TSC Group Holdings Limited

Stock Code : 206

ANNUAL REPORT 2017

BEYOND INTEGRATION

SEAMLESS SOLUTIONS™

GLOBAL PRODUCTS AND SERVICES TO ONSHORE AND
OFFSHORE OIL & GAS EXPLORATION AND PRODUCTION INDUSTRIES

YOUR ULTIMATE TOTAL SOLUTIONS COMPANY

SALES SERVICE SOLUTION

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CORPORATE MILESTONES

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

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

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

2009
TSC Offshore transferred to Main Board of Hong Kong Stock Exchange

2015
Established of US NHR plant and new manufacturing facility in Qingdao

2016
Completed Group restructure into Oil & Gas Services and Offshore Business Segments

2017
Established OIM Pte Ltd with Offshore Innovation Management for alternative rig solutions markets

2018
China Merchant & Great Wall Ocean Strategy & Technology Fund becomes controlling shareholder of TSC Group

TSC GROUP WORLDWIDE LOCATIONS

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

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 Expendables 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.

Qingdao Manufacturing Facility in China

Houston NHR Facility in USA

Dalian Facility in China

Offshore Qingdao Facility in China

Xi'an Facility in China

Jiang Bing Hua
Co-Chairman

DEAR SHAREHOLDERS,

2017 was another difficult year for TSC and its shareholders but it was also a significant milestone year of transition and renewal.

Following several months of evaluation, due diligence and approval processes, the Company on 14 December 2017 entered into a Subscription Agreement with to the China Merchant & Great Wall Ocean Strategy & Technology Fund (the "FUND") for the allotment and issue of 765,186,000 new shares. The Subscription Agreement was completed on 9th February 2018 with the FUND emerging as the controlling shareholder of TSC.

This is a significant historical milestone for TSC to have a new and firm foundation in place for future growth with the FUND as our major strategic shareholder. And this begins an exciting new era for TSC as we begin year 2018 by extending a wholehearted welcome to the FUND as our major shareholder, our new board members and the new management team which will infuse new enthusiasm and determination to bring TSC into a new era of profitable growth and expansion.

THE SUBSCRIPTION AGREEMENT

On 14 December 2017, the Company entered into a Subscription Agreement with the FUND to allot and issue to the FUND as the Subscriber to subscribe for 765,186,000 Subscription Shares (representing approximately 108.21% of the issued share capital of the Company at the date of the Subscription Agreement), which was approximately 51.97% of the issued share capital of the Company as enlarged by the allotment and issuance of the Subscription Shares, and approximately 51.00% of the issued share capital of the Company as enlarged by the allotment and issuance of the Subscription Shares and the exercise in full of all the outstanding Share Options at the Subscription Price of HK$512,674,620, being HK$0.67 per Subscription Share. The Subscription Agreement was unconditionally completed on 9th February 2018.

THE OIL & GAS INDUSTRY & TSC BUSINESS

From the Company's business viewpoint, we began 2017 with a basic plan for survival whilst striving to reposition the Company through transformation of its core business.

Despite recovery of average oil price to above US$60 per barrel, for TSC, 2017 was not business as usual. It was the third year in succession of extraordinarily difficult market conditions. The severe headwinds in the offshore and marine industry continued to dampen new orders and all aspects of operations. The offshore business continued to languish under weak demand as major Oil & Gas ("O&G") and customers kept capital expenditure to a minimum.

Presently, the recovery of oil price is supported by production quotas agreed by members of the Organization of the Petroleum Exporting Countries ("OPEC") and the ten non-OPEC countries. This agreement is in effect until the end of 2018 and has led to a drop in crude oil inventories in the second half of 2017 due to a deficit in supply and demand. Although, confidence in oil price is improving, the market in 2017 was undermined by possible non-compliance with production quotas, a larger-than-expected increase in US production from shale and lower than expected consumption.

Our customers continued to be conservative on Capital Expenditure ("CAPEX") which further reduced in 2017 compared to the previous year which had already reduced by more than 50% since 2014.

FINANCIAL RESULTS

	2017 **US$'000**	2016 US$'000
Revenue	**76,552**	142,531
(Loss)/profit from operations before impairment losses and provisions	**(21,413)**	11,639
Finance costs	**(4,352)**	(4,363)
Income tax credit/(expense)	**987**	(264)
(Loss)/profit for the year before impairment losses and provisions	**(24,778)**	7,012
Impairment losses and provisions	**(58,641)**	(118,588)
Loss for the year	**(83,419)**	(111,576)

During 2017, the Group suffered an operation loss of US$21.4 million before impairment losses and provisions. Business activities were operating below break-even levels as new orders continued to slow down over the course of the year. Further drastic cuts in expenditures were made during the year but low demand for rig equipment and services continued to prevail.

A further impairment of US$44.7 million was provided against gross amount due from customers for contract work in respect of the H6001 Jack-up rig. The impairment was considered necessary as the customer for the rig had not been able to provide confirmation of securing a contract for the operations of the rig.

PROSPECTS AND OUTLOOK

Some confidence is returning to the market with oil inventories returning to normal levels. Upstream capital expenditure has increased following a cumulative two-year drop that nearly halved global upstream capital expenditure. This is typically a lead indicator of increase in demand on oilfield services and demand for our oilfield capital equipment products further down the value-chain.

The key factors which contributed to the downturn in oil prices in 2014 appear now to be abated whilst volatilities in the middle east could contribute to uncertainties on the supply side. There also appears to be some doubt whether United States shale production will establish or maintain its position as the swing producer as investors, banks and regulators in the United States continue to reduce exposure to the O&G industry.

On the demand side, the stronger than expected economic performance in China, the Euro Zone, North America and emerging countries like India and Southeast Asia increased consumption by 1.6% in 2017. This is expected to continue in 2018 on the back of robust, coordinated global economic growth.

Oil price is expected to be supported by a narrow deficit in supply versus demand. According to DNVGL, there are signs of price recovery and new confidence levels rising globally from 32% to 67%. However, cost control measures and conservative investments decisions will continue to support the leaner projects and operations to preserve narrow margins.

Without factoring in new businesses which will be developed jointly with the FUND, we expect an improvement in the market for our products and services but we do not expect any significant increase in demand for O&G services and products in 2018. Significant synergy opportunities are presented with the FUND as our key shareholder. The affiliation of the FUND with the China Merchant Group will provide the Company opportunities to offer a comprehensive range of offshore products and services on vessels. As a local supplier of marine offshore equipment and services, TSC is in a well-position to offer more competitive services and products in China.

Potential acquisition and expansion are also being considered to improve financial performance of the Company which will provide basis for future expansion.

BOARD, MANAGEMENT AND APPRECIATION

As we begin a new era for TSC, we are very pleased to warmly welcome our new Board members, Mr. Wang Hongyuan, Ms. Li Rong and Mr. Yang Guohui to the Board following the completion of the Subscription. The new team (CVs are provided in the section on Profiles of Directors) bring with them considerable leadership credentials and experience in the offshore marine industry.

In the position of Executive Chairman, we are very pleased to have Mr. Wang Hongyuan to assume this role and he has asked me to share this role as his Co-Chairman, which I am pleased to accept. Mr. Wang will also concurrently hold the position of Chief Executive Officer. I have already found Mr. Wang to be an invaluable resource in leadership and counsel and I am absolutely confident of his ability to take TSC to significantly higher levels of achievements.

The FUND's investment in TSC will involve organisational realignment and increase in functional responsibilities of the Company's operations in Hong Kong where the FUND is also located. The Hong Kong corporate office will be the operations base for the Board, Management and other senior executives. With the Board's support, our new management team is committed to deliver long-term value for our shareholders, customers and employees by addressing our short-term challenges and building on TSC's strength and unique market position. We now have a strong Board driven to deliver and to aspire to lead TSC to achieve unprecedented success for the future.

