings with each organisation |

## VI. DETAILS OF EACH CATEGORY (ENVIRONMENT, SOCIETY)

### Human Resource Management

#### Employment Policies

TSC has always maintained equality in employment opportunities. Every vacancy in the Group is publically advertised online or via other appropriate channels. A fair selection process is conducted that takes into account the ability of each applicant, their skills level, and other requirements. We do not refuse applications on the basis of race, skin colour, gender, language, religion, political persuasion or otherwise.

In order to strengthen the attractiveness of all positions, our pay system is based on job size and performance. In addition to ensuring a stable income from the basic pay portion of the employee, we also provide performance linked pay to employees to encourage and retain outstanding employees.

Furthermore, the Group purchases additional commercial insurance for those employees who have reached a certain level of seniority (such as critical illness insurance, aviation accident insurance, passenger train insurance, ship accident insurance), and vehicle passenger (including the company shuttle bus) insurance, in order to improve the insurance coverage for employees. In addition, each mainland Chinese employee is entitled to 0.5 days of paid sick leave per month to mitigate risk of industrial injury caused by working with an illness. Employee benefits also include free pick-up and drop-off shuttle buses, transport allowances, on-call time allowances and so on.

Note: Salary levels of the Group and its subsidiaries already meet local (Hong Kong and Qingdao) minimum wage standards.

The Group continuously promotes the concept of harmony between work and family. Overtime work is not encouraged. Strict control is exercised over overtime hours by means of approval processes. Any overtime work must be approved by department managers and is subject to local labour laws. As at the date of this ESG Report, no infringement notices of any sort have been received.

The Group strictly complies with legal requirements relating to bilateral termination of employment contracts in each of its operating locations (Hong Kong and Qingdao).

At present, half of the Group's employees are from areas other than Qingdao.

#### Preventing Child Labour and Enforcing Labour Policy

TSC strictly complies with relevant employment regulations and other laws in each of its operating areas pertaining to child labour and forced labour. As a result, all applicants for any position must provide personal identification documents for verification. Before agreeing to contracts of employment, we provide employees with sufficient time to read and understand the relevant contents, and contracts are only signed when employees fully understand said contract of employment.

As at the date of this ESG Report, no complaints pertaining to child labour or forced labour have been found.

## VI DETAILS OF EACH CATEGORY (ENVIRONMENT, SOCIETY) *(Continued)*

### Human Resource Management *(Continued)*

Career Development Policy and Employee Development Policy

TSC practices meritocratic principles and regularly provides its employees with the opportunities for promotion, which is based on comprehensive evaluation of both an employee's work performance and competence.

The Group also places emphasis on training potential talent, with the Group's internal training staff responsible for their education.

The Group has implemented two main training programs.

A. The Cedar Program which develops high-potential talent and builds high-performance teams. This is a structured training course to develop talent into two directions (management and technology), and four types of talent (high potential talent, the global key talent, local key talent and technical experts). All trainees are developed over three to five working years to form the backbone of TSC's core talents.

B. The Spring Rain Project is a train-the-trainer program that effectively transfers technology and instil corporate culture of TSC. Through systematic training, we first train up a group of key staff as a trainers, and then by a ratio of 1 to 3 in a skill sharing model. Over three to five years of learning experience, core staffs are developed as a high performing team.

### Corporate Citizenship Activities

TSC is committed to becoming an outstanding corporate citizen in each of the communities it operates in around the world. We try to service the communities in the form of volunteer.

### Occupational Health and Safety

Occupational Health and Safety Policy

All employees at managerial level or above, labour union chairpersons and OHS employee representatives are members of the Safety Committee which is responsible for relevant occupational health and safety matters in the Group.

Our commitments:

In order to continue to reduce the occupational health and safety effects of relevant business activities, we not only adhere to laws, regulations and industry standards as our baseline, but also endeavour to achieve "Zero occupational disease" and "Zero major accidents". As at the date of the Report, there have been no major violations of relevant occupational health and safety laws, and no reports of lost work days due to industrial fatality and injury.

We insist on the "Stop Work" policy when there is a threat to personal safety. All individuals have the right to stop work in order to prevent work-related accidents from occurring.

## VI DETAILS OF EACH CATEGORY (ENVIRONMENT, SOCIETY) *(Continued)*

### Occupational Health and Safety *(Continued)*

#### Occupational Health and Safety Policy *(Continued)*

TSC considers employee health and safety to be an area of concern, and we endeavour at every opportunity to make improvement to our work environment to prevent occupational hazards. We actively respond to issues raised by employees in relation to occupational health and safety, recognising and rewarding employees who have contributed to continuing improvements in this area. We also ensure that all employees and stakeholders understand their responsibilities in relation to their own safety, and respond to relevant aspects of safety responsibility that influence an employee. TSC provides suitable personal protective equipment (PPE) free of charge to its employees including helmets, safety goggles, protective masks, safety gloves, safety belts, half-face and full-face air purifying respirators and so on. The Human Resources Department arranges for qualified medical institutions to provide employees with free, annual physical examinations for occupational disease, and to follow up problem cases.

We consider the mental health of employees to be a valuable asset, and we ease the pressures encountered by employees in their work through the establishment of psychological courses, group communication, and other activities.

Some of the Group's subsidiary companies have already successfully adopted occupational health and safety management systems (OHSAS 18001). These companies have identified in detail the source of hazards in the workplace and have undertaken risk assessments, according to the requirements of the aforementioned systems. TSC regularly holds different events to promote an understanding of occupational health and safety and improve employee awareness, such as Occupational Disease Prevention Awareness Week, Work Safety Week, morning meetings and work safety analysis conferences. In addition, all workplaces strictly comply with the 7S system, namely Seiri (sorting), Seiton (set in order), Seisou (shine), Seiketsu (standardize), Shitsuke (sustain), Safety and Saving, including the use of display boards and the posting of safety signs to raise employee awareness of safety.

Note: Qingdao TSC Offshore Equipment Company Limited and TSC-HHCT (Xian) Control Technologies Limited have already adopted occupational health and safety management systems (OHSAS 18001).

### Supply Chain Management

#### Policies to Manage Environmental and Social Hazards in the Supply Chain

The Group uses supplier performance in CSR as one of the main criteria in supplier selection. Suppliers must sign and comply with TSC's stipulated supplier code which contains clauses relating to environmental protection, anti-bribery, and so on. We actively encourage communication with our suppliers through multiple channels (including via telephone, e-mail, questionnaires, training and so on) to explain our social responsibility requirements to suppliers in order to mutually benefit from achieving corporate social responsibility by both side.

The Group has implemented supplier quality assurance (SQA) to audit suppliers each year to ensure fulfilment of our requirements including social responsibility.

Currently, our main material suppliers are based in China, USA and UK. As at December 2016 there were a total of 153 approved suppliers that supply TSC with materials.

## VI DETAILS OF EACH CATEGORY (ENVIRONMENT, SOCIETY) *(Continued)*

### Environmental Sustainability

Our commitments:

In China's 12th Five Year Plan, various pollution control requirements and targets were strictly implemented in response to the environmental pollution of China. Although our business does not produce a high level of pollutants, we jointly implement policies to prevent environmental pollution as a responsible company.

Our environmental protection policy includes the 5R principle, namely Refuse, Reduce, Reuse, Repair, and Recycle, as well as the effective use of materials and energy resources.

We also actively respond to employee issues concerning the environment, recognising and rewarding employees who contribute to continuous improvements in environmental protection. This ensures all employees and stakeholders understand the responsibility they have towards their surrounding environment.

Emission Reduction Policies

**I. Greenhouse Gas (GHG) Policies**

We understand that the emission of greenhouse gases is one of the main causes of global warming at present. In order to prevent and decelerate pollution, we hope to reduce GHG emissions through the following measures:

1. Prioritise the selection of renewable energy sources as well as low-energy, high-efficiency products, in order to reduce energy consumption;

2. Avoid unnecessary overseas business travel to reduce carbon emissions produced by transportation (such as aeroplanes);

3. Prioritise the selection of local suppliers to reduce energy consumption resulting from the transportation of cargo;

4. Promote the importance of "Reducing Carbon Emissions" in the supply chain;

5. Spray-painting and shot-blasting facilities are equipped with dust-removal and poison-removal ventilation systems, as well as filtration systems, to reduce pollution caused by waste gas emissions;

6. Environmentally-friendly materials are used when renovating office buildings, and air quality testing is performed before they are used; office buildings are only put into use when air quality meets specified standards.

## VI DETAILS OF EACH CATEGORY (ENVIRONMENT, SOCIETY) *(Continued)*

### Environmental Sustainability *(Continued)*

Emission Reduction Policies *(Continued)*

**II. Wastewater Discharge Policy**

The technical manufacturing process does not involve the use of large amounts of water, nor the discharge of large amounts of waste water. As a result, relevant measures only applicable to everyday operations are regulated:

1. Reused water is used in spray-paint waste-gas systems that require it;

2. Water conservation signs are put up in washrooms, pantries, dining halls and employee living quarters.

**III. Waste Reduction Policies**

In accordance with the 3R principle:

1. Optimise industrial processes, improve utilization of steel plates and reduce the quantity of waste steel material;

2. Undertake classification of hazardous waste, affix hazardous waste labels, and entrust recycling and disposal to qualified subcontractors;

3. Undertake simple classification of general waste and regularly sell it on to recyclers;

4. Recycle scrap iron turnings that result from the machining process;

5. Draw up hazardous waste management plans on an annual basis, agree waste reduction targets with all relevant departments, undertake monthly evaluations, and adopt appropriate control measures if required, in order to reduce waste;

6. Use lean production methods to use small amounts of paint for small packages, reducing waste paint residues and the number of paint containers used;

7. Strengthen management controls to reduce leakage of various oil products;

8. Strengthen quality control to reduce waste that arises from noncompliance in product quality.

## VI DETAILS OF EACH CATEGORY (ENVIRONMENT, SOCIETY) *(Continued)*

### Environmental Sustainability *(Continued)*

Efficient Resource Use Policies

| | |
|---|---|
| Green Office Policy: | The use of office resources is reduced by using double-sided printing in place of single-sided printing; the prioritisation of paperless offices; reminding employees and visitors to save water in everyday operations; using water-saving device in toilets and automatic taps in newly-built office blocks, as well as LED lighting; automatic lighting control in public areas; using solar panels to power streetlights in newly-built factories and using translucent tiles in construction to make full use of natural light, and so on; |
| Green Procurement Policy: | Environmental safety assessments must be conducted before chemicals are procured so that toxic and hazardous products can be substituted with products that are non-toxic or of low-toxicity; |
| Green Manufacturing Policy: | Optimise industrial processes, improve utilization of steel plates and reduce the quantity of waste steel material. |

Policies to Reduce Major Influences upon the Environment and Natural Resources

Providing green products/operating processes:

Provide products that have undergone strict approval by classification societies to satisfy the environmental protection requirements of offshore products and prohibit the use of asbestos in factories;

Providing environmental protection training to employees:

Training programs are formulated so that environmental awareness amongst employees is improved, as well as improvements made to on-site environmental protection controls;

Promoting environmental protection in the supply chain:

The requirement to be environmentally-friendly is a target in supplier evaluation.

As at the date of this ESG report, no incident reports relating to violations of relevant environmental protection laws or regulations have been received in any of the Group's operating areas.

### Business Ethics

All products must undergo quality inspection whereby the product's design, manufacture, installation and testing all conform to relevant standards, specifications and technical requirements, as well as satisfy relevant design parameters. In addition, all products must undergo rigorous approval and safety verification by classification. During the past year, only one issue with quality occurred about paint peeled from a component in a product which had already been shipped to the customer. A root cause analysis was undertaken and rectification measures were completed on site, in addition to inspections of work piece processing in the factory to ensure that no similar problems existed in processing.

## VI DETAILS OF EACH CATEGORY (ENVIRONMENT, SOCIETY) *(Continued)*

### Business Ethics *(Continued)*

All products must undergo the following rigorous quality control process:

1) Inspection of Materials

All raw materials must undergo incoming inspection based on their drawings, standards, specifications and technical agreements. All materials are checked before storage.

Raw materials used in products that require classification must undergo classification society approval. All materials are checked before storage.

2) Manufacturing Process

Verification and testing is conducted during the manufacturing process. Only passed semi-finished products can proceed to the next stage.

Manufacturing processes for products that require classification must undergo classification approval, and can proceed to the next stage only if approved.

3) Final Inspection

Completed products undergo final inspection and comprehensive FAT ("Factory Acceptance Test") testing.