On behalf of the Board, I would like to express my deepest appreciation and sincere gratitude to Mr. Jiang Longsheng, Mr. Bian Junjiang and Mr. Brian Chang, who have retired from the Board after 12, 8 and 5 years respectively of dedicated and outstanding service on the Board as well as on the various Committees of the Board. Mr. Jiang Longsheng, Mr. Bian Junjiang and Mr. Brian Chang have individually and as Board members contributed significantly to the success of TSC. I have valued their personal counsel and advices throughout the years and would like to sincerely thank them for their invaluable guidance and supports through the years.

I am also grateful to our many partners and stakeholders for their unflagging belief in and support for TSC. I also want to express my deep appreciation to all staff around the world for their dedications and hard work in the face of daunting challenges. With the support and confidence of all our stakeholders and our new strategic shareholders, I am convinced that TSC will now rise to soar above the uncertainties that have plagued the offshore marine industry to a bright new future of significant growth.

Yours sincerely,

Jiang Bing Hua
Co-Chairman

Hong Kong, 28 March 2018

MESSAGE FROM EXECUTIVE CHAIRMAN

I am very pleased to have this distinct privilege of being appointed Executive Chairman and Chief Executive Officer of TSC and to have Mr. Jiang Bing Hua continue as Co-Chairman. Mr. Jiang has been the Executive Chairman from the time he co-founded TSC with Mr. Zhang Menggui, Morgan in 1995. Both Mr. Jiang and Mr. Zhang have dedicated these past 22 years nurturing and growing TSC into a reputable O&G drilling products, services and solutions company with an excellent reputation and international presence. I feel honoured to share the helm of the Company at this important juncture and to be entrusted with the confidence in leading TSC into a new era of business growth and profitability.

TSC's value proposition as provider of engineering solutions, products and services to the offshore and onshore E&P industry fits well within the strategic intent of the FUND as a strategic investor in marine and offshore technology. Although international crude oil price have improved since mid-2017, TSC still suffered an operating loss in 2017 due to inadequate demand from customers, as a result of the lag in capital investment in oil and gas upstream E&P industries. However, the Company has been resilient and has survived the difficult market conditions in the past two years. The FUND brings with it much needed additional capital, extensive expertise and business network which will generate more opportunities for expansion of TSC's business.

In the future, the original TSC's business will be fine-tuned and enhanced. Additionally, TSC can leverage on the FUND's strong backing and strengths to deliver innovative asset-financing businesses and solutions; TSC's old shareholders, such as CIMC also have new expectations and have expressed support for the strategic development of the Company. TSC will be well positioned to convert opportunities for strategic cooperation and synergic development in the offshore industry integration. I believe that the strategic tactics during industry depression period will bring TSC new business growth. I look forward to executing significant opportunities ahead with our combined management team at TSC.

I would also like to express my appreciation to out-going members of the Board who have contributed tremendously to TSC's success, and also to our loyal shareholders, new Board Members and my investor partners for your trust and confidence. We look forward to an exciting and profitable future ahead with the combination our experience and expertise as we chart a new course to win a new future together.

Yours sincerely,

Wang Hongyuan
Executive Chairman & CEO

Hong Kong, 28 March 2018

CORPORATE VISION

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

COMMITMENT, EXCELLENCE, ADAPTABILITY & LOYALTY


CIMC RAFFLES

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

OVERVIEW

2017 was the third year in succession of extraordinarily difficult market conditions for the Oil & Gas ("O&G") industry. Demand for the Company's products continued to remain low as major O&G customers kept capital expenditure to a minimum despite recovery of average oil price to above US$60 per barrel. Our customers continued to be conservative on Capital Expenditure ("CAPEX") which further reduced in 2017 compared to the previous year which had already reduced by about 50% since 2014.

In these market circumstances the main activities of the Company during 2017 were to transform its businesses while striving to survive financially. Transformation efforts were focused on non-drilling related segments leveraging on the relevant engineering technology and solutions accumulated by the Company in past years.

The non-drilling segments which the Company focused on were mainly related to decommissioning and crude oil production solutions. The decommissioning segment has a potential to grow due to increasing numbers of aged offshore installations, possible lower oil prices for a longer period, uneconomical oil reservoirs, environmental risks and high cost of maintenance of aged installations with inherent unknowns and unavailability of purpose build equipment and vessels for decommissioning. The oil production segment also offers unique solutions related to the need to significantly reduce production cost by means of alternatives to costly conventional offshore installation and production vessels.

Meanwhile, the Company continues to seek opportunities in the drilling segment which has seen some signs of recovery and is expected to eventually recover and grow. The landscape of the O&G market, particularly the drilling segment, has significantly changed during the past three years. These changes will provide fresh opportunities for

the Group's businesses, especially now with participation of the FUND in the Company as our major shareholder. Key factors such as the rate of retirement of unproductive oil rigs, availability or effective participation of new rigs, investors' confidence and operational cost competitiveness will potentially have significant impact on supply and production of O&G. These factors will contribute to different supply and demand scenarios which the Company continues to explore and develop for the Group's business and long term growth.

FINANCIAL REVIEW

	2017	2016	Change	
	US$'000	US$'000	US$'000	%
Revenue	**76,552**	142,531	(65,979)	(46.3)
Gross Profit	**9,221**	37,786	(28,565)	(75.6)
Gross Profit Margin	**12.0%**	26.5%		
Loss before Interest and Taxation	**(80,058)**	(106,949)	26,891	25.1
Net loss attributable to Equity Shareholders	**(82,790)**	(110,450)	27,660	25.0
Net Loss Margin	**(108.1%)**	(77.5%)		
Loss per Share (Basic and diluted)	**(US11.79 cents)**	(US15.73 cents)	US3.94 cents	25.0

Revenue

Due to the difficult market conditions for O&G industry, customers' demand for capital expenditure remained depressed in 2017. The Group's revenue decreased significantly by 46.3% from US$142.5 million in 2016 to US$76.6 million in 2017. The Capital Equipment and Packages segment decreased by 65.1% and the Oilfield Expendables and Supplies segment decreased by 25.9%.

The net loss attributable to equity shareholders in 2017 was also attributable to the substantial write downs of assets and provision for receivables which was necessary to reflect impairment in its recoverable amounts. The provisions for impairment were in respect of certain trade receivables and gross amount due from customers for contract work,

resulting in a provision of US$3.5 million and US$44.7 million respectively during 2017. The recoverability of these balances is to a certain extent tied with the pace of recovery of the industry.

Segment Information by Business Segments

	2017		2016		Increase/(decrease)	
	US$'000	**%**	US$'000	%	US$'000	%
Capital Equipment and Packages	**26,540**	**34.7**	76,067	53.4	(49,527)	(65.1)
Oilfield Expendables and Supplies	**45,135**	**59.0**	60,874	42.7	(15,739)	(25.9)
Engineering Services	**4,877**	**6.3**	5,590	3.9	(713)	(12.8)
Total revenue	**76,552**	**100.0**	142,531	100.0	(65,979)	(46.3)

Capital Equipment and Packages

Revenue recognised based on progress achieved on Capital Equipment and Packages projects decreased by 65.1% in 2017 compared to 2016. The decrease of US$49.5 million was due to the persisting lack of demand for drilling related equipment. The Company continues in its efforts to diversify applications of its products to a broader range of customers in offshore services to improve future revenues.

Oilfield Expendables and Supplies

The decrease of 25.9% from US$60.9 million in 2016 to US$45.1 million in 2017 for Oilfield Expendables and Supplies was due to the lower drilling activities in North America. The Group also decided to suspend further business with PDVSA and PDVSA Petropair SA due to political instability and uncertainties in Venezuela.