Products that require classification must undergo classification approval and are only delivered when a product qualification report has been issued.

4) Non-conforming Product Control

If non-conformities are found during the quality inspection process, the non-conforming product is analysed and processed. Non-conforming products are segregated in the manufacturing process.

Furthermore, as a responsible enterprise, the Group considers bribery, extortion, fraud, money laundering and so on as serious violations of business ethics, and the Group has a "Zero tolerance" approach to such behaviour.

TSC works to provide a clean business platform and has continuously implemented the following measures to this end:

1. In 2012, the Group formulated the "TSC Code of Business Conduct" to which all board members, managers, employees, agents and representatives must adhere;

2. An Audit Committee, Remuneration Committee, Compliance Committee and Nominating Committee have been set up under the Group's Board of Directors with responsibility for corporate governance;

3. The Group has set up a whistle-blowing hotline through which suspected cases or incidents of business ethics violations can be inquired about or reported, and corrective measures have been formulated to eliminate the root cause of established cases;

## VI DETAILS OF EACH CATEGORY (ENVIRONMENT, SOCIETY) *(Continued)*

### Business Ethics *(Continued)*

4) Non-conforming Product Control *(Continued)*

4. Contracts of employment require employees to disclose conflicts of interest;

5. Open tendering policies have been formulated for procurement and only suppliers with competitive price and quality are invited to tenders;

6. Starting in 2013, procurement agents must comply with the "Revised Self-Regulation Code of Conduct for TSC China (including China MRO) Procurement Personnel".

As of the date of this ESG Report, no reports of corruption have been received, and no notifications have been received pertaining to violations of ethical business conduct.

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## DATA SHEET

### No. of Employee (KPI, B1.1)

| | | | Gender | |
|---|---|---|---|---|
| | | Total | Male | Female |
| Employment Type | Full Time | 314 | 262 | 52 |
| | Part Time | 0 | 0 | 0 |

### No. of Existing & Turnover Employee (KPI, B1.1)

| | | Total |
|---|---|---|
| **Existing Employee** | **By Gender** | |
| | Male | 262 |
| | Female | 52 |
| | **By Age group** | |
| | 18-30 | 104 |
| | 31-45 | 162 |
| | 46-60 | 45 |
| | >60 | 3 |
| | **By Geographical region** | |
| | Qingdo | All |
| **Turnover Employee** | **By Gender** | **Turnover Rate** |
| | Male | 51.3% |
| | Female | 17.5% |
| | **By Age group** | |
| | 18-30 | 28.0% |
| | 31-45 | 31.5% |
| | 46-60 | 8.3% |
| | >60 | 1.3% |

### Use of Resources in total (KPI A2.1 & KPI A2.2)

| Type | Unit | 2016 |
|---|---|---|
| LPG (Indirect energy consumption) | $m^3$ | 1,549 |
| Water | $m^3$ | 11,446 |
| Electricity (Indirect energy consumption) | kWh | 1,187,100 |

### Use of Resources in intensity (KPI A2.1 & KPI A2.2)

| Type | Unit | 2016 |
|---|---|---|
| LPG | $m^3$/production volume in volume | 2.0 |
| Water | $m^3$/production volume in volume | 15.0 |
| Electricity | kWh/production volume in volume | 1,558.2 |

### Total Waste (KPI A1.3 & A1.4)

| | Unit | Total |
|---|---|---|
| Non-Hazardous waste (Residue) | Tonnes | 22.77 |
| Hazardous waste (HW) According to National Register of HW(Spent Oil) | Tonnes | 56.11 |

**Independent auditor's report to the shareholders of**
**TSC Group Holdings Limited**

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

## OPINION

We have audited the consolidated financial statements of TSC Group Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 79 to 159, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## KEY AUDIT MATTERS *(Continued)*

### Construction contract accounting estimates

*Refer to notes 3 and 20 to the consolidated financial statements and the accounting policies in notes 1(o) and 1(w)(iii).*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| Revenue from construction contracts accounted for 48% of the Group's revenue for the year ended 31 December 2016.<br><br>The recognition of revenue from construction contracts is based on the stage of completion of the contract activity, which is assessed with reference to the proportion of costs incurred for the work performed to date relative to the estimated total contract costs at completion.<br><br>Revenue is recognised with reference to the percentage of work completed at the end of the reporting period.<br><br>Recognising revenue from construction contracts requires management and the Group's internal engineers to make a number of judgemental assumptions in relation to estimating the total costs for individual construction contracts. These assumptions include estimating future labour costs and costs of materials required to complete the construction based on the customised specifications of individual construction contracts. When it is assessed that the budgeted costs exceed the total contract revenue for an individual construction contract or there are circumstances indicating an expected loss on an individual construction contract, management makes a provision for the foreseeable loss. | Our audit procedures to assess construction contract accounting estimates included the following:<br><br>• assessing the design, implementation and operating effectiveness of management's key internal controls which govern contract revenue recognition;<br><br>• inspecting all key contracts and discussing with management to obtain an understanding of the specific terms and risks associated with individual construction contracts;<br><br>• recalculating the revenue recognised during the year based on the percentage of completion for all individual construction contracts at 31 December 2016;<br><br>• assessing and challenging the budgeted costs for individual construction contracts, which included making enquiries of the Group's internal engineers and management about the bases and key assumptions adopted in arriving at the budgeted costs and benchmarking the key inputs in the budgets against similar projects undertaken by the Group; |

## KEY AUDIT MATTERS *(Continued)*

### Construction contract accounting estimates *(Continued)*

*Refer to notes 3 and 20 to the consolidated financial statements and the accounting policies in notes 1(o) and 1(w)(iii).*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| We identified construction contract accounting estimates as a key audit matter because of the significant management judgement required in preparing and revising budgets and assessing the expected outcome for individual construction contracts at the end of the reporting period, which may affect the calculations of percentage of completion for individual construction contracts and the corresponding revenue and profit or loss recognised for the year. | • comparing the percentages of completion as assessed by the Group's internal engineers under the stage of completion method with:<br>- third party engineers' certifications of work completed, where available, and assessing the independence, objectivity and competence of such third party engineers; and<br>- project-to-date costs incurred by the Group on individual construction contracts and assessing the basis of capitalisation of costs for individual construction contracts, on a sample basis.<br>• identifying and assessing possible onerous contracts by comparing the total budgeted costs, taking into consideration the actual costs incurred up to 31 December 2016, with the total contract revenue for individual construction contracts as agreed with customers; |

## KEY AUDIT MATTERS *(Continued)*

### Construction contract accounting estimates *(Continued)*

*Refer to notes 3 and 20 to the consolidated financial statements and the accounting policies in notes 1(o) and 1(w)(iii).*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| | • assessing and challenging management's assessment of the expected outcome of individual construction contracts, which included making enquiries of management about the bases and key assumptions adopted in estimating the expected loss on individual construction contracts and benchmarking the key inputs in the estimations against market information; and<br><br>• assessing the impact of possible management bias in budgeting costs by:<br><br>- assessing the historical accuracy of estimates made by management when preparing budgets for construction contracts by comparing the budgeted costs estimated by management at 31 December 2015 with the actual costs incurred in respect of these individual construction contracts during the current year; and<br><br>- enquiring of management about the reasons for any changes in budgeted costs for individual construction contracts which existed at 31 December 2016 and under or over-spending for contracts completed during the current year and considering the impact of such reasons on the budgeted costs for other ongoing contracts. |

## KEY AUDIT MATTERS *(Continued)*

### Valuation of goodwill, property, plant and equipment, interest in leasehold land held for own use under operating leases and intangible assets

*Refer to notes 10, 12, 13 and 14 to the consolidated financial statements and the accounting policies in notes 1(f), 1(i), 1(k), 1(l)(ii) and 1(m)(ii).*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| The carrying values of goodwill, property, plant and equipment, interest in leasehold land held for own use under operating leases and intangible assets as at 31 December 2016 were allocated to three cash-generating units ("CGUs") of the Group, namely the capital equipment and packages segment, the oilfield expendables and supplies segment and the engineering services segment.<br><br>When it is determined that indicators of impairment of a CGU exist, management assesses the value in use of the CGU by preparing a discounted cash flow forecast and that value in use is compared with the carrying value of the CGU to determine if any impairment is required.<br><br>Assessing the value in use of a CGU is complex and requires management to make a number of judgemental assumptions, particularly relating to the revenue growth rates (which drives future production levels) and future gross margins. | Our audit procedures to assess the valuation of goodwill, property, plant and equipment, interest in leasehold land held for own use under operating leases and intangible assets included the following:<br><br>• engaging our internal valuation specialists to assist us in evaluating the methodology adopted by management, the identification of CGUs and the allocation of assets to each CGU in the preparation of its discounted cash flow forecasts and whether these were prepared in a manner consistent with the requirements of the prevailing accounting standards;<br><br>• assessing and challenging management's impairment assessment model. This included assessing the impairment indicators identified by management, evaluating the discounted cash flow forecasts for each CGU where an indicator of impairment was identified and comparing the resultant value in use calculation with the carrying values of the relevant assets and considering whether impairment or a reversal of past impairment was required; |

## KEY AUDIT MATTERS *(Continued)*

### Valuation of goodwill, property, plant and equipment, interest in leasehold land held for own use under operating leases and intangible assets *(Continued)*

*Refer to notes 10, 12, 13 and 14 to the consolidated financial statements and the accounting policies in notes 1(f), 1(i), 1(k), 1(l)(ii) and 1(m)(ii).*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| These estimates are inherently uncertain due to recent oil price volatility and the uncertain economic outlook.<br><br>We identified the valuation of goodwill, property, plant and equipment, interest in leasehold land held for own use under operating leases and intangible assets as a key audit matter because determining the level of impairment, if any, involves a significant degree of management judgement in forecasting future cash flows and estimating the value in use of these assets both of which are inherently uncertain and may be subject to management bias. | • comparing the most significant inputs used in the discounted cash flow forecasts, including the revenue growth rates and future gross margins, with the historical performance of each CGU and management's budgets and forecasts;<br><br>• evaluating the discount rates used in the cash flow forecasts by benchmarking against other similar companies in the same industry;<br><br>• performing sensitivity analyses of the discount rates, revenue growth rates and future gross margins and considering the resulting impact on the impairment assessment for the year and whether there were any indicators of management bias; and<br><br>• considering the disclosures in the consolidated financial statements in respect of impairment testing of goodwill, property, plant and equipment, interest in leasehold land held for own use under operating leases and intangible assets, including the key assumptions and sensitivities to changes in such assumptions, with reference to the requirements of the prevailing accounting standards. |

## KEY AUDIT MATTERS *(Continued)*

### Recoverability of trade receivables

*Refer to note 19 to the consolidated financial statements and the accounting policies in notes 1(m)(i) and 1(p).*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| The carrying value of the Group's trade receivables as at 31 December 2016 totalled US$62 million after deduction of an allowance for doubtful debts of US$62 million.<br><br>The Group's allowance for doubtful debts is based on management's estimate of the recoverability of individual trade receivables with reference to the ageing of overdue balances, repayment histories of individual debtors and existing customer-specific and market conditions, all of which involve a significant degree of judgement.<br><br>Management is required to exercise judgement in assessing the allowance for doubtful debts for individual trade receivables with reference to the assessment of the ability of the debtors to repay the Group. Such assessment depends on the outlook of the oil and gas industry and customer-specific conditions which involves inherent uncertainty.<br><br>We identified the recoverability of trade receivables as a key audit matter because of the inherent uncertainty in assessing if trade receivables will be recovered in full and because the assessment of the allowance for doubtful debts requires the exercise of significant management judgement. | Our audit procedures to assess the recoverability of trade receivables included the following:<br><br>• obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and the calculation of the allowance for doubtful debts;<br><br>• assessing the classification of individual balances in the trade receivables ageing report by comparing the details in the trade receivables ageing report with underlying invoices, on a sample basis;<br><br>• obtaining an understanding of the basis of management's judgements about the recoverability of overdue trade receivable balances and evaluating the allowance for doubtful debts made by management for these individual balances with reference to the debtors' financial condition, the outlook of the oil and gas industry and historical and post year end payment records. This included inspecting relevant correspondence with individual debtors;<br><br>• assessing the historical accuracy of the estimates made by management for the allowance for doubtful debts by comparing the level of provision made by management at 31 December 2015 with the actual new provisions, write offs and recoveries in respect of trade receivables as at 31 December 2015 during the current year; and<br><br>• comparing cash receipts from debtors subsequent to the financial year end relating to trade receivable balances at 31 December 2016 with bank statements and relevant underlying documentation, on a sample basis. |

## INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon. We obtained management discussion and analysis prior to the date of this auditor's report and expect the remaining other information to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

– Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

– Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lau Tai Cheong.