Engineering Services

Engineering Services revenue decreased from US$5.6 million in 2016 to US$4.9 million in 2017 mainly due to reduced offshore drilling activities and reduced global demand for offshore engineering services.

Segment Information by Geographical Regions

	2017 US$'000	2017 %	2016 US$'000	2016 %	Increase/(decrease) US$'000	Increase/(decrease) %
Mainland China	**10,456**	**13.7**	69,230	48.6	(58,774)	(84.9)
North America	**23,282**	**30.4**	13,790	9.7	9,492	68.8
South America	**30,667**	**40.1**	39,333	27.6	(8,666)	(22.0)
Europe	**3,759**	**4.9**	1,500	1.1	2,259	150.6
Singapore	**984**	**1.3**	4,800	3.4	(3,816)	(79.5)
Indonesia	**958**	**1.3**	8,208	5.8	(7,250)	(88.3)
Others	**6,446**	**8.3**	5,670	3.8	776	13.7
Total revenue	**76,552**	**100.0**	142,531	100.0	(65,979)	(46.3)

Gross Profit and Gross Profit Margin

The Gross Profit of US$9.2 million for the year of 2017 decreased by 75.6% from US$37.8 million in the previous year. Gross Profit Margin decreased from 26.5% in 2016 to 12.0% in 2017. The decrease was mainly due to the impairment loss for inventories raised and the under-utilisation of production capacity during the year.

Other Revenue and Net Income

The decrease in Other Revenue and Net Income from US$5.7 million in 2016 to US$2.4 million in 2017 was mainly due to an exchange gain amounting to $2.5m recognised in 2016 whereas an exchange loss of US$0.1 million was incurred in 2017.

Selling and Distribution Expenses

Selling and Distribution Expenses increased by US$1.7 million from US$5.2 million in 2016 to US$6.9 million in 2017. Selling and Distribution Expenses mainly comprised of sales staff salaries, commissions, marketing expenses including participation in trade shows, travel costs and other sales and promotional expenditure. Included in 2017 were payments to sales agencies commission for oilfield expendables and supplies which were necessary in the highly competitive and challenging environment.

General and Administrative Expenses

General and Administrative Expenses decreased from US$33.4 million in 2016 to US$26.0 million in 2017. The decrease was from further cost mitigation measures which continues to be one of the main initiatives of the Company in view of prevailing market conditions.

Other Operating Expenses

The increase in Other Operating Expenses from US$5.4 million in 2016 to US$10.7 million in 2017 was mainly due to the impairment loss on property, plant and equipment amounting to US$3.3 million.

Finance Costs

Finance Costs, primarily interest on bank loans and other borrowings, amounted to approximately US$4.4 million in 2017 and remained stable compared to 2016. The interest was mainly incurred in respect of the bond notes issued at the end of 2014. The bond notes are due for repayment in April and May 2018.

Group's Liquidity and Capital Resources

As at 31 December 2017, the Group carried tangible assets of approximately US$56.9 million (2016: US$66.3 million) being property, plant and equipment, investment properties, and interest in leasehold land held for own use under operating leases. During the year, the Group decided to dispose of a production facility in the United States with a valuation of US$6.1 million which was consequently reclassified to current assets.

As at 31 December 2017, the Group's intangible assets was approximately US$1.6 million (2016: US$3.6 million). The reduction in intangible assets was due to amortisation for the year. As at 31 December 2017, the Group's interest in associates was approximately US$0.3 million (2016: US$0.2 million) and deferred tax assets was approximately US$13.1 million (2016: US$13.7 million).

As at 31 December 2017, the Group's current assets amounted to approximately US$241.3 million (2016: US$326.8 million). Current assets mainly comprised of inventories of approximately US$29.8 million (2016: US$39.7 million), trade and other receivables of approximately US$56.0 million (2016: US$76.1 million), and gross amount due from customers for contract work of approximately US$133.1 million (2016: US$199.2 million). The overall reduction is mainly due to the lower level of drilling activities resulting from the depressed O&G market.

The further deterioration of the O&G market compared to the previous year resulted in further provision for inventories of US$6.0 million (2016: US$9.8 million) and provision for trade and other receivables of US$3.5 million (2016: US$56.9 million). The decrease in gross amount due from customers for contract work was mainly due to a provision of US$44.7 million on a contract with uncertainties attached to its expected outcome.

As at 31 December 2017, amount due from a related company amounted to approximately US$0.1 million (2016: US$0.1 million), pledged bank deposits amounted to approximately US$0.6 million (2016: US$1.5 million) and cash and cash equivalents amounted to approximately US$15.3 million (2016: US$10.0 million).

As at 31 December 2017, current liabilities amounted to approximately US$286.6 million (2016: US$275.4 million), mainly comprised of trade and other payables of approximately US$234.2 million (2016: US$259.5 million), bank loans and other borrowings of approximately US$47.6 million (2016: US$8.1 million), and current tax payable of approximately US$4.8 million (2016: US$7.8 million). The increase in short-term bank loans and other borrowings was contributed by the Bond Notes of US$27.5 million, which will expire in April and May 2018.

As at 31 December 2017, the Group had non-current liabilities of approximately US$14.3 million (2016: US$41.4 million), which comprised of bank loans and other borrowings of approximately US$14.3 million (2016: US$41.3 million) and deferred tax liabilities of Nil (2016: US$0.1 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 2017 was 95.7% (2016: 76.7%).

Significant Investments and Disposals

On 21 July 2017, the following equity transfer agreements in relation to the disposals of the equity interests in an indirect wholly-owned subsidiary of the Company were entered into between the Group and the relevant purchasers:

The agreement between the Company and Beijing He Ju Tian Yang Investment Management Centre* (北京合聚天揚投資管理中心(有限合伙)) dated 21 July 2017, pursuant to which the Company agreed to transfer 40,000,000 ordinary shares of RMB1.00 each, which is equivalent to 21.05% of TSC Oil and Gas Services Group Holdings Ltd. (青島天時油氣裝備服務集團股份有限公司) at a consideration of RMB25,684,000. The parties to this agreement have agreed to defer completion of this transfer to a date to be mutually agreed.

The agreement between the Company and Zheng Yuan Heng Tong (Tianjin) Petroleum Technology Limited* ("ZYHT") (正源恒通(天津)石油科技有限合伙公司) ("正源恒通") dated 21 July 2017, pursuant to which the Company agreed to transfer 53,200,000 ordinary shares of RMB1.00 each, which is equivalent to 28.00% of TSC Oil and Gas Services Group Holdings Ltd. (青島天時油氣裝備服務集團股份有限公司) at a consideration of RMB34,159,720. The parties to this agreement have agreed to defer completion of this transfer to a date to be mutually agreed.

ZYHT (正源恒通) is a company established in the PRC by some of the employees of the Group. Mr. Zhang Menggui, a Director of the Company, together with his brother Mr. Zhang Mengzhen hold approximately 23.13% of the equity interests of ZYHT (正源恒通) and they do not have control over the management of ZYHT (正源恒通). As the aggregate equity interests of Mr. Zhang Menggui and Mr. Mengzhen in ZYHT (正源恒通) is less than 30%, ZYHT (正源恒通) is not to be considered as a connected person of the Company under Chapter 14A of the Listing Rules.

Save as disclosed above, there were no significant investments or disposals during the year.

Capital Structure

At 31 December 2017, there were 707,120,204 shares in issue and the Company carried a share capital of approximately US$9,094,000. Subsequent to the year end, on 9 February 2018 the capital structure of the Company was increased by way of issue of new shares as set out in the Subsequent Events section.

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$57.7 million (2016: US$50.2 million).

(ii) Corporate guarantees given by Qingdao TSC Offshore Equipment Co. Ltd, Zhengzhou TSC Offshore Equipment Co. Ltd., TSC Oil and Gas Services Group Holdings Ltd. and TSC MS Holdings Inc. to the extent of banking facilities outstanding of $10.8 million (2016: given by Qingdao TSC Offshore Equipment Co. Ltd, TSC-HHCT Control and Drive Technology Co. Ltd., Zhengzhou TSC Offshore Equipment Co. Ltd., TSC Offshore China Ltd. and TSC Oil and Gas Services Group Holdings Ltd. to the extent of banking facilities outstanding of US$2.1 million) as at 31 December 2017.

(iii) Corporate guarantees given by the Company to the extent of banking facilities outstanding of US$4.2 million (2016: US$0.7 million) as at 31 December 2017.

(iv) 52.6% (2016: Nil) equity interest in TSC Oil and Gas Services Group Holdings Ltd.

Certain bank loans of the Group are subject to the fulfilment of covenants relating to statement of financial position ratios of certain subsidiaries, as are commonly found in lending arrangements with financial institutions. The drawn down loan balances would become payable on demand if the covenants are breached. The Group regularly monitors its compliance with these covenants. As at 31 December 2017, the Group did not meet certain covenants of a bank loan of US$4.2 million (2016: US$0.3 million), which was fully repaid subsequent to the year end in accordance with the repayment schedule. 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 2017, no related hedges were made by the Group.

In order to mitigate that foreign exchange exposure, the Company 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 Group did not enter into any new contract with CIMC Raffles for the year ended 31 December 2017. The actual sales amount of the continuing connected transactions between the Group and CIMC Raffles was approximately US$0.9 million for the year ended 31 December 2017 (2016: US$1.8 million).

Staff Employees and Remuneration Policy

As at 31 December 2017, the Group had approximately 516 full-time staff in the United States, the United Kingdom ("UK"), Brazil, United Arab Emirates, 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.

STRATEGY AND PROSPECTS

Market Review

Presently, the recovery of oil price to present level is supported by production quotas agreed by members of the OPEC and the ten non-OPEC countries which will remain in effect till the end of 2018. This led to a drop in crude oil inventories in the second half of 2017 due to a deficit in supply versus demand.

The key factors which contributed to the downturn in oil prices in 2014 appears to be abated now whilst volatilities in the Middle East could contribute to uncertainties on the supply side. There also appears to be some doubt whether the United States shale production will establish or maintain its position as the swing producer as investors, banks and regulators in the United States continue to reduce exposure to the O&G industry.

On the demand side, the stronger than expected economic performance in the Euro Zone, North America, the Southeast Asian region, China and India has contributed to increasing consumption. This is expected to continue in 2018 on the back of robust, coordinated global economic growth.

Some confidence is returning to the O&G market. Upstream capital expenditure has increased following a cumulative two-year drop that nearly halved global upstream capital expenditure. This is typically a lead indicator of increase in demand on oilfield services and demand for our oilfield capital equipment products further down the value-chain.

Strategy and Prospects

Although the Group supplies equipment to a wide range of vessels, the Jack-up drilling rig market is an important factor within which the Company formulates its plans and strategies. Current market day-rates for Jack-up rigs are underpinned by availability of rigs and the general view that oil price will range between US$50 to US$70 per barrel. In such a scenario, the market is likely to see more consolidation of fleet ownership, more competitive supply of newbuilds and decisions whether idle rigs will be hot (or warm) stacked, cold-stacked* or even retired. It is expected that the rate of retirement will increase for older rigs which are not working on contracts. In 2017, out of the global fleet of 619 Jack-up rigs available, only 14 units were retired and scrapped. This was twice as high as it was in 2015 and 2016 combined as fleet owners had hoped for a quicker recovery of oil prices. However, it is likely that this rate will increase in 2018 as fleet ownership is actively consolidating. One notable transaction announced earlier this year was Borr Drilling Ltd (OSE: BDRILL) acquisition of Paragon Offshore Ltd which has a fleet of 32 Jack-up rigs of which 30 units are over 35 years old. The acquisition valuation of Paragon Offshore Ltd was equivalent to the fair market value of the two premium Jack-up rigs less than 5 years old. BDRILL has announced its intentions to continue to consolidate the Jack-up rig market and indications are that BDRILL intends to retire most of the 30 rigs over 35 years old off the market.

In brief, these factors and the various decisions made to preserve old idle rigs will have an impact on elasticity of supply of rigs and will have impact on the Jack-up rig market. And further down the value chain, this will in turn contribute to supply factors and future oil price. More importantly, TSC's engineering capability on rigs and proven experience in supply and services on rigs puts the Company in a position to participate in this unique part of the rig market cycle. With the participation of the FUND, the Company will formulate business strategies to take advantage of the opportunities presented in this changing market.

* Hot stacking includes having a skeleton crew on the rig and maintenance is conducted to the extent that the rig can be reactivated into drilling operations within a brief preparation period. Cold stacking is equivalent to closing down a factory and equipment is packed up and stored and crew is laid off. Regardless the approach to stacking, technical complexities and costs increases with the period of stacking.

The affiliation of the FUND with the China Merchants Group as the main General Partner will provide the Company opportunities to offer a comprehensive range of offshore products and services on vessels. As a local supplier of marine offshore equipment and services, TSC is well-positioned to offer more competitive services and products in China.

FUTURE PLANS FOR MATERIAL INVESTMENTS, CAPITAL ASSETS AND CAPITAL COMMITMENT

Following the Share Subscription (details as provided in the Subsequent Events section below), the Company has raised approximately HK$505.07 million which is intended to be used to fund repayment of debts, general working capital and expansion of the Group's existing business and/or potential acquisition/s to be decided by the Board.

The Company will selectively invest in or acquire businesses that are complementary to its existing business including (i) offshore drilling business and (ii) plug and abandonment ("P&A") and decommissioning business.

As reported in the financial statements included in this Annual Report, both revenue and gross profit for the year decreased significantly in 2017 compared to the previous years mainly due to the prolonged depressed drilling market which resulted in further impairment provisions. In order to broaden the revenue base and improve financial performance, the Group is in the process of evaluating potential business developments and investment opportunities which will provide strategic growth to the Company.

In determining the potential investment or acquisition targets, the Company considers a combination of factors such as alignment with the Group's strategic plans, synergies, market position and strengths, management team capability, valuation, track record, financial performance and potential growth.

This investment intention is also aligned with the FUND now a major shareholder of the Company. The FUND is primarily focused on making investments in the marine industry which includes companies providing drilling, workover and well construction services in shallow water to upstream oil and gas companies through the use of Jack-up rigs and in regions that are more resilient, such as Middle East and India in order to create synergies with the business of the FUND. This complements well with TSC's core engineering capability and other competencies accumulated over the years.

For the development of P&A and decommissioning business, the Group has various rig design solutions which have gained interest of oil companies planning to carry out P&A and decommissioning activities. The Group has completed over two years of intensive technical and market development of the P&A and decommissioning business and has now reached financial investment decision ("FID") phase. These intensive technical and market developments were an extension and transformation of existing business necessary during this phase of the oil price cycle. The opportunities presented in this business sector relate to specific and identified customers with specific needs and interest in the Group's new products. Several major oil companies consider the solutions presented to be innovative, effective and will be cost effective for the purposes required.

Overall, the potential acquisition and expansion being considered are intended to improve financial performance of the Company which will provide a firm basis for future growth expansion.