**KPMG**
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016
*(Expressed in United States dollars)*

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **Revenue** | 3 | **142,531** | 194,899 |
| Cost of sales | | **(104,745)** | (140,543) |
| **Gross profit** | | **37,786** | 54,356 |
| Other revenue and net income | 4 | **5,685** | 3,842 |
| Selling and distribution expenses | | **(5,170)** | (12,554) |
| General and administrative expenses | | **(33,409)** | (33,089) |
| Other operating expenses | | **(5,440)** | (4,034) |
| Impairment losses on goodwill | 13 | **(19,621)** | – |
| Impairment losses on doubtful debts | 19(b) | **(56,864)** | (1,941) |
| Impairment losses on gross amount due from customers for contract work | 20 | **(29,916)** | – |
| **(Loss)/profit from operations** | | **(106,949)** | 6,580 |
| Finance costs | 5(a) | **(4,363)** | (4,545) |
| **(Loss)/profit before taxation** | 5 | **(111,312)** | 2,035 |
| Income tax | 6(a) | **(264)** | (738) |
| **(Loss)/profit for the year** | | **(111,576)** | 1,297 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **(110,450)** | 2,097 |
| Non-controlling interests | | **(1,126)** | (800) |
| **(Loss)/profit for the year** | | **(111,576)** | 1,297 |
| **(Loss)/earnings per share** | 9 | | |
| Basic | | **(15.73) cents** | 0.30 cent |
| Diluted | | **(15.73) cents** | 0.30 cent |

The notes on pages 86 to 159 form part of these financial statements.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016
*(Expressed in United States dollars)*

| | **2016** **$'000** | 2015 $'000 |
|---|---|---|
| **(Loss)/profit for the year** | **(111,576)** | 1,297 |
| **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) | **(11,007)** | (6,771) |
| **Total comprehensive income for the year** | **(122,583)** | (5,474) |
| **Attributable to:** | | |
| Equity shareholders of the Company | **(121,400)** | (4,544) |
| Non-controlling interests | **(1,183)** | (930) |
| **Total comprehensive income for the year** | **(122,583)** | (5,474) |

The notes on pages 86 to 159 form part of these financial statements.

At 31 December 2016
*(Expressed in United States dollars)*

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **50,778** | 42,400 |
| Investment properties | 10 | **8,207** | – |
| Property under development | 11 | **–** | 18,732 |
| Interest in leasehold land held for own use under operating leases | 12 | **7,339** | 8,063 |
| Goodwill | 13 | **–** | 22,996 |
| Other intangible assets | 14 | **3,619** | 6,464 |
| Interest in associate | 16 | **182** | 193 |
| Other financial assets | 17 | **2,226** | 4,661 |
| Prepayments | 19 | **–** | 46 |
| Deferred tax assets | 24(b) | **13,706** | 12,036 |
| | | **86,057** | 115,591 |
| **Current assets** | | | |
| Inventories | 18 | **39,714** | 58,523 |
| Trade and other receivables | 19 | **76,068** | 107,293 |
| Gross amount due from customers for contract work | 20 | **199,186** | 236,539 |
| Amount due from a related company | 21 | **101** | 101 |
| Pledged bank deposits | | **1,505** | 5,045 |
| Cash at bank and in hand | | **9,952** | 46,505 |
| Tax recoverable | 24(a) | **241** | 132 |
| | | **326,767** | 454,138 |
| **Current liabilities** | | | |
| Trade and other payables | 22 | **259,467** | 278,230 |
| Bank loans and other borrowings | 23 | **8,057** | 28,725 |
| Tax payable | 24(a) | **7,835** | 5,326 |
| | | **275,359** | 312,281 |
| **Net current assets** | | **51,408** | 141,857 |

At 31 December 2016
*(Expressed in United States dollars)*

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **Total assets less current liabilities** | | **137,465** | 257,448 |
| **Non-current liabilities** | | | |
| Bank loans and other borrowings | 23 | **41,260** | 38,185 |
| Deferred tax liabilities | 24(b) | **131** | 268 |
| | | **41,391** | 38,453 |
| **NET ASSETS** | | **96,074** | 218,995 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 28(b) | **9,094** | 9,094 |
| Reserves | | **86,202** | 207,530 |
| **Total equity attributable to equity shareholders of the Company** | | **95,296** | 216,624 |
| **Non-controlling interests** | | **778** | 2,371 |
| **TOTAL EQUITY** | | **96,074** | 218,995 |

Approved and authorised for issue by the board of directors on 30 March 2017.

**Jiang Bing Hua**
*Director*

**Zhang Menggui, Morgan**
*Director*

The notes on pages 86 to 159 form part of these financial statements.

For the year ended 31 December 2016
*(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 | Shares held for share award scheme reserve $'000 | Capital reserve $'000 | Revaluation reserve $'000 | Reserve funds $'000 | Retained profits/ (accumulated losses) $'000 | Total $'000 | Non-controlling interests $'000 | Total equity $'000 |
| **Balance at 1 January 2015** | 9,066 | 127,485 | 2,161 | 3,626 | 5,939 | – | 512 | 627 | 7,289 | 65,182 | 221,887 | 3,280 | 225,167 |
| **Changes in equity for 2015:** | | | | | | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | – | – | – | 2,097 | 2,097 | (800) | 1,297 |
| Other comprehensive income | – | – | – | (6,641) | – | – | – | – | – | – | (6,641) | (130) | (6,771) |
| Total comprehensive income | – | – | – | (6,641) | – | – | – | – | – | 2,097 | (4,544) | (930) | (5,474) |
| Shares issued under share option schemes | 28 | 320 | – | – | (105) | – | – | – | – | – | 243 | – | 243 |
| Equity-settled share-based transactions | – | – | – | – | 323 | – | – | – | – | – | 323 | – | 323 |
| Purchase of shares for share award scheme (note 26) | – | – | – | – | – | (1,285) | – | – | – | – | (1,285) | – | (1,285) |
| Transferred to reserve funds | – | – | – | – | – | – | – | – | 1,526 | (1,526) | – | – | – |
| Capital contribution from non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | 21 | 21 |
| **Balance at 31 December 2015 and 1 January 2016** | **9,094** | **127,805** | **2,161** | **(3,015)** | **6,157** | **(1,285)** | **512** | **627** | **8,815** | **65,753** | **216,624** | **2,371** | **218,995** |
| **Changes in equity for 2016:** | | | | | | | | | | | | | |
| Loss for the year | – | – | – | – | – | – | – | – | – | (110,450) | (110,450) | (1,126) | (111,576) |
| Other comprehensive income | – | – | – | (10,950) | – | – | – | – | – | – | (10,950) | (57) | (11,007) |
| Total comprehensive income | – | – | – | (10,950) | – | – | – | – | – | (110,450) | (121,400) | (1,183) | (122,583) |
| Equity-settled share-based transactions | – | – | – | – | (821) | – | – | – | – | 893 | 72 | – | 72 |
| Transferred to capital reserve (note 28(c)(v)) | – | – | – | – | – | – | 4,970 | – | (520) | (4,450) | – | – | – |
| Capital contribution from non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | 4 | 4 |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | (414) | (414) |
| **Balance at 31 December 2016** | **9,094** | **127,805** | **2,161** | **(13,965)** | **5,336** | **(1,285)** | **5,482** | **627** | **8,295** | **(48,254)** | **95,296** | **778** | **96,074** |

The notes on pages 86 to 159 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016
*(Expressed in United States dollars)*

| | Note | **2016 $'000** | 2015 $'000 |
|---|---|---|---|
| **Operating activities** | | | |
| (Loss)/profit before taxation | | **(111,312)** | 2,035 |
| Adjustments for: | | | |
| Depreciation | 5(c) | **5,975** | 5,161 |
| Impairment losses on doubtful debts | 5(c) | **56,864** | 1,941 |
| Impairment losses on others financial assets | 5(c) | **2,435** | – |
| Impairment losses on goodwill | 5(c) | **19,621** | – |
| Impairment losses on gross amount due from customers for contract work | 5(c) | **29,916** | – |
| Write-off of trade debtors | 5(c) | **16** | 44 |
| Write down of inventories | 18(b) | **9,752** | 899 |
| Amortisation of interest in leasehold land held for own use under operating leases | 5(c) | **211** | 226 |
| Amortisation of intangible assets | 5(c) | **2,294** | 2,632 |
| Finance costs | 5(a) | **4,363** | 4,545 |
| Interest income | 4 | **(371)** | (186) |
| Loss on disposal of property, plant and equipment | 5(c) | **520** | 476 |
| Equity-settled share-based payment expenses | 5(b) | **72** | 323 |
| Foreign exchange loss | | **861** | 3,518 |
| **Operating profit before changes in working capital** | | **21,217** | 21,614 |
| Decrease/(increase) in inventories | | **7,573** | (10,561) |
| Increase in trade and other receivables and gross amount due from customers for contract work | | **(22,431)** | (69,240) |
| (Decrease)/increase in trade and other payables | | **(20,182)** | 80,490 |
| **Cash (used in)/generated from operations** | | **(13,823)** | 22,303 |
| People's Republic of China ("PRC") enterprise income tax and overseas tax paid | | **(1,571)** | (4,480) |
| **Net cash (used in)/generated from operating activities** | | **(15,394)** | 17,823 |

For the year ended 31 December 2016
*(Expressed in United States dollars)*

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Payment for purchase of property, plant and equipment | | **(908)** | (15,952) |
| Payment for acquisition of intangible assets | | **(45)** | (203) |
| Interest received | | **371** | 186 |
| Decrease/(increase) in pledged bank deposits | | **3,434** | (918) |
| Proceeds from disposal of property, plant and equipment | | **566** | 4,311 |
| Construction expenditure on property under development | | **(3,239)** | (8,089) |
| Payment for purchase of other financial asset | | **–** | (100) |
| Payment for investment in an associate | | **–** | (193) |
| **Net cash generated from/(used in) investing activities** | | **179** | (20,958) |
| **Financing activities** | | | |
| Proceeds from shares issued under share option scheme | | **–** | 243 |
| Capital contribution from non-controlling interests | | **4** | 21 |
| Interest paid | | **(3,897)** | (3,549) |
| Proceeds from new bank loans | | **10,524** | 28,452 |
| Repayment of bank loans | | **(27,225)** | (25,684) |
| Dividends paid to non-controlling interests | | **(414)** | – |
| Payment for purchase of shares for share award scheme | | **–** | (1,285) |
| **Net cash used in financing activities** | | **(21,008)** | (1,802) |
| **Net decrease in cash and cash equivalents** | | **(36,223)** | (4,937) |
| **Cash and cash equivalents at 1 January** | | **46,505** | 52,337 |
| **Effect of foreign exchange rate changes** | | **(330)** | (895) |
| **Cash and cash equivalents at 31 December** | | **9,952** | 46,505 |

The notes on pages 86 to 159 form part of these 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"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). Significant accounting policies adopted by the Group are disclosed 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. 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 2016 comprise the Group 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.

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

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

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

### (c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these development has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

*(Expressed in United States dollars unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

Subsidiaries are entities controlled by the Group. 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.

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 statement of profit or loss and the consolidated statement of profit or loss and other 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(q) or 1(r) 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(m)).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (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. 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(m)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment loss for the year are recognised in the consolidated statement of profit or loss, 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 profit or loss and other comprehensive income.

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

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

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(m)).

### (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(m)).

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 notes 1(w)(v) and (vi).

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(m)). Dividend income from equity securities is recognised in profit or loss in accordance with the policies set out in note 1(w)(v).

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

### (h) Investment properties

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at cost less accumulated depreciation and impairment losses (see note 1(m)(ii)). Depreciation is calculated to write off the cost of investment properties, less their estimate residual value, if any, using the straight line method over their estimate useful lives of 20 years. Rental income from investment properties is accounted for as described in note 1(w)(iv).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (i) 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(m)):

– freehold land and buildings;

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

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.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Property under development

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

### (k) 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(y)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(m)). Other development expenditure is recognised as an expense in the period in which it is incurred.

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

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

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

Both the period and method of amortisation are reviewed annually.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (l) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Operating lease charges

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

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

### (m) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities 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)*

### (m) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and other receivables *(Continued)*

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

– For investment in 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(m)(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(m)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– 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.

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.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Impairment of assets *(Continued)*

(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;

– investment property;

– 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).

– 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).

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Impairment of assets *(Continued)*

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

– 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(m)(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. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

### (n) 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.

*(Expressed in United States dollars unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (o) 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(w)(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".

### (p) 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(m)(i)), 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.

### (q) 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.

### (r) 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(v)(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.

### (s) Cash and cash equivalents

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

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (t) Employee benefits

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

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

(ii) Share-based payments

**Share option scheme and share award scheme**

The fair value of share options and awarded shares granted to employees is recognised as an employee cost with a corresponding increase in employee share-based compensation reserve within equity. In respect of share options, 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. In respect of awarded shares, the fair value is based on the closing price at the grant date. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options and awarded shares, the total estimated fair value of the share options and awarded shares is spread over the vesting period, taking into account the probability that the share options and awarded shares will vest.

During the vesting period, the number of share options and awarded shares 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 share options and awarded shares 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.

No expense is recognised for share options or awarded shares that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vested irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The equity amount for the share options 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).

*(Expressed in United States dollars unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (t) Employee benefits *(Continued)*

(ii) Share-based payments *(Continued)*

**Shares held for share award scheme**

Where the shares of the Company are acquired under the share award scheme, the consideration paid, including any directly attributable incremental costs, is presented as "shares held for share award scheme reserve" and deducted from total equity.

When the awarded shares are transferred to the awardees upon vesting, the related weighted average costs of the awarded shares vested are credited to "shares held for share award scheme reserve" and the related employment costs of the awarded shares vested are debited to the employee share-based compensation reserve. The difference between the related weighted average cost and the related employment costs of the awarded shares is transferred to retained profits.

Where the shares held for share award scheme are revoked and the revoked shares are disposed of, the related gain or loss from disposal of revoked shares is transferred to retained profits and not recognised in profit or loss.

Where cash or non-cash dividend distribution is declared in respect of the shares held for share award scheme, such cash dividend or fair value of the non-cash dividend is transferred to retained profits with no gain or loss recognised in profit or loss.

### (u) 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)*

### (u) Income tax *(Continued)*

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

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

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

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

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

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

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

  – the same taxable entity; or

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

*(Expressed in United States dollars unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (v) 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.

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(v)(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.

*(Expressed in United States dollars unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (w) 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) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(v) Dividends

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

(vi) Interest income

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

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (x) 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.

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.

### (y) 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.

### (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.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (z) Related parties *(Continued)*

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

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

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

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

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

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

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

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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 13, 27 and 29 contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

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

The Group determines the estimated useful lives and related depreciation/amortisation charges for the property, plant and equipment, investment properties and other intangible assets. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment, investment properties 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, property, plant and equipment, investment properties, property under development, interest in leasehold land held for own use under operating leases, goodwill and other intangible assets may not be recoverable, these assets may be considered impaired, and an impairment loss may be recognised in accordance with HKAS 36, *Impairment of assets*. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amount may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs 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(o) and 1(w)(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.

Material adjustments to the budgeted costs and the estimated outcome of construction contracts may occur in future if there is a significant change in the market environment.

*(Expressed in United States dollars unless otherwise indicated)*

## 3 REVENUE AND SEGMENT REPORTING

### (a) Revenue

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.

Revenue 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 during the year is as follows:

| | **2016** | 2015 |
|---|---|---|
| | **$'000** | $'000 |
| Capital equipment and packages | | |
| – Sales of capital equipment | **7,989** | 15,260 |
| – Construction contracts revenue | | |
| – Rig products and technology | **32,669** | 49,451 |
| – Rig turnkey solutions | **35,409** | 57,359 |
| | **76,067** | 122,070 |
| Oilfield expendables and supplies | | |
| – Sales of expendables and supplies | **60,874** | 58,500 |
| Engineering services | | |
| – Service fee income | **5,590** | 14,329 |
| | **142,531** | 194,899 |

The Group's customer base is diversified and includes two customers (2015: two customers) with whom transactions have exceeded 10% of the Group's revenues. In 2016, revenues from sales of capital equipment and packages and oilfield expendables and supplies to these customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately $33 million and $32 million respectively (2015: $53 million and $23 million respectively). Details of concentrations of credit risk arising from this customer are set out in note 29(a).

*(Expressed in United States dollars unless otherwise indicated)*

## 3 REVENUE 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 and plug and abandonment and decommissioning equipment |
| – 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 assets, 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 finance costs and items not specifically attributed to individual segment, such as share of results of associate, 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.

*(Expressed in United States dollars unless otherwise indicated)*

## 3 REVENUE 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 2016 and 2015 is set out below.

| | Capital equipment and packages | | Oilfield expendables and supplies | | Engineering services | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2016 $'000** | 2015 $'000 | **2016 $'000** | 2015 $'000 | **2016 $'000** | 2015 $'000 | **2016 $'000** | 2015 $'000 |
| Revenue from external customers | **76,067** | 122,070 | **60,874** | 58,500 | **5,590** | 14,329 | **142,531** | 194,899 |
| Inter-segment revenue | **1,675** | 15,654 | **967** | 6,205 | **3,450** | 1,291 | **6,092** | 23,150 |
| **Reportable segment revenue** | **77,742** | 137,724 | **61,841** | 64,705 | **9,040** | 15,620 | **148,623** | 218,049 |
| **Reportable segment results** | **(51,838)** | 4,532 | **(46,084)** | 1,266 | **(3,894)** | 2,423 | **(101,816)** | 8,221 |
| Depreciation and amortisation for the year | **4,552** | 4,926 | **1,947** | 957 | **1,181** | 1,485 | **7,680** | 7,368 |
| **Reportable segment assets** | **293,177** | 426,101 | **78,984** | 55,905 | **11,340** | 17,657 | **383,501** | 499,663 |
| Additions to non-current segment assets during the year | **5,258** | 6,438 | **2,672** | 17,407 | **–** | 7 | **7,930** | 23,852 |
| **Reportable segment liabilities** | **(219,446)** | (258,255) | **(37,040)** | (16,182) | **(1,844)** | (3,295) | **(258,330)** | (277,732) |

*(Expressed in United States dollars unless otherwise indicated)*

## 3 REVENUE AND SEGMENT REPORTING *(Continued)*

### (b) Segment reporting *(Continued)*

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

| | **2016 $'000** | 2015 $'000 |
|---|---|---|
| **Revenue** | | |
| Reportable segment revenue | **148,623** | 218,049 |
| Elimination of inter-segment revenue | **(6,092)** | (23,150) |
| Consolidated revenue (note 3(a)) | **142,531** | 194,899 |
| **(Loss)/profit** | | |
| Segment results | **(101,816)** | 8,221 |
| Finance costs | **(4,363)** | (4,545) |
| Unallocated head office and corporate income and expenses | **(5,133)** | (1,641) |
| Consolidated (loss)/profit before taxation | **(111,312)** | 2,035 |
| **Assets** | | |
| Reportable segment assets | **383,501** | 499,663 |
| Interest in associate | **182** | 193 |
| Other financial asset | **2,226** | 4,661 |
| Cash at bank and in hand | **9,952** | 46,505 |
| Pledged bank deposits | **1,505** | 5,045 |
| Deferred tax assets | **13,706** | 12,036 |
| Tax recoverable | **241** | 132 |
| Unallocated head office and corporate assets | **1,511** | 1,494 |
| Consolidated total assets | **412,824** | 569,729 |
| **Liabilities** | | |
| Reportable segment liabilities | **(258,330)** | (277,732) |
| Bank loans and other borrowings | **(49,317)** | (66,910) |
| Tax payable | **(7,835)** | (5,326) |
| Deferred tax liabilities | **(131)** | (268) |
| Unallocated head office and corporate liabilities | **(1,137)** | (498) |
| Consolidated total liabilities | **(316,750)** | (350,734) |

## 3 REVENUE 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, investment properties, 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, investment properties, 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 | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Hong Kong | **–** | – | **226** | 195 |
| Mainland China | **69,230** | 61,373 | **53,680** | 58,803 |
| North America | **13,790** | 27,483 | **15,056** | 17,937 |
| South America | **39,333** | 26,832 | **50** | 389 |
| Europe | **1,500** | 4,535 | **2,267** | 24,435 |
| Singapore | **4,800** | 17,446 | **48** | 8 |
| Indonesia | **8,208** | 56,129 | **–** | – |
| Others (other part of Asia, India, Russia etc.) | **5,670** | 1,101 | **1,024** | 1,788 |
| | **142,531** | 194,899 | **72,351** | 103,555 |

## 4 OTHER REVENUE AND NET INCOME

| | **2016** | 2015 |
|---|---|---|
| | **$'000** | $'000 |
| Interest income | **371** | 186 |
| Rental income | **251** | – |
| Net foreign exchange gain | **2,470** | 2,279 |
| Others | **2,593** | 1,377 |
| | **5,685** | 3,842 |

## 5 (LOSS)/PROFIT BEFORE TAXATION

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

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **(a) Finance costs** | | |
| Interest on bank loans and other borrowings | **4,785** | 5,425 |
| Less: Interest expense capitalised into property under development* | **(422)** | (880) |
| | **4,363** | 4,545 |

* The borrowing costs have been capitalised at a rate of 5.64% – 7.06% per annum (2015: 6.87% – 7.09% per annum).

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **(b) Staff costs#** | | |
| Contributions to defined contribution retirement plans | **3,965** | 4,536 |
| Equity-settled share-based payment expenses (note 27) | **72** | 323 |
| Salaries, wages and other benefits | **26,290** | 38,870 |
| | **30,327** | 43,729 |
| **(c) Other items** | | |
| Amortisation of interest in leasehold land held for own use under operating leases# (note 12) | **211** | 226 |
| Amortisation of intangible assets (note 14) | **2,294** | 2,632 |
| Depreciation# | | |
| – property, plant and equipment (note 10) | **5,628** | 5,161 |
| – investment properties (note 10) | **347** | – |
| Impairment losses on doubtful debts (note 19(b)) | **56,864** | 1,941 |
| Impairment losses on other financial assets (note 17) | **2,435** | – |
| Impairment losses on goodwill (note 13) | **19,621** | – |
| Impairment losses on gross amount due from customers for contract work (note 20) | **29,916** | – |
| Write-off of trade debtors | **16** | 44 |
| Research and development costs | **5,662** | 4,328 |
| Net foreign exchange gain | **(2,470)** | (2,279) |
| Loss on disposal of property, plant and equipment | **520** | 476 |
| Auditors' remuneration | **451** | 436 |
| Minimum lease payments under operating leases in respect of land and buildings | **2,689** | 4,071 |
| Cost of inventories# (note 18(b)) | **103,437** | 137,663 |

# Cost of inventories includes $15,462,000 (2015: $26,253,000) 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 STATEMENT OF PROFIT OR LOSS

### (a) Income tax in the consolidated statement of profit or loss represents:

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| **Current tax** | | |
| Provision for the year | | |
| – Hong Kong Profits Tax | 1,159 | 727 |
| – PRC enterprise income tax | 833 | 243 |
| – Overseas corporation income tax | 707 | 1,301 |
| | 2,699 | 2,271 |
| Over-provision in respect of prior years | (769) | (527) |
| | 1,930 | 1,744 |
| **Withholding tax** | | |
| PRC withholding tax | 492 | – |
| **Deferred tax** | | |
| Origination of temporary differences (note 24(b)) | (2,158) | (1,006) |
| | 264 | 738 |

The provision for Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits 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% (2015: 15%) under the relevant PRC tax rules and regulations.