Order Book

As at 31 December 2017, the Group as a whole carried an order backlog of approximately US$20.6 million for capital equipment and packages, expendables and services. Subsequent to 31 December 2017, the Group had secured further new orders amounting to US$8.5 million up to the date of this annual report.

SHARE AWARD PLAN

The Company adopted a share award plan ("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 2017. As at 31 December 2017, 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 2017. As at 31 December 2017, 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.

Delisted TSC Oil & Gas Services from The National Equities Exchange and Quotations System (The "New Third Board")

TSC Oil and Gas Services Holdings Ltd. 青島天時油氣裝備服務集團股份有限公司* ("Qingdao TSC"), the wholly-owned subsidiary of the Company, was listed on the National Equities Exchange and Quotations System (the "NEEQ", the "New Third Board") on 19 July 2016. During its one-year listing, the total number of the listing companies reached more than 11,000, resulting in the lack of liquidity on NEEQ and difficulty in seeking financing. Furthermore, a direct transfer to the Main Board from the New Third Board is yet to be practical in terms of regulatory policies. The management of Qingdao TSC arrived at a decision that in order to carry out its transformation and development and achieve its future strategic plan, Qingdao TSC should be delisted from NEEQ. An application for delisting was approved by NEEQ on 15 June 2017 and Qingdao TSC was delisted from the NEEQ, effective from 21 June 2017.

Subsequent Events

– On 14 December 2017, the Company entered into a subscription agreement ("Subscription Agreement") with China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.) (the "Subscriber"). Pursuant to the Subscription Agreement, the Company had conditionally agreed to allot and issue to the Subscriber or Prime Force Investment Corporation (the "Subscriber Nominee"), and the Subscriber had conditionally agreed to subscribe for, or nominate the Subscriber Nominee to subscribe for, at Completion, 765,186,000 Subscription Shares at the Subscription Price of HK$512,674,620, being HK$0.67 per Subscription Share. An application was made by the Subscriber to the Executive Director of the Corporate Finance Division of the Securities and Futures Commission (the "Executive") for the Whitewash Waiver in respect of the allotment and issuance of the Subscription Shares. On 5 February 2018, the Company held the extraordinary general meeting ("EGM") at which all Resolutions set out in the notice of the EGM dated 19 January 2018 were duly passed by the Independent Shareholders by way of poll. The Executive granted the Whitewash Waiver on 1 February 2018, subject to the fulfillment of the conditions set out therein. Accordingly, no mandatory general offer under Rule 26 of the Takeovers Code was required to be made by the Subscriber Nominee as a result of the subscription of the Subscription Shares pursuant to the Subscription Agreement. All conditions precedent in respect of the Subscription have been fulfilled and completion of the Subscription took place on 9 February 2018. Further details regarding the Subscription Agreement were as set out in the announcement dated 14 December 2017 and the circular dated 19 January 2018.

CHANGE OF DIRECTORS

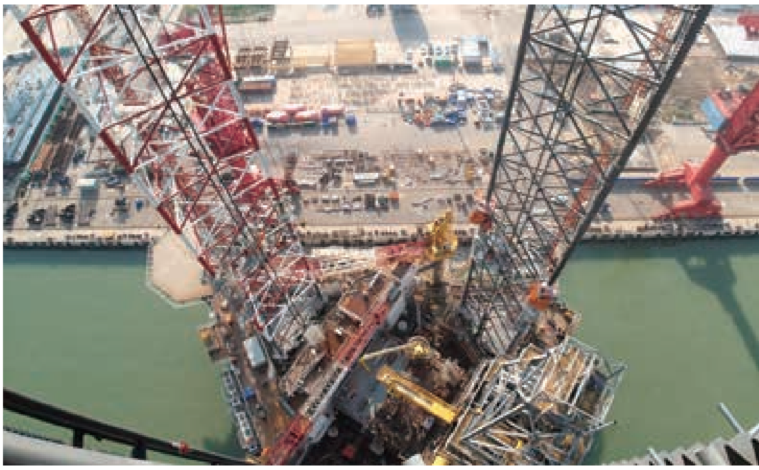
– On 9 February 2018, Mr. Wang Yong resigned as an executive Director and Chief Executive Officer (and has been re-appointed as President of the Group); and each of Mr. Jiang Longsheng and Mr. Brian Chang resigned as a non-executive Director.

– On 9 February 2018, Mr. Wang Hongyuan and Mr. Yang Guohui have been appointed as executive Directors; and Ms. Li Rong has been appointed as a non-executive Director.

CHANGE OF BOARD COMMITTEES MEMBERS

– On 9 February 2018, Mr. Guan Zhichuan ceased to be the chairman but remains as a member of the Remuneration Committee; Mr. Zhang Menggui, Morgan ceased to be a member of the Remuneration Committee and the chairman of the Compliance Committee; and Mr. Jiang Bing Hua ceased to be the chairman of the Nomination Committee.

– On 9 February 2018, Dr. Lu Xiaoming has been appointed as the chairman of the Remuneration Committee; Mr. Wang Hongyuan has been appointed as a member of the Remuneration Committee and the chairman of the Nomination Committee; and Mr. Yang Guohui has been appointed as the chairman of the Compliance Committee.



REDESIGNATION OF EXECUTIVE CHAIRMAN AND APPOINTMENT OF NEW EXECUTIVE CHAIRMAN

– On 9 February 2018, Mr. Jiang Bing Hua resigned as the Executive Chairman and was/has been re-designated as the Co-Chairman while remaining as an executive Director; and Mr. Wang Hongyuan has been appointed as the Executive Chairman.

APPOINTMENT OF CHIEF EXECUTIVE OFFICER AND CHIEF OPERATING OFFICER

– On 9 February 2018, Mr. Wang Hongyuan has been appointed as the Chief Executive Officer and Mr. Yang Guohui has been appointed as the Chief Operating Officer of the Group.

Save as disclosed above in the annual report, no subsequent event occurred after 31 December 2017 which may have significant effects on the assets and liabilities of future operations of the Group.

EXECUTIVE DIRECTORS

WANG Hongyuan, *Executive Chairman*

Mr. WANG Hongyuan, aged 42, is the Executive Chairman and Chief Executive Officer of the Group. He is also a deputy general manager of China Merchants ("CM") Industry, the general manager of the Fund Manager and a supervisor of China International Marine Containers (Group) Co., Ltd. (A share Stock Code: 000039, H share Stock Code: 2039). Mr. Wang worked in the business development department of CM Group from 2003 to 2005, worked in China Merchants Holdings (International) Company Limited from 2005 to 2013, served as the general manager assistant of China Merchants Food Supply Chain Management Co., Ltd.* (招商局食品供應鏈管理有限公司) in 2014, and the director assistant of the capital management department of CM Group from 2015 to 2016. He has extensive experience in strategic planning, mergers and acquisitions, capital operations and investments in sectors such as offshore marine and shipping, port and bonded logistics, cold chain and food supply chain management. He obtained a bachelor's degree in ocean vessel driving and a master's degree in transportation management from Dalian Maritime University in the PRC in 1997 and 2004, respectively. He is one of the directors of each of the Subscriber Nominee, the Fund GP and Fund Manager.

JIANG Bing Hua, *Co-Chairman*

Mr. JIANG Bing Hua, aged 67, is the Co-Chairman of the Group. He is a co-founder of the Group. He is an executive Director of the Group and he 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. He has 44 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 in various positions such as driller, drilling superintendent, drilling manager, operation manager and company representative.

Mr. ZHANG Menggui, Morgan, aged 59, is a co-founder and Executive Director of the 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. He has 35 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. He currently is a member of several oil industry associations and professional organizations including the Society of Petroleum Engineers and the American Drilling Engineers. He is the elder brother of Mr. Zhang Mengzhen, Michael, the President of TSC Manufacturing and Supply, LLC. ("TSC M&S"), a subsidiary of the Group.