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

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| (Loss)/profit before taxation | (111,312) | 2,035 |
| Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned | (21,579) | 509 |
| Tax effect of non-deductible expenses | 6,254 | 733 |
| Tax effect of non-taxable income | (902) | (1,066) |
| Tax effect of profits entitled to tax reductions in the PRC | (1,101) | (1,119) |
| Tax effect of unused tax losses not recognised | 1,503 | 2,208 |
| Tax effect of other temporary differences not recognised | 16,366 | – |
| Over-provision in prior years | (769) | (527) |
| Withholding tax | 492 | – |
| Actual tax expense | 264 | 738 |

*(Expressed in United States dollars unless otherwise indicated)*

## 7 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

| | Directors' fees | | Salaries, allowances and benefits in kind | | Retirement scheme contributions | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2016 $'000** | 2015 $'000 | **2016 $'000** | 2015 $'000 | **2016 $'000** | 2015 $'000 | **2016 $'000** | 2015 $'000 |
| **Executive directors:** | | | | | | | | |
| Mr Jiang Bing Hua | **–** | – | **701** | 398 | **17** | 8 | **718** | 406 |
| **Independent non-executive directors:** | | | | | | | | |
| Mr Bian Junjiang | **15** | 15 | **–** | – | **–** | – | **15** | 15 |
| Mr Chan Ngai Sang, Kenny | **31** | 31 | **–** | – | **–** | – | **31** | 31 |
| Mr Guan Zhichuan | **15** | 15 | **–** | – | **–** | – | **15** | 15 |
| Mr Robert William Fogal Jr. | **15** | 15 | **–** | – | **–** | – | **15** | 15 |
| **Non-executive directors:** | | | | | | | | |
| Mr Jiang Longsheng | **15** | 15 | **–** | – | **–** | – | **15** | 15 |
| Mr Brian Chang | **15** | 15 | **–** | – | **–** | – | **15** | 15 |
| Mr Yu Yuqun | **8** | 15 | **–** | – | **–** | – | **8** | 15 |
| Mr Zhang Menggui (note) | **10** | – | **731** | 446 | **13** | 9 | **754** | 455 |
| Mr Wang Jianzhong | **8** | – | **–** | – | **–** | – | **8** | – |
| | **132** | 121 | **1,432** | 844 | **30** | 17 | **1,594** | 982 |

Note: Mr Zhang Menggui was re-designated from executive director to non-executive director on 28 April 2016.

## 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2015: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2015: three) individuals are as follows:

| | **2016** **$'000** | 2015 $'000 |
|---|---|---|
| Salaries and other emoluments | **889** | 789 |
| Share-based payments | **–** | 95 |
| Retirement scheme contributions | **68** | 20 |
| | **957** | 904 |

The emoluments of the three (2015: three) individuals with the highest emoluments are within the following bands:

| | **2016** **Number of individuals** | 2015 Number of individuals |
|---|---|---|
| HK$1,500,001 – HK$2,000,000 | **1** | 2 |
| HK$2,000,001 – HK$2,500,000 | **1** | – |
| HK$3,000,001 – HK$3,500,000 | **–** | 1 |
| HK$3,500,001 – HK$4,000,000 | **1** | – |

## 9 (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of $110,450,000 (2015: profit of $2,097,000) and the weighted average number of 702,025,000 (2015: 702,888,000) ordinary shares in issue during the year excluding ordinary shares purchased by the Group, calculated as follows:

Weighted average number of ordinary shares

| | 2016<br>'000 | 2015<br>'000 |
|---|---|---|
| Issued ordinary shares at 1 January | **707,120** | 704,915 |
| Effect of share options exercised | **–** | 2,072 |
| Effect of purchase of shares held for share award scheme | **(5,095)** | (4,099) |
| Weighted average number of ordinary shares at 31 December | **702,025** | 702,888 |

### (b) Diluted (loss)/earnings per share

Diluted loss per share equals to basic loss per share for the year ended 31 December 2016 because the potential ordinary shares outstanding were anti-dilutive. The calculation of diluted earnings per share for the year ended 31 December 2015 is based on the profit attributable to ordinary equity shareholders of the Company of $2,097,000 and the weighted average number of 708,594,000 ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

| | 2016<br>'000 | 2015<br>'000 |
|---|---|---|
| Weighted average number of ordinary shares at 31 December | **702,025** | 702,888 |
| Effect of deemed issue of shares under the Company's share option schemes for nil consideration (note 27) | **1,614** | 5,706 |
| Weighted average number of ordinary shares (diluted) at 31 December | **703,639** | 708,594 |

*(Expressed in United States dollars unless otherwise indicated)*

## 10 PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

### (a) Reconciliation of carrying amount

| | 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 | Sub-total $'000 | Investment properties $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | |
| At 1 January 2015 | 20,792 | 7,991 | 22,105 | 1,528 | 3,421 | 55,837 | – | 55,837 |
| Exchange adjustments | (1,025) | (434) | (958) | (64) | (168) | (2,649) | – | (2,649) |
| Additions | 7,785 | 4,419 | 2,443 | 911 | 394 | 15,952 | – | 15,952 |
| Disposals | – | (329) | (1,839) | (1) | (700) | (2,869) | – | (2,869) |
| At 31 December 2015 | 27,552 | 11,647 | 21,751 | 2,374 | 2,947 | 66,271 | – | 66,271 |
| At 1 January 2016 | **27,552** | **11,647** | **21,751** | **2,374** | **2,947** | **66,271** | **–** | **66,271** |
| Exchange adjustments | **(1,761)** | **(503)** | **(1,237)** | **(48)** | **(126)** | **(3,675)** | **(418)** | **(4,093)** |
| Additions | **–** | **532** | **185** | **178** | **13** | **908** | **–** | **908** |
| Transferred from property under development (note 11) | **20,053** | **238** | **5,053** | **96** | **–** | **25,440** | **–** | **25,440** |
| Transferred to investment properties | **(9,065)** | **–** | **–** | **(358)** | **–** | **(9,423)** | **9,423** | **–** |
| Disposals | **(174)** | **(631)** | **(3,395)** | **(315)** | **(441)** | **(4,956)** | **–** | **(4,956)** |
| At 31 December 2016 | **36,605** | **11,283** | **22,357** | **1,927** | **2,393** | **74,565** | **9,005** | **83,570** |
| **Accumulated depreciation:** | | | | | | | | |
| At 1 January 2015 | 4,479 | 3,940 | 9,630 | 1,023 | 2,275 | 21,347 | – | 21,347 |
| Exchange adjustments | (266) | (224) | (443) | (46) | (119) | (1,098) | – | (1,098) |
| Charge for the year | 924 | 1,481 | 2,102 | 211 | 443 | 5,161 | – | 5,161 |
| Written back on disposals | – | (265) | (686) | (1) | (587) | (1,539) | – | (1,539) |
| At 31 December 2015 | 5,137 | 4,932 | 10,603 | 1,187 | 2,012 | 23,871 | – | 23,871 |
| At 1 January 2016 | **5,137** | **4,932** | **10,603** | **1,187** | **2,012** | **23,871** | **–** | **23,871** |
| Exchange adjustments | **(372)** | **(328)** | **(514)** | **(38)** | **(102)** | **(1,354)** | **(37)** | **(1,391)** |
| Charge for the year | **1,317** | **1,812** | **2,194** | **76** | **229** | **5,628** | **347** | **5,975** |
| Transferred to investment properties | **(361)** | **–** | **–** | **(127)** | **–** | **(488)** | **488** | **–** |
| Written back on disposals | **(64)** | **(501)** | **(2,645)** | **(295)** | **(365)** | **(3,870)** | **–** | **(3,870)** |
| At 31 December 2016 | **5,657** | **5,915** | **9,638** | **803** | **1,774** | **23,787** | **798** | **24,585** |
| **Net book value:** | | | | | | | | |
| At 31 December 2016 | **30,948** | **5,368** | **12,719** | **1,124** | **619** | **50,778** | **8,207** | **58,985** |
| At 31 December 2015 | 22,415 | 6,715 | 11,148 | 1,187 | 935 | 42,400 | – | 42,400 |

## 10 PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES *(Continued)*

### (a) Reconciliation of carrying amount *(Continued)*

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 2016, the certificate has not yet been issued.

During the year ended 31 December 2016, the use of certain premises of the Group has been changed from owner-occupation to leasing out for rental income. The premises with carrying amount of $8,935,000 were transferred from property, plant and equipment to investment properties at the date of the end of owner-occupation.

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

| | **2016** **$'000** | 2015 $'000 |
|---|---|---|
| Outside Hong Kong | | |
| – freehold | **9,337** | 8,475 |
| – medium-term leases | **29,818** | 13,940 |
| | **39,155** | 22,415 |

### Fair value measurement of investment properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

*(Expressed in United States dollars unless otherwise indicated)*

## 10 PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES *(Continued)*

### Fair value measurement of investment properties *(Continued)*

(i) Fair value hierarchy *(Continued)*

| | Fair value at 31 December 2016 $'000 | Fair value measurements as at 31 December 2016 categorised into Level 1 $'000 | Level 2 $'000 | Level 3 $'000 |
|---|---|---|---|---|
| Recurring fair value measurement | | | | |
| Investment properties: | | | | |
| – Mainland China | **9,442** | **–** | **–** | **9,442** |

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value measurements

| | Valuation techniques | Unobservable input | Rate |
|---|---|---|---|
| Investment properties<br>Industrial<br>– Mainland China | Replacement cost method | Profit margin for construction costs | 10% |
| Investment properties<br>Commercial<br>– Mainland China | Income approach | Occupancy rate | 95% |

The fair value of industrial investment properties located in the Mainland China is determined using replacement cost method by reference to construction costs of comparable properties by a construction company on a price per square metre basis, adjusted for a profit margin for such construction costs.

The fair value of commercial investment properties located in the Mainland China is determined using income approach by reference to rental income of comparable properties on a price per square metre basis, adjusted for an occupancy rate for such leases.

*(Expressed in United States dollars unless otherwise indicated)*

## 10 PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES *(Continued)*

### Fair value measurement of investment properties *(Continued)*

Assets leased out under operating leases

The Group leases out investment properties under operating leases. The leases typically run for an initial period of 3 to 4 years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties.

Total future minimum lease payments under non-cancellable operating leases are receivable as follows:

| | **2016**<br>**$'000** | 2015<br>$'000 |
|---|---|---|
| Within 1 year | **405** | – |
| After 1 year but within 5 years | **1,014** | – |
| | **1,419** | – |

## 11 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.

During the year ended 31 December 2016, completed properties of $25,440,000 were transferred to property, plant and equipment (note 10).

*(Expressed in United States dollars unless otherwise indicated)*

## 12 INTEREST IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| **Cost:** | | |
| At 1 January | **9,198** | 9,695 |
| Exchange adjustments | **(598)** | (497) |
| At 31 December | **8,600** | 9,198 |
| **Accumulated amortisation:** | | |
| At 1 January | **1,135** | 969 |
| Exchange adjustments | **(85)** | (60) |
| Charge for the year | **211** | 226 |
| At 31 December | **1,261** | 1,135 |
| **Net book value:** | | |
| At 31 December | **7,339** | 8,063 |

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.

## 13 GOODWILL

| | **2016** **$'000** | 2015 $'000 |
|---|---|---|
| **Cost** | | |
| At 1 January | **22,996** | 24,089 |
| Exchange adjustments | **(3,375)** | (1,093) |
| Impairment losses | **(19,621)** | – |
| At 31 December | **–** | 22,996 |

### Impairment test for cash-generating units containing goodwill

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

| | **2016** **$'000** | 2015 $'000 |
|---|---|---|
| Capital equipment and packages | **–** | 22,996 |

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.

The key assumptions used for value-in-use calculations are as follows, which are based on the past performance, management's expectation of market development or external sources of information:

| | **2016** | 2015 |
|---|---|---|
| – Gross margin | **25% – 57%** | 17% – 32% |
| – Growth rate | **2.5%** | 2% |
| – Discount rate | **13%** | 10% |

The profitability of the Group's capital equipment and packages segment is affected by the extended oil price downturn. The carrying value of the CGU exceeds its recoverable amount by $19,621,000 as at 31 December 2016. Accordingly, an impairment loss of $19,621,000 is recognised relating to the Group's capital equipment and packages business and has been allocated to reduce the carrying amount of the goodwill. As the carrying amount of the CGU has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses on other assets of the CGU.

## 14 OTHER INTANGIBLE ASSETS

| | 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 2015 | 7,933 | 11,181 | 4,866 | 2,792 | 704 | 660 | 365 | 28,501 |
| Exchange adjustments | (320) | (501) | (54) | (143) | (41) | – | – | (1,059) |
| Additions | – | – | – | – | 203 | – | – | 203 |
| At 31 December 2015 | 7,613 | 10,680 | 4,812 | 2,649 | 866 | 660 | 365 | 27,645 |
| At 1 January 2016 | **7,613** | **10,680** | **4,812** | **2,649** | **866** | **660** | **365** | **27,645** |
| Exchange adjustments | **(846)** | **(1,663)** | **(173)** | **(172)** | **(37)** | **–** | **–** | **(2,891)** |
| Additions | **–** | **–** | **–** | **–** | **45** | **–** | **–** | **45** |
| At 31 December 2016 | **6,767** | **9,017** | **4,639** | **2,477** | **874** | **660** | **365** | **24,799** |
| **Accumulated amortisation:** | | | | | | | | |
| At 1 January 2015 | 5,612 | 6,863 | 3,847 | 2,188 | 481 | 143 | 198 | 19,332 |
| Exchange adjustments | (252) | (336) | (54) | (117) | (24) | – | – | (783) |
| Charge for the year | 740 | 1,003 | 610 | 135 | 65 | 33 | 46 | 2,632 |
| At 31 December 2015 | 6,100 | 7,530 | 4,403 | 2,206 | 522 | 176 | 244 | 21,181 |
| At 1 January 2016 | **6,100** | **7,530** | **4,403** | **2,206** | **522** | **176** | **244** | **21,181** |
| Exchange adjustments | **(713)** | **(1,243)** | **(173)** | **(149)** | **(17)** | **–** | **–** | **(2,295)** |
| Charge for the year | **662** | **894** | **409** | **127** | **123** | **33** | **46** | **2,294** |
| At 31 December 2016 | **6,049** | **7,181** | **4,639** | **2,184** | **628** | **209** | **290** | **21,180** |
| **Net book value:** | | | | | | | | |
| At 31 December 2016 | **718** | **1,836** | **–** | **293** | **246** | **451** | **75** | **3,619** |
| At 31 December 2015 | 1,513 | 3,150 | 409 | 443 | 344 | 484 | 121 | 6,464 |

The amortisation charge for the year is included in "other operating expenses" in the consolidated statement of profit or loss.