ZHANG Menggui, Morgan, *Executive Director*

Mr. YANG Guohui, aged 44, has been appointed as an Executive Director and chief operating officer of the Company with effect from 9 February 2018. He is also an Executive Director of China Merchants Capital Management (International) Limited. He worked for various positions such as an engineer, a manager in workforce planning and a manager in assets transactions under the group companies of Transocean Ltd. during the period from 2001 to 2013. He then worked as the general manager of ESSM Pte Ltd. from September 2013 to October 2014 and chief operating officer for Scott & English Energy Pte Ltd. in Singapore from August 2015 to 2017. He obtained a master's degree in engineering from University of Petroleum in 1999. He also obtained a master's degree in business administration from Nanyang Technological University, Singapore in 2017. He is part of the management team of the Fund Manager, which holds in aggregate 81% beneficial interests in Meris Global Investments Limited. Meris Global Investments Limited is a co-investment vehicle of the management team of the Fund Manager.

YANG Guohui, *Executive Director*

NON-EXECUTIVE DIRECTORS

WANG Jianzhong, *Non-executive Director*

Mr. WANG Jianzhong, aged 44, has been appointed as a Non-Executive Director of the Company with effect from 4 July 2016. He graduated from Beijing Normal University in China with a Master degree in Management, Business Administration in 1998. He started working in 1998 and he is currently the president of CIMC Raffles Offshore (Singapore) Limited ("CIMC Raffles"). From 1998 to 2006, he was senior manager of capital operation department of China Ocean Shipping (Group) Corporation ("COSCO"). From 2006 to 2007, he was deputy general manager of Taicang CIMC Container Co., Ltd. From 2007 to 2014, he 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, he 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, he was vice president of CIMC Raffles. From December 2015 to date, he has been president of CIMC Raffles.

LI Rong, *Non-executive Director*

Ms. LI Rong, aged 49, has been appointed as a Non-Executive Director of the Company with effect from 9 February 2018. She is a managing director of China Merchants Capital Management (International) Limited and a director of Meris Global Investments Limited. Prior to joining China Merchants Capital Management (International) Limited, she worked for J.P. Morgan from July 2006 to August 2012. Her last position with J.P. Morgan was vice president in global special opportunities department. Ms. Li obtained a master's degree in business administration from Kellogg School of Management of Northwestern University, United States in 1997. She is part of the management team of the Fund Manager of China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.), and the management team holds in aggregate 81% beneficial interests in Meris Global Investments Limited. Meris Global Investments Limited is a co-investment vehicle of the management team of the Fund Manager.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN Ngai Sang, Kenny, aged 53, is an independent Non-Executive Director since October 2005. He is a partner and founder of Kenny Chan & Co., a firm of Certified Public Accountants. He has over 27 years' experience in accounting, taxation, auditing and corporate finance and has been involved in several mergers, acquisitions and initial public offering projects. He 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. He 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. He 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.

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

Mr. GUAN Zhichuan, aged 59, is an independent Non-Executive Director since October 2005. Mr. Guan obtained a doctorate degree in engineering from the University of Petroleum (Beijing) (石油大學) in 1995 and pursued his research in the field of oil and gas drilling engineering and fluid mechanics. He presently serves as a Professor at the College of Petroleum Engineering of the China University of Petroleum (中國石油大學石油工程學院).

GUAN Zhichuan, *Independent Non-executive Director*

Dr. LU Xiaoming, aged 56, has been appointed as an independent Non-Executive Director of the Company with effect from 22 June 2017. He graduated from Peking University with a Bachelor of Sciences in Mathematics. He then went on to obtain Masters Degrees in Economic Analysis and Forecast; Economics; and a Doctor of Philosophy in Management at the People's University of China, York University, and Queen's University respectively. Dr. Lu started his career as a software engineer at SINOPEC, where he worked from 1983 to 1985. He then spent three years as an assistant researcher at the State Information Center. From 1999 to 2000, Dr. Lu was a quantitative analyst in the global risk management department of Lehman Brothers. In his four years at Guotai Junan Securities ("GJS") from 2000 to 2004, Dr. Lu started off as a MD in the department of international business before transferring to the research department as a senior research analyst. Dr. Lu then spent four years at the China Investment Banking division of Citigroup, where he was a coverage banker for technology, media and telecoms; real estate; and auto. He was also involved in deal executions. Since 2008, he has been a private investor and consultant he also worked part-time as a senior adviser at CSV Capital Partners.

LU Xiaoming, *Independent Non-executive Director*

SENIOR MANAGEMENT

WANG Yong, *President*

Mr. WANG Yong, aged 56, 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 17 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.

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

Mr. LIM Joo Heng, Paul, aged 62, 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.

Robert Stuart SHINFIELD, *Offshore Vice President*

Mr. Robert Stuart SHINFIELD, aged 47, is the Vice President in charge of Offshore Business Group ("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, Brazil and business development in these regions. Mr. Shinfield graduated from the University of Derby in mechanical engineering in 1992. He has over 21 years of experience in the oil and gas industry and held various technical and management positions with National Oilwell Varco prior to joining TSC.

Mr. CHEN Yunqiang, aged 52, is the Managing Director of TSC Offshore China Limited ("TSC China") in China. Mr. Chen studied industrial enterprise management at the Hangzhou University of Electronic Science and Technology (杭州電子科技大學). Mr. Chen joined the Group in August 2001 as a general manager of TSC-HHCT, a subsidiary of the Group, in Xi'an, China till 2005. Prior to joining the Group, Mr. Chen worked with Xi'an Petroleum Exploration Instrument Complex (西安石油勘探儀器總廠) for 14 years in various positions including assistant factory head, supervisor of electric driven production lines and manager of its sales branch for drilling rigs.

CHEN Yunqiang, *Managing Director – TSC China*

Mr. ZHANG Mengzhen, Michael, aged 51, is the President of TSC M&S. He is responsible for the overall management of 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, an Executive Director of the Group.

ZHANG Mengzhen, Michael, *President – TSC M&S*

Mr. Oddgeir Ivar, INDRESTRAND, aged 52, founder and chief executive officer of OIM Pte. Ltd. Mr. Indrestrand's professional background is gained from 33 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, as well for other Jack-Up rig applications such as Well Intervention and Mobile Offshore Production Jack-Up units.

Mr. Oddgeir Ivar INDRESTRAND, *Chief Executive Officer – OIM Pte. Ltd.*

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 13 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 2017 is set out in the financial statements on pages 84 to 174.

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 2017, are extracted from the audited financial statements of the relevant annual reports of the Company, and are set out on page 175. This summary does not form part of the audited financial statements of the Group for the Year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

TSC considers a high degree of social responsibility, environmental protection, safety and sustainable economy as key factors in ensuring business continuity and success. The Group has introduced effective tools to ensure full implementation of social, safety and environmental policies within the Group to ensure compliance with the relevant legal and regulatory requirements as described in Appendix 27 to the Rules Governing and Listing of Securities on The Stock Exchange of Hong Kong Limited.

Details of the Group's ESG performance for the Year can be found in "Environmental, Social and Governance Report" as set out on pages 62 to 76 of this annual report.

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 2017, 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 88, 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 2017 (2016: 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 (2016: 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 61% of the Group's total sales for the Year and sales to the largest customer included therein accounted for approximately 20% of the Group's total sales.

In the Year under review, the sales to CIMC Raffles Group amounted to US$0.9 million, accounting for approximately 1.1% of the total sales of the Group.

Purchases from the Group's five largest suppliers accounted for approximately 20% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 8% 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. WANG Hongyuan (appointed on 9 February 2018)
Mr. JIANG Bing Hua (re-designated to Co-Chairman on 9 February 2018)
Mr. ZHANG Menggui, Morgan (re-designated from non-executive Director to executive Director on 22 June 2017)
Mr. WANG Yong (appointed as a non-executive Director on 11 April 2017, re-designated to executive Director on 22 June 2017, and resigned on 9 February 2018)
Mr. YANG Guohui (appointed on 9 February 2018)

Non-executive Directors:

Mr. JIANG Longsheng (resigned on 9 February 2018)
Mr. Brian CHANG (resigned on 9 February 2018)
Mr. WANG Jianzhong
Ms. LI Rong (appointed on 9 February 2018)

Independent non-executive Directors:

Mr. CHAN Ngai Sang, Kenny
Mr. BIAN Junjiang (resigned on 25 May 2017)
Mr. GUAN Zhichuan
Mr. Robert William FOGAL JR. (resigned on 22 June 2017)
Dr. LU Xiaoming (appointed on 22 June 2017)

In accordance with Articles 86 and 87 of the Company's articles of association, Mr. Wang Hongyuan, Mr. Zhang Menggui, Morgan, Ms. Li Rong, Mr. Chan Ngai Sang, Kenny and Dr. Lu Xiaoming 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

Mr. Wang Hongyuan and Mr. Yang Guohui have entered into an appointment letter with the Company for a term of 3 years commencing from 9 February 2018 subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company. They have waived entitlement to annual remuneration.

Mr. Jiang Bing Hua 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, 28 November 2014 and 28 November 2017 and respectively unless terminated by giving either party to the other not less than three months' prior written notice. Mr. Jiang is entitled to an annual remuneration of US$250,000. Mr. Jiang is entitled to variable remuneration comprising of ex-gratia annual bonus, which is subject to his performance and the performance of the Company and the approval of the Remuneration Committee.

Mr. Zhang Menggui, Morgan has entered into an appointment letter with the Company for a term of 3 years commencing on 22 June 2017 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. Zhang is entitled to an annual remuneration of US$250,000. Mr. Zhang is entitled to variable remuneration comprising of ex-gratia annual bonus, which is subject to his performance and the performance of the Company and the approval of the Remuneration Committee.

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 subject to retirement by rotation and re-election in accordance with the Articles of Association, unless terminated by giving either party to the other not less than three months' prior written notice. Mr. Wang is entitled to receive emoluments of HK$120,000 per annum.

Ms. Li Rong has entered into the letter of engagement with the Company for a term of 3 years commencing from 9 February 2018 subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company. Ms. Li has waived entitlement to annual remuneration.

Each of Mr. Chan Ngai Sang, Kenny and Mr. Guan Zhichuan 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, 20 October 2014 and 20 October 2017 respectively subject to retirement by rotation and re-election in accordance with the Articles of Association, unless terminated by giving either party to the other not less than one month' prior written notice. Each of Mr. Chan Ngai Sang Kenny and Mr. Guan Zhichuan is entitled to receive emoluments of HK$240,000 and HK$120,000 respectively.

Dr. Lu Xiaoming has entered into a letter of appointment with the Company for a term of three years commencing from 22 June 2017 and expiring on 21 June 2020 subject to retirement by rotation and re-election in accordance with the Articles of Association, unless terminated by giving either party to the other not less than three months' prior written notice. Dr. Lu Xiaoming is entitled to an annual remuneration of HK$120,000.

DIRECTORS' SERVICE CONTRACTS *(Continued)*

Except for Mr. Jiang Bing Hua and Mr. Zhang Menggui, no other Directors are entitled to any variable remuneration.

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 2016 annual report is set out below pursuant to Rule 13.51(B)(1) of the Listing Rules:

Directors' position

- Mr. Jiang Bing Hua has been re-designated as the Co-Chairman while remaining as an executive Director with effect from 9 February 2018.

- Mr. Zhang Menggui, Morgan has been re-designated from a non-executive director to an executive director with effect from 22 June 2017.

APPOINTMENT OF EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

- Mr. Wang Hongyuan has been appointed as an executive Director, executive Chairman and Chief Executive Officer with effect from 9 February 2018.

APPOINTMENT OF EXECUTIVE DIRECTOR AND CHIEF OPERATING OFFICER

- Mr. Yang Guohui has been appointed as an executive Director and chief operating officer with effect from 9 February 2018.

APPOINTMENT OF NON-EXECUTIVE DIRECTOR

- Ms. Li Rong has been appointed as a non-executive Director with effect from 9 February 2018.

RESIGNATION OF EXECUTIVE DIRECTORS

- Mr. Wang Yong had been appointed as a non-executive Director of the Company with effect from 11 April 2017. Mr. Wang Yong had been re-designated from a non-executive director to an executive director, and has also been appointed as the Chief Executive Officer of the Company with effect from 22 June 2017. He resigned as an executive Director and Chief Executive Officer with effect from 9 February 2018, following completion of the Subscription Agreement, and Mr. Wang has been re-appointed as President of the Group.

RESIGNATION OF NON-EXECUTIVE DIRECTORS

- Mr. Jiang Longsheng resigned as a non-executive Director with effect from 9 February 2018, following completion of the Subscription Agreement.
- Mr. Brian Chang resigned as a non-executive Director with effect from 9 February 2018, following completion of the Subscription Agreement.

RESIGNATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

- Mr. Bian Junjiang resigned as the independent non-executive Director with effect from 25 May 2017 of his own accord for health reasons.
- Mr. Robert William Fogal Jr. resigned as a non-executive Director of the Company with effect from 22 June 2017 due to his health reason.

CHANGE OF INDEPENDENT NON-EXECUTIVE DIRECTOR

On 22 June 2017, Dr. Lu Xiaoming ("Dr. Lu") was recommended by the Company's nomination committee to be appointed as Independent Non-Executive Director of the Company. Subsequently, the Company convened the meeting of the Board and resolved to appoint Dr. Lu as Independent Non-Executive Director of the Company with effect from 22 June 2017. On the same day, Mr. Robert William Fogal Jr ("Mr. Fogal Jr.") resigned as Independent Non-Executive Director of the Company. Mr. Fogal Jr. resigned due to his health reason.

The Company would like to take this opportunity to thank Mr. Jiang Longsheng, Mr. Brian Chang, Mr. Bian Junjiang and Mr. Robert William Fogal Jr. for their valuable contribution during their tenure as Directors of the Company.

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 companies 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' PERMITTED INDEMNITIES

Under the Company's articles of association, every director or other officer of the Company acting in relation to any of the affairs of the Company shall be entitled to be indemnified out of the assets of the Company against all costs, charges, expenses, losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. A directors' and officers' liability insurance is in place to protect the directors and officers of the Group against any potential liability arising from the Group's activities which such directors and officers may be held liable.

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 to Equity Shareholders to Total Equity to Equity shareholders, was worser from -115.9% to -613.8% 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 O&G industry. The Group's gearing ratio, calculated based on total liabilities to total assets, increased from 76.7% in 2016 to 95.7% 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 2017 is set out in the sections of "Executive Chairman and Co-Chairman's Statement" and "Management Discussion and Analysis" of this annual report.

BUSINESS REVIEW *(Continued)*

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 conducted 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.

Operational risk: As stated in the annual report, the Group is relying on a few customers. 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 relationships 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 borrowings 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 positive 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.

Further discussion and analysis of the Group's principal activities as required by schedule 5 the Hong Kong Companies Ordinance can be found in the Management Discussion and Analysis set out in pages 16 to 27 of this Annual Report. This discussion forms part of this Report of the Directors.

SHARE OPTION SCHEMES

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

Pre-IPO Scheme and Post-IPO Scheme

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

The Pre-IPO Scheme ceased to be effective on 21 November 2005, 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.