(Expressed in United States dollars unless otherwise indicated)

## 15 INTEREST IN SUBSIDIARIES

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 Oil and Gas Services Holdings Ltd ("TSC (Qingdao)") #* (青島天時油氣裝備服務股份有限公司) | PRC | 190,000,000 shares of RMB1 each | 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 ("TSC M&S") | USA | 16,020,966 shares of $1 each | 100% | 100% | Trading of rig equipment and oilfield expendables and supplies and provision of rig turnkey solutions |
| Qingdao TSC Offshore Equipment Co., Ltd. ("TSCOE") # (青島天時海洋石油裝備有限公司) | PRC | $26,000,000 | 100% | 100% | Manufacturing and trading of rig equipment and provision of rig turnkey solutions |
| Zhengzhou TSC Offshore Equipment Co., Ltd. ("ZZOE") # (鄭州天時海洋石油裝備有限公司) | PRC | RMB32,400,000 | 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 |

*(Expressed in United States dollars unless otherwise indicated)*

## 15 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 |
|---|---|---|---|---|---|
| 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") | 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 |
| 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 |
| Alliance Offshore Drilling Pte Limited | Singapore | $100,000 | 100% | 100% | Provision of rig turnkey solutions |

# 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

## 15 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.

| | **2016 $'000** | 2015 $'000 |
|---|---|---|
| NCI percentage | **21%** | 21% |
| Current assets | **9,205** | 20,283 |
| Non-current assets | **2,697** | 4,397 |
| Current liabilities | **(5,930)** | (13,017) |
| Non-current liabilities | **(132)** | (268) |
| Net assets | **5,840** | 11,395 |
| Carrying amount of NCI | **1,226** | 2,393 |
| Revenue | **4,995** | 6,543 |
| Loss for the year | **(3,312)** | (1,972) |
| Total comprehensive income | **(3,584)** | (2,256) |
| Loss allocated to NCI | **(696)** | (414) |
| Dividend paid to NCI | **(414)** | – |
| Cash flows from operating activities | **700** | (1,860) |
| Cash flows from investing activities | **37** | 3,384 |
| Cash flows from financing activities | **(2,049)** | (1,408) |

## 16 INTEREST IN ASSOCIATE

| | **2016 $'000** | 2015 $'000 |
|---|---|---|
| Share of net assets | **182** | 193 |

The following list contains only the particulars of the associate, which is unlisted corporate entity whose quoted market price is not available:

| | | | | Proportion of ownership interest | | |
|---|---|---|---|---|---|---|
| Name of associate | Form of business structure | Place of incorporation and business | Particulars of issued and paid up capital | Group's effective interest | Held by a subsidiary | Principal activity |
| Guangzhou Interstellar Offshore Engineering Co., Ltd | Establishment | PRC | RMB5,000,000 | 25% | 25% | Professional technical services |

The associate is accounted for using the equity method in the consolidated financial statements.

## 17 OTHER FINANCIAL ASSETS

| | **2016** **$'000** | 2015 $'000 |
|---|---|---|
| Unlisted available-for-sale equity securities, at cost | **2,226** | 4,661 |

Other financial assets represent equity interests in an entity that was in the process of application for an initial public offering during 2016. The investee was successfully listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") subsequent to 31 December 2016.

The directors assessed the recoverable amount of the equity investment at 31 December 2016 with reference to the subsequent trading price of the investee on the Stock Exchange. Based on their review, an impairment loss of $2,435,000 (2015: Nil) was recognised in profit or loss during the year ended 31 December 2016.

## 18 INVENTORIES

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

| | **2016** **$'000** | 2015 $'000 |
|---|---|---|
| Raw materials | **9,644** | 8,049 |
| Work in progress | **6,064** | 26,159 |
| Finished goods | **24,006** | 24,315 |
| | **39,714** | 58,523 |

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

| | **2016** **$'000** | 2015 $'000 |
|---|---|---|
| Carrying amount of inventories sold | **93,685** | 136,764 |
| Write down of inventories | **9,752** | 899 |
| | **103,437** | 137,663 |

*(Expressed in United States dollars unless otherwise indicated)*

## 19 TRADE AND OTHER RECEIVABLES

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| Trade debtors and bills receivable | **123,958** | 99,176 |
| Less: allowance for doubtful debts (note 19(b)) | **(62,057)** | (7,590) |
| | **61,901** | 91,586 |
| Other receivables, prepayments and deposits | **14,167** | 15,753 |
| | **76,068** | 107,339 |
| Less: Non-current portion of prepayments | **–** | (46) |
| | **76,068** | 107,293 |

### (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:

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| Current | **23,971** | 28,780 |
| Less than 1 month past due | **5,540** | 15,779 |
| 1 to 3 months past due | **4,847** | 7,365 |
| More than 3 months but within 12 months past due | **15,124** | 21,660 |
| More than 12 months past due | **12,419** | 18,002 |
| Amounts past due | **37,930** | 62,806 |
| | **61,901** | 91,586 |

## 19 TRADE AND OTHER RECEIVABLES *(Continued)*

### (a) Ageing analysis *(Continued)*

The credit terms offered by the Group to its customers differ with each product/service. The credit terms offered to customers of oilfield expendables and supplies and engineering services are normally 30 to 90 days. The credit terms offered to customers of 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 $123,958,000 (2015: $99,176,000) of which $2,566,000 (2015: $3,582,000) 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(m)(i)).

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

| | **2016**<br>**$'000** | 2015<br>$'000 |
|---|---|---|
| At 1 January | **7,590** | 5,767 |
| Exchange adjustments | **(2,397)** | (108) |
| Impairment losses recognised | **56,864** | 1,941 |
| Uncollectible amounts written-off | **–** | (10) |
| At 31 December | **62,057** | 7,590 |

At 31 December 2016, the Group's trade debtors of $68,916,000 (2015: $8,161,000) 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 $62,057,000 (2015: $7,590,000) were recognised.

*(Expressed in United States dollars unless otherwise indicated)*

## 19 TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Neither past due nor impaired | **23,843** | 28,737 |
| Less than 1 month past due | **5,478** | 15,759 |
| 1 to 3 months past due | **4,729** | 7,341 |
| More than 3 months but within 12 months past due | **12,115** | 21,505 |
| More than 12 months past due | **8,877** | 17,673 |
| | **31,199** | 62,278 |
| | **55,042** | 91,015 |

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.

## 20 CONSTRUCTION CONTRACTS

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Contract costs incurred plus recognised profits less recognised losses | **220,738** | 273,202 |
| Less: progress billings received and receivable | **(24,116)** | (36,663) |
| | **196,622** | 236,539 |
| **Representing:** | | |
| Gross amount due from customers for contract work | **199,186** | 236,539 |
| Gross amount due to customers for contract work (note 22) | **(2,564)** | – |
| | **196,622** | 236,539 |

## 20 CONSTRUCTION CONTRACTS *(Continued)*

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 $2,035,000 (2015: $11,352,000).

At 31 December 2016, management carried out an assessment of the expected outcome of individual construction contracts. Based on their review, an expected loss on a contract of $29,916,000 (2015: Nil) was recognised as impairment losses on gross amount due from customers for contract work during the year.

## 21 AMOUNT DUE FROM A RELATED COMPANY

| | 2016<br>$'000 | 2015<br>$'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 2015 and 2016.

## 22 TRADE AND OTHER PAYABLES

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| Trade creditors and bills payable | **217,800** | 217,978 |
| Other payables and accrued charges | **39,103** | 60,252 |
| Gross amount due to customers for contract work (note 20) | **2,564** | – |
| | **259,467** | 278,230 |

*(Expressed in United States dollars unless otherwise indicated)*

## 22 TRADE AND OTHER PAYABLES *(Continued)*

All of the trade and other payables are expected to be settled or recognised as income within one year or repayable on demand.

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on invoice date, is as follows:

| | **2016** **$'000** | 2015 $'000 |
|---|---|---|
| Within 1 month | **192,936** | 194,669 |
| More than 1 month but within 3 months | **9,044** | 6,094 |
| More than 3 months but within 12 months | **9,297** | 13,956 |
| More than 12 months but within 24 months | **3,368** | 2,414 |
| More than 24 months | **3,155** | 845 |
| | **217,800** | 217,978 |

## 23 BANK LOANS AND OTHER BORROWINGS

At 31 December 2016, the bank loans and other borrowings were repayable as follows:

| | **2016** **$'000** | 2015 $'000 |
|---|---|---|
| Within 1 year or on demand | **8,057** | 28,725 |
| After 1 year but within 2 years | **30,021** | 2,071 |
| After 2 years but within 5 years | **6,620** | 33,542 |
| After 5 years | **4,619** | 2,572 |
| | **41,260** | 38,185 |
| | **49,317** | 66,910 |

## 23 BANK LOANS AND OTHER BORROWINGS *(Continued)*

At 31 December 2016, the bank loans and other borrowings were secured as follows:

| | **2016** **$'000** | 2015 $'000 |
|---|---|---|
| Secured bond | **–** | 6,498 |
| Unsecured notes | **26,748** | 25,918 |
| Bank loans | | |
| – secured | **20,433** | 23,566 |
| – unsecured | **2,136** | 10,928 |
| | **49,317** | 66,910 |

(a) The bank loans carried interest at rates ranging from 3.75% to 7.21% per annum (2015: 3.50% to 7.21% 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 $50,202,000 (2015: $38,158,000).

(ii) Corporate guarantees given by TSCOE, TSC-HHCT, ZZOE, TSC China and TSC (Qingdao) to the extent of banking facilities outstanding of $2,120,000 (2015: $16,314,000) as at 31 December 2016.

(iii) Corporate guarantees given by the Company to the extent of banking facilities outstanding of $721,000 (2015: $2,000,000) as at 31 December 2016.

(iv) Guarantees given by the directors of the Company to the extent of banking facilities outstanding of $314,000 (2015: $352,000) as at 31 December 2016. No guarantee fee was received by the directors during the current and prior years.

Certain bank loans of the Group are subject to the fulfilment of covenants relating to certain of the subsidiaries' statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. The drawn down loan balances would become payable on demand if the covenants were breached. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 29(b).

As at 31 December 2016, the Group did not meet certain covenants of a bank loan amounting to $314,000 (2015: Nil), which was fully repaid subsequent to the year end. Other than that, none of the covenants relating to the Group's bank loans had been breached.

(b) 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.

## 24 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

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

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| Provision for the year | **2,699** | 2,271 |
| Provisional income tax paid | **(1,056)** | (1,107) |
| | **1,643** | 1,164 |
| Balance of income tax provision relating to prior years | **5,951** | 4,030 |
| | **7,594** | 5,194 |

| | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|
| **Reconciliation to the consolidated statement of financial position:** | | |
| Tax recoverable | **(241)** | (132) |
| Tax payable | **7,835** | 5,326 |
| | **7,594** | 5,194 |

*(Expressed in United States dollars unless otherwise indicated)*

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

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

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 2015 | 74 | (1,263) | (751) | 1,828 | (10,006) | (770) | (10,888) |
| Exchange adjustments | – | 69 | (16) | (48) | 140 | (19) | 126 |
| (Credited)/charged to profit or loss (note 6(a)) | (72) | (558) | (306) | (542) | 167 | 305 | (1,006) |
| At 31 December 2015 | 2 | (1,752) | (1,073) | 1,238 | (9,699) | (484) | (11,768) |
| At 1 January 2016 | **2** | **(1,752)** | **(1,073)** | **1,238** | **(9,699)** | **(484)** | **(11,768)** |
| Exchange adjustments | **–** | **81** | **76** | **(112)** | **304** | **2** | **351** |
| (Credited)/charged to profit or loss (note 6(a)) | **(45)** | **(878)** | **(768)** | **(453)** | **15** | **(29)** | **(2,158)** |
| At 31 December 2016 | **(43)** | **(2,549)** | **(1,765)** | **673** | **(9,380)** | **(511)** | **(13,575)** |

*(Expressed in United States dollars unless otherwise indicated)*

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

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

| | **2016** **$'000** | 2015 $'000 |
|---|---|---|
| **Reconciliation to the consolidated statement of financial position:** | | |
| Net deferred tax assets recognised in the statement of financial position | **(13,706)** | (12,036) |
| Net deferred tax liabilities recognised in the statement of financial position | **131** | 268 |
| | **(13,575)** | (11,768) |

At 31 December 2016, the Group had temporary differences arising from undistributed profits of subsidiaries of $47,189,000 (2015: $67,827,000). 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 and other temporary differences of $106,955,000 (2015: $28,443,000) 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.

## 25 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. 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.

## 26 SHARE AWARD SCHEME

### (a) Share Award Plan

Pursuant to the resolution passed by the shareholders on 16 January 2015 ("Adoption Date of Share Award Scheme"), the Company has adopted a share award scheme ("Share Award Plan").

The purpose of the Share Award Plan is to recognise and reward the contribution of the Eligible Persons (as defined below) to the growth and development of the Group through an award of the Group's shares.

The Remuneration Committee may, in its absolute discretion, make an award to an employee (whether full time or part time) of the Group (the "Eligible Person"). The eligibility of any of the Eligible Persons to an award shall be determined by the Remuneration Committee from time to time on the basis of its opinion as to his contribution to the development and growth of the Group. For the avoidance of doubt, the Eligible Persons shall exclude any Directors and any core connected persons of the Company.

The Remuneration Committee shall notify the Share Award Plan Trustee (which was appointed as the trustee for the purpose of the Share Award Plan) in writing upon the making of an award to an Eligible Person (the "Selected Person") under the Share Award Plan. Upon the receipt of such notice, the Share Award Plan Trustee shall purchase shares on the Stock Exchange and/or shall set aside the appropriate number of awarded shares out of a pool of shares comprising the following:

(a) such shares which remain unvested and revert to the Share Award Plan Trustee by reason of a lapse of an award;

(b) such shares as may be purchased by the Share Award Plan Trustee on the Stock Exchange by utilising the funds allocated by the Directors out of the Company's resources for fulfilling any award but subject to the limit that the total number of shares held by the Share Award Plan Trustee under the Share Award Plan will not exceed 3% of the total issued Shares at the Adoption Date; and

(c) such shares as may be transferred by any person and accepted by the Share Award Plan Trustee as additions to the trust fund under the Share Award Plan.

*(Expressed in United States dollars unless otherwise indicated)*

## 26 SHARE AWARD SCHEME *(Continued)*

### (a) Share Award Plan *(Continued)*

No award shall be made or vested by the Remuneration Committee and no instructions to acquire shares shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been made available to the public domain in accordance with the requirements under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange.

Subject to any early termination pursuant to the terms of the Share Award Plan, the Share Award Plan will remain in force for a period commencing on the Adoption Date and ending on 15 January 2025.

In the event that any Selected Person ceases to be an Eligible Person by reason of his death, resignation or summary dismissal for misconduct, committing of a criminal offence or other beach of his term of employment, an award made to such Selected Person shall forthwith lapse and be cancelled.

The Share Award Plan Trustee will exercise voting right in respect of shares held under the Share Award Plan in accordance with the instructions of the Remuneration Committee, if any.

The Directors may by resolution at any time terminate the operation of the Share Award Plan and in such event no further awards shall be made provided that such termination shall not affect any subsisting rights of any Selected Person in respect of any award made to him prior to such termination. Any surplus shares will be sold with the proceeds returned to the Company.

No purchases of shares were made during the year ended 31 December 2016. The total consideration paid for the purchase of 5,095,000 shares in 2015 was $1,285,000. No shares under Share Award Plan have been granted during the current or prior years.

### (b) Share Award Incentive Scheme

Pursuant to the resolutions passed by the shareholders on 27 May 2016 ("Adoption Date of Share Award Incentive Scheme"), the Company has adopted a share award incentive scheme ("Share Award Incentive Scheme").

The purpose of the Share Award Incentive Scheme is to align the interests of the Eligible Persons of Share Award Incentive Scheme, which are defined as any individual, being an employee, officer, consultant or advisor of any member of the Group or any affiliate who is not a connected person of the Company and who the board of directors considers, in its sole discretion, to have contributed or will contribute to the Group, with those of the Group through ownership of shares, dividends and other distributions paid on shares and/or the increase in value of the shares and to encourage and retain Eligible Persons to make contributions to the long-term growth and profits of the Group.

## 26 SHARE AWARD SCHEME *(Continued)*

### (b) Share Award Incentive Scheme *(Continued)*

The Share Award Incentive Scheme is a separate scheme from the Share Award Plan adopted by the Company on 16 January 2015, which is specifically for granting share awards sourced from existing shares purchased from the stock market. The Share Award Incentive Scheme will give the Company flexibility in granting awards of new shares. The Share Award Incentive Scheme will be effective for a period until 26 May 2026 ("the Award Period") unless terminated at the discretion of the board of directors at an earlier date.

On the assumption that all the awards granted under the Share Award Incentive Scheme shall be satisfied by the allotment and issue of new shares by the Company, an ordinary resolution has been proposed at the annual general meeting for the Share Award Incentive Scheme to be adopted by the Company in accordance with the scheme rules and to grant a mandate to the directors to allot and issue up to not more than 3% of the total number of issued shares as at the date of passing such resolution, in connection with the Share Award Incentive Scheme (subject to adjustment in the event of sub-division or consolidation of shares in accordance with the rules of the Share Award Incentive Scheme).

During the Award Period, the board of directors may, from time to time, at their absolute discretion, select any Eligible Person of Share Award Incentive Scheme ("the Selected Participant") and grant an award to such Selected Participant by way of issuing an award letter. The award letter will specify the grant date, the number of award shares underlying the award, the vesting criteria and conditions, the vesting date and such other details as the board of directors may consider necessary. Announcements on the allotment and issue of new shares under the Share Award Incentive Scheme will be made in accordance with the applicable requirements of the Listing Rules when the grants are made.

In the event that any Selected Participant ceases to be an Eligible Person of Share Award Incentive Scheme by reason of his death, resignation, summary dismissal for misconduct, committing of a criminal offence or other beach of his term of employment or becoming a director or a connected person of the Company, the directors may at their absolute discretion determine either that any outstanding award shares and related income not yet vested shall vest in such manner as it thinks fit or that they shall be forfeited.

The directors may by resolution at any time terminate the operation of the Share Award Incentive Scheme and in such event no further awards shall be made provided that such termination shall not affect any subsisting rights of any Selected Participant in respect of any award granted to him prior to such termination.

No issues, purchases or grants of shares under Share Award Incentive Scheme were made for the year ended 31 December 2016.

## 27 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").

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.

*(Expressed in United States dollars unless otherwise indicated)*

## 27 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

### Share Option Scheme *(Continued)*

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.

Other than the Share Option Scheme as mentioned above, pursuant to written resolutions of all shareholders of the Company on 19 October 2005, the Company adopted a Pre-IPO share option scheme. No share option was outstanding under the Pre-IPO share option scheme.

(a) The terms and conditions of the grants that existed during the current and prior 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 | 1,310,000 | Note | 10 years |
| **Options granted to employees:** | | | |
| – on 10 May 2007 | 3,982,000 | Note | 10 years |
| – on 12 November 2007 | 5,990,000 | 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 | 1,580,000 | Note | 10 years |
| – on 18 September 2009 | 8,558,000 | Note | 10 years |
| – on 1 September 2010 | 5,245,000 | Note | 10 years |
| – on 21 February 2011 | 2,400,000 | Note | 10 years |
| – on 4 September 2012 | 7,325,000 | Note | 10 years |
| – on 30 August 2013 | 5,080,000 | 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 | 49,070,000 | | |

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.

*(Expressed in United States dollars unless otherwise indicated)*

## 27 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

### Share Option Scheme *(Continued)*

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

| | **2016** Weighted average exercise price | **2016** Number of options | 2015 Weighted average exercise price | 2015 Number of options |
|---|---|---|---|---|
| Outstanding at the beginning of the year | **HK$2.56** | **44,930,000** | HK$2.52 | 49,070,000 |
| Exercised during the year | **–** | **–** | HK$0.86 | (2,205,000) |
| Forfeited during the year | **HK$2.65** | **(8,110,000)** | HK$3.47 | (1,935,000) |
| Outstanding at the end of the year | **HK$2.54** | **36,820,000** | HK$2.56 | 44,930,000 |
| Exercisable at the end of the year | **HK$2.55** | **31,433,000** | HK$2.61 | 35,538,000 |

The options outstanding at 31 December 2016 had a weighted average remaining contractual life of 3.48 years (2015: 4.59 years) and their exercise prices are set out in note 28(b)(ii).

*(Expressed in United States dollars unless otherwise indicated)*

## 27 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

### (c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Binomial Model. The contractual life of the share option is used as an input into this model. 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 |
| 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 |
| 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 |
| Expected volatility | 68% | 69% | 72% | 76% | 49% | 50% | 50% | 45% | 41% | 42% | 42% | 42% |
| 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 |
| Expected dividends | 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% |

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.

## 28 CAPITAL AND RESERVES

### (a) Movements in components of equity

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

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 2015** | 9,066 | 127,485 | 1,161 | 5,939 | (4,653) | 138,998 |
| **Changes in equity in 2015:** | | | | | | |
| Total comprehensive income for the year | – | – | 107 | – | (3,513) | (3,406) |
| Shares issued under share option schemes | 28 | 320 | – | (105) | – | 243 |
| Equity-settled share-based transactions | – | – | – | 323 | – | 323 |
| **Balance at 31 December 2015 and 1 January 2016** | **9,094** | **127,805** | **1,268** | **6,157** | **(8,166)** | **136,158** |
| **Changes in equity in 2016:** | | | | | | |
| Total comprehensive income for the year | **–** | **–** | **(109)** | **–** | **(5,086)** | **(5,195)** |
| Equity-settled share-based transactions | **–** | **–** | **–** | **(821)** | **893** | **72** |
| **Balance at 31 December 2016** | **9,094** | **127,805** | **1,159** | **5,336** | **(12,359)** | **131,035** |

*(Expressed in United States dollars unless otherwise indicated)*

## 28 CAPITAL AND RESERVES *(Continued)*

### (b) Share capital

(i) Authorised and issued share capital

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **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 | **707,120** | **9,094** | 704,915 | 9,066 |
| Shares issued under share option schemes | **–** | **–** | 2,205 | 28 |
| At 31 December | **707,120** | **9,094** | 707,120 | 9,094 |

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.

*(Expressed in United States dollars unless otherwise indicated)*

## 28 CAPITAL AND RESERVES *(Continued)*

### (b) Share capital *(Continued)*

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

| Exercise period | Exercise price | 2016 Number | 2015 Number |
|---|---|---|---|
| 10 November 2007 to 9 May 2017 | HK$2.43 | **3,982,000** | 3,982,000 |
| 12 May 2008 to 11 November 2017 | HK$5.60 | **4,780,000** | 5,410,000 |
| 15 July 2008 to 14 January 2018 | HK$5.23 | **1,000,000** | 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 | **1,730,000** | 1,730,000 |
| 18 March 2010 to 17 September 2019 | HK$2.06 | **7,288,000** | 8,058,000 |
| 1 March 2011 to 31 August 2020 | HK$1.27 | **2,320,000** | 4,430,000 |
| 21 August 2011 to 20 February 2021 | HK$1.97 | **–** | 2,400,000 |
| 4 March 2013 to 3 September 2022 | HK$1.02 | **7,065,000** | 7,065,000 |
| 28 February 2014 to 29 August 2023 | HK$2.90 | **4,105,000** | 4,255,000 |
| 2 March 2015 to 1 September 2024 | HK$4.16 | **2,250,000** | 2,400,000 |
| 24 June 2015 to 23 December 2024 | HK$2.11 | **600,000** | 1,500,000 |
| | | **36,820,000** | 44,930,000 |

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

### (c) Nature and purpose of reserves

(i) Share premium

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

(ii) Merger reserve

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

*(Expressed in United States dollars unless otherwise indicated)*

## 28 CAPITAL AND RESERVES *(Continued)*

### (c) Nature and purpose of reserves *(Continued)*

(iii) Exchange reserve

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

(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(t)(ii).

(v) Capital reserve

The capital reserve represents (i) the excess of capital contribution over the nominal value of the registered capital of TSC (Qingdao); and (ii) the excess of net assets value over the share capital of TSC (Qingdao) upon completion of conversion of TSC (Qingdao) into a joint stock limited company during 2016.

(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.

(viii) Shares held for share award scheme reserve

The shares held for share award scheme reserve represents purchase costs of shares held for share award scheme as disclosed in note 26.

## 28 CAPITAL AND RESERVES *(Continued)*

### (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 2016, as computed in accordance with the Companies Law (Revised) of the Cayman Islands amounted to $115,446,000 (2015: $119,639,000).

### (e) Dividend

The directors do not recommend the payment of a dividend for the year ended 31 December 2016 (2015: $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 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 2015 and 2016.

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 2016 was 77% (2015: 62%).

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

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the 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 19(a).

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, 4% (2015: 57%) and 78% (2015: 74%) 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 19.

### (b) Liquidity risk

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

*(Expressed in United States dollars unless otherwise indicated)*

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

### (b) Liquidity risk *(Continued)*

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's 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 can be required to pay:

| | 2016 Contractual undiscounted cash outflow | | | | | | 2015 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 | 256,903 | – | – | – | 256,903 | 256,903 | 278,230 | – | – | – | 278,230 | 278,230 |
| Bank loans | 9,456 | 4,153 | 7,772 | 5,273 | 26,654 | 22,569 | 23,808 | 2,765 | 8,647 | 2,692 | 37,912 | 34,494 |
| Secured bond | – | – | – | – | – | – | 6,524 | – | – | – | 6,524 | 6,498 |
| Unsecured notes | 1,399 | 28,399 | – | – | 29,798 | 26,748 | 1,400 | 1,400 | 28,417 | – | 31,217 | 25,918 |
| | 267,758 | 32,552 | 7,772 | 5,273 | 313,355 | 306,220 | 309,962 | 4,165 | 37,064 | 2,692 | 353,883 | 345,140 |

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

### (c) Interest rate risk

The Group's interest rate risk arises primarily from the Group's cash at bank and in hand, pledged bank deposits, 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 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.

| | **2016** Effective interest rate | **2016** $'000 | 2015 Effective interest rate | 2015 $'000 |
|---|---|---|---|---|
| **Fixed rate borrowings:** | | | | |
| Bank loans | **3.75% – 5.66%** | **8,485** | 4.25% – 6.70% | 19,891 |
| Secured bond | **–** | **–** | 9.71% | 6,498 |
| Unsecured notes | **8.5% – 8.6%** | **26,748** | 8.5% – 8.6% | 25,918 |
| | | **35,233** | | 52,307 |
| **Variable rate borrowings/ (deposits):** | | | | |
| Bank loans | **4.0 % – 7.21%** | **14,084** | 3.5% – 7.21% | 14,603 |
| Less: Pledged bank deposits | **0.35 % – 2.55%** | **(1,505)** | 0.35% – 2.55% | (5,045) |
| Cash at bank and in hand | **0.1 % – 1.55%** | **(9,952)** | 0.01% – 1.55% | (46,505) |
| | | **2,627** | | (36,947) |
| Total net borrowings | | **37,860** | | 15,360 |

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

### (c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2016, it is estimated that a general increase of one percentage point in interest rates, with all other variables held constant, would have increased the Group's loss before tax by approximately $26,000 (2015: increased the profit before tax by $369,000). A general decrease of one percentage point in interest rates would had the equal amount but opposite effect, on the basis that all other variables remain constant.

The sensitivity analysis above indicates the instantaneous change in the Group's loss/profit before tax that would arise assuming that the change in interest rates had occurred 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 loss/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 2015.

### (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 revenue was denominated in United States dollars. At 31 December 2016 and 2015, 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.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

### (d) Currency risk *(Continued)*

(ii) Exposure to currency risk

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

| | **Exposure to United States dollars (expressed in United States dollars)** | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Trade and other receivables | **9,263** | 22,511 |
| Cash at bank and in hand | **1,545** | 1,162 |
| Trade and other payables | **(253)** | (258) |
| Net exposure arising from recognised assets and liabilities | **10,555** | 23,415 |

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

### (d) Currency risk *(Continued)*

(iii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's loss/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.

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Increase/ (decrease) in foreign exchange rates** | **Effect on loss before tax $'000** | Increase/ (decrease) in foreign exchange rates | Effect on profit before tax $'000 |
| United States dollars | **5%** | **(528)** | 5% | 1,171 |
| | **(5)%** | **528** | (5)% | (1,171) |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss/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 2015.

### (e) Estimation of fair values

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2015 and 2016.

*(Expressed in United States dollars unless otherwise indicated)*

## 30 COMMITMENTS

### (a) Capital commitments outstanding at 31 December 2016 not provided for in the financial statements were as follows:

| | The Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Contracted for | **625** | 4,856 |

### (b) At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | The Group | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Within 1 year | **969** | 2,206 |
| After 1 year but within 5 years | **3,032** | 5,219 |
| After 5 years | **162** | 8,573 |
| | **4,163** | 15,998 |

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

*(Expressed in United States dollars unless otherwise indicated)*

## 31 MATERIAL RELATED PARTY TRANSACTIONS

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

### (a) Key management personnel remuneration

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

| | **2016**<br>**$'000** | 2015<br>$'000 |
|---|---|---|
| Salaries and other emoluments | **3,178** | 2,508 |
| Share-based payments | **–** | 210 |
| Retirement scheme contributions | **158** | 89 |
| | **3,336** | 2,807 |

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:

| | **2016**<br>**$'000** | 2015<br>$'000 |
|---|---|---|
| Sales of capital equipment and packages | **5,262** | 14,651 |

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 31(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 $3,485,000 (2015: $683,000) and $1,777,000 (2015: $13,968,000) 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.

*(Expressed in United States dollars unless otherwise indicated)*

## 32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

| | Note | 2016<br>$'000 | 2015<br>$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **–** | – |
| Interest in subsidiaries | | **158,762** | 162,661 |
| | | **158,762** | 162,661 |
| **Current assets** | | | |
| Other receivables, prepayments and deposits | | **35** | 20 |
| Cash at bank and in hand | | **75** | 326 |
| | | **110** | 346 |
| **Current liabilities** | | | |
| Other payables and accrued charges | | **661** | 668 |
| Amounts due to subsidiaries | | **428** | 263 |
| | | **1,089** | 931 |
| **Net current liabilities** | | **(979)** | (585) |
| **Total asset less current liabilities** | | **157,783** | 162,076 |
| **Non-current liability** | | | |
| Other borrowings | | **26,748** | 25,918 |
| **NET ASSETS** | | **131,035** | 136,158 |
| **CAPITAL AND RESERVES** | 28(a) | | |
| Share capital | | **9,094** | 9,094 |
| Reserves | | **121,941** | 127,064 |
| **TOTAL EQUITY** | | **131,035** | 136,158 |

(Expressed in United States dollars unless otherwise indicated)

## 33 COMPARATIVE FIGURES

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

## 34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative* | 1 January 2017 |
| Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses* | 1 January 2017 |
| HKFRS 9, *Financial instruments* | 1 January 2018 |
| HKFRS 15, *Revenue from contracts with customers* | 1 January 2018 |
| Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions* | 1 January 2018 |
| HKFRS 16, *Leases* | 1 January 2019 |

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

## 34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(Continued)*

### HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 1(w). Currently, revenue arising from construction contracts and the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the Group adopts HKFRS 15 some of the Group's contract manufacturing activities that are currently recognised at a point in time may meet the HKFRS 15 criteria for revenue recognition over time. This will depend on the terms of the sales contract and the enforceability of any specific performance clauses in that contract, which may vary depending on the jurisdiction in which the contract would be enforced. It is also possible that for the remainder of the Group's contracts the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

## 34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(Continued)*

### HKFRS 15, Revenue from contracts with customers *(Continued)*

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

The Group is in the process of assessing whether this component in the Group's advance payment schemes would be significant to the contract and therefore whether, once HKFRS 15 is adopted, the transaction price would need to be adjusted for the purposes of recognising revenue. Any adjustment to the transaction price under HKFRS 15, if considered necessary, would result in interest expense being recognised while the construction work is still in progress to reflect the effect of the financing benefit obtained from the customers, with a corresponding increase to revenue on sale of properties recognised when control of the completed property is transferred to the customer.

### HKFRS 16, Leases

As disclosed in note 1(l), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

The Group is considering whether to adopt HKFRS 16 before its effective date of 1 January 2019. However, early adoption of HKFRS 16 is only permitted if this is no earlier than the adoption of HKFRS 15. It is therefore unlikely that HKFRS 16 will be adopted before the effective date of HKFRS 15, being 1 January 2018.

# 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

| | **2016 US$'000** | 2015 US$'000 | 2014 US$'000 | 2013 US$'000 | 2012 US$'000 |
|---|---|---|---|---|---|
| Revenue | **142,531** | 194,899 | 270,586 | 201,928 | 183,742 |
| Cost of sales | **(104,745)** | (140,543) | (195,339) | (138,151) | (127,322) |
| Gross profit | **37,786** | 54,356 | 75,247 | 63,777 | 56,420 |
| Other revenue and net income | **5,685** | 3,842 | 883 | 1,981 | 1,349 |
| Selling and distribution expenses | **(5,170)** | (12,554) | (9,849) | (7,000) | (6,722) |
| General and administration expenses | **(33,409)** | (33,089) | (33,292) | (32,961) | (33,021) |
| Other operating expenses | **(111,841)** | (5,975) | (5,461) | (4,934) | (4,128) |
| Finance costs | **(4,363)** | (4,545) | (3,221) | (3,372) | (2,281) |
| Share of results of associate | **–** | – | – | (54) | (37) |
| (Loss)/profit before taxation | **(111,312)** | 2,035 | 24,307 | 17,437 | 11,580 |
| Income tax | **(264)** | (738) | (3,365) | (2,138) | (3,400) |
| (Loss)/profit for the year | **(111,576)** | 1,297 | 20,942 | 15,299 | 8,180 |

## ASSETS AND LIABILITIES

| | **As at 31 December** | | | | |
|---|---|---|---|---|---|
| | **2016 US$'000** | 2015 US$'000 | 2014 US$'000 | 2013 US$'000 | 2012 US$'000 |
| Non-current assets | **86,057** | 115,591 | 103,090 | 96,054 | 95,168 |
| Current assets | **326,767** | 454,138 | 390,903 | 258,626 | 216,708 |
| Current liabilities | **(275,359)** | (312,281) | (230,466) | (142,664) | (122,073) |
| Net current assets | **51,408** | 141,857 | 160,437 | 115,962 | 94,635 |
| Non-current liabilities | **(41,391)** | (38,453) | (38,360) | (7,772) | (4,702) |
| Net assets | **96,074** | 218,995 | 225,167 | 204,244 | 185,101 |

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 year ended 31 December 2016 are as set out on page 79 to 80 of the audited financial statements.

2. The consolidated statement of financial position of the Group as at 31 December 2016 are as set out on pages 81 to 82 of the audited financial statements.

## BOARD OF DIRECTORS

### Executive Director

Mr. JIANG Bing Hua *(Executive Chairman)*

### Non-executive Directors

Mr. ZHANG Menggui, Morgan
Mr. JIANG Longsheng
Mr. Brian CHANG
Mr. WANG Jianzhong

### 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. LIM Joo Heng, Paul

## COMPANY SECRETARY

Ms. CHEUNG Wai Sze, Candy

## AUTHORISED REPRESENTATIVES

Mr. JIANG Bing Hua
Mr. ZHANG Menggui, Morgan

## 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
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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## HONG KONG SHARE REGISTRAR

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Level 22, Hopewell Centre
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Hong Kong

## PRINCIPAL BANKERS

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China CITIC Bank International Ltd.
Standard Chartered Bank
Industrial and Commercial Bank of China (Asia) Limited
China Construction Bank, Qingdao Branch
China Construction Bank, Shaanxi Branch
Hi-Tech Development Zone Sub-branch
Bank of Communications, Qingdao Branch
Agricultural Bank of China, Qingdao Branch
Evergrowing Bank
East West Bank
The Royal Bank of Scotland

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