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 4,430,000 share options, representing 0.63% of the issued share capital of the Company, remain valid and outstanding as at 31 December 2017.

SHARE OPTION SCHEMES *(Continued)*

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 2017. 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 2017 is 3,784,040 Shares, representing 0.26% of the issued share capital of the Company.

As at the date of the annual report 2017, the total number of share options granted and outstanding under all the share option schemes is 27,058,000 Shares, representing 1.84% 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 2017 were as follows:

	Name or category of participant	Date of grant (Notes 1 & 2)	Exercisable period (Notes 1, 2 & 3)	Exercise price per share HK$	Number of share options: Balance as at 01.01.2017	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 31.12.2017
(i)	Employees	10.05.2007	10.11.2007 to 09.05.2017	2.43	3,982,000	–	–	–	(3,982,000)	0
	Sub-total				3,982,000	–	–	–	(3,982,000)	0
(ii)	Employees	12.11.2007	12.05.2008 to 11.11.2017	5.60	4,780,000	–	–	–	(4,780,000)	0
	Sub-total				4,780,000	–	–	–	(4,780,000)	0
(iii)	Employees	15.01.2008	15.07.2008 to 14.01.2018	5.23	1,000,000	–	–	–	–	1,000,000
	Sub-total				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				13,192,000	–	–	–	(8,762,000)	4,430,000

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 2017.

Details of movement of options under the New Scheme for the year ended 31 December 2017 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 01.01.2017	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 31.12.2017
(i)	Employees	18.09.2009	18.03.2010 to 17.09.2019	2.06	7,288,000	–	–	–	–	7,288,000
(ii)	Employees	01.09.2010	01.03.2011 to 31.08.2020	1.27	2,320,000	–	–	–	–	2,320,000
(iii)	Employees	21.02.2011	21.08.2011 to 20.02.2021	1.97	0	–	–	–	–	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	4,105,000	–	–	–	–	4,105,000
(vi)	Employees	02.09.2014	02.03.2015 to 01.09.2024	4.16	2,250,000	–	–	–	–	2,250,000
(vii)	Employees	24.12.2014	24.06.2015 to 23.12.2024	2.11	600,000	–	–	–	–	600,000
Total					23,628,000	–	–	–	–	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 2017.

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 2017.

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

As at 31 December 2017, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to the required standard of dealings by the Directors as referred to in Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

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

	Number of issued ordinary Shares of HK$0.10 each in the Company						
Name of Directors	Personal interests	Family interests	Corporate interests	Other interests	Total	Number of underlying Shares (in respect of share options granted under the Post-IPO Scheme) (Note 3)	Approximate percentage of the Company's issued share capital
Mr. Zhang Menggui, Morgan (Note 1)	4,656,000	–	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. Wang Yong	–	–	–	–	–	3,000,000	0.42%
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. 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 2017, 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 2017, 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 Containers (Group) Co., Ltd. (Note 5)	Corporate	92,800,000 Shares	13.12%
China International Marine Containers (Hong Kong) Ltd. (Note 5)	Corporate	92,800,000 Shares	13.12%
Harmony Master Fund (Note 6)	Corporate	70,687,800 Shares	10.00%
China Great Wall AMC (International) Holdings Company Limited (Note 7)	Corporate	765,186,000 Shares	108.21%
China Great Wall Asset Management Co., Ltd. 中國長城資產管理股份有限公司 (Note 7)	Corporate	765,186,000 Shares	108.21%

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)*

Name	Capacity and nature of interest	Number of Shares/ underlying Shares held	Approximate percentage of the Company's issued share capital
China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.) (Notes 7,8,9 & 10)	Corporate	765,186,000 Shares	108.21%
China Merchants Great-Wall GP Limited (Note 8)	Corporate	765,186,000 Shares	108.21%
Great Wall International Investment V Limited (Note 9)	Corporate	765,186,000 Shares	108.21%
招商局集團有限公司 (Note 10)	Corporate	765,186,000 Shares	108.21%

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 Bing Hua 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 Bing Hua, 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 Bing Hua 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.

7. China Great Wall AMC (International) Holdings Company Limited ("GWAMC International") holds 25% of the equity interest in China Merchants Great-Wall GP Limited ("Fund GP") and is a wholly owned subsidiary of China Great Wall Asset Management Co., Ltd. ("GW Asset Management"). Therefore, both GWAMC International and GW Asset Management are both deemed to be interested in the 765,186,000 Shares that China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.) ("Fund LP") are interested in under Part XV of the SFO.

8. Fund GP is the general partner of Fund LP and is therefore deemed to be interested in the 765,186,000 Shares that Fund LP are interested in under Part XV of the SFO.

9. Great Wall International Investment V Limited holds approximately 39.986% of the limited partnership interests in Fund LP and is therefore deemed to be interested in the 765,186,000 Shares that Fund LP are interested in under Part XV of the SFO.

10. China Merchants Capital Management (International) Limited holds 45% of the equity interest in Fund GP and is a wholly owned subsidiary of China Merchants Capital Management Co. Ltd., which in turn is wholly owned by China Merchants Capital Investment Co., Ltd.

    China Merchants Capital Holdings (International) Limited holds approximately 9.996% of the limited partnership interests in Fund LP and is a wholly owned subsidiary of China Merchants Capital Holdings Co. Ltd., which in turn is wholly owned by China Merchants Capital Investment Co., Ltd.

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: *(Continued)*

China Merchants Industry Holdings Co., Ltd. ("CM Industry") holds 30% of the equity interest in Fund GP and approximately 29.989% of the limited partnership interests in Fund LP and is a wholly owned subsidiary of China Merchants Holdings (Hong Kong) Company Ltd. ("CM HK").

Both China Merchants Capital Investment Co., Ltd. and CM HK are wholly owned subsidiaries of China Merchants Steam Navigation Company Limited, which is the wholly owned subsidiary of China Merchants Group Limited* (招商局集團有限公司) ("CM Group").

Therefore, each of China Merchants Capital Management (International) Limited, China Merchants Capital Management Co. Ltd., China Merchants Capital Investment Co., Ltd., China Merchants Capital Holdings (International) Limited, China Merchants Capital Holdings Co. Ltd., CM Industry, CM HK, China Merchants Steam Navigation Company Limited, CM Group are deemed to be interested in the 765,186,000 Shares that Fund LP are interested in under Part XV of the SFO.

(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%
ATS Energy LLC	Axion Services Inc. Petromax Industry Inc.	33% 16%
Texas Unconventional Resources LLC	Mr. YANG Anping	20%
OIM Pte. Ltd.	Offshore CC FZE	5%

Save as disclosed above, as at 31 December 2017, 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.

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 Group did not enter into any new contract with CIMC Raffles for the year ended 31 December 2017. The actual sales amount of these continuing connected transactions between the Group and CIMC Raffles was approximately US$0.9 million for the year ended 31 December 2017 (2016: US$1.8 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 on 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 2017.

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 50 to 61 of this annual report.

ON BEHALF OF THE BOARD
TSC Group Holdings Limited

WANG Hongyuan
Executive Chairman

JIANG Bing Hua
Co-Chairman

Hong Kong, 28 March 2018

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 2017, 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 deviations which are explained below.

Code A.2.1

The roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Code A.6.7

Two independent non-executive Directors and three non-executive Directors were absent from the last annual general meeting of the Company held on 25 May 2017 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.

BOARD OF DIRECTORS *(Continued)*

Mr. Wang Hongyuan concurrently takes up the posts of executive chairman and chief executive officer of the Company. This deviates from provision A.2.1 of the Code which stipulated that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Wang has extensive experience in strategic planning, mergers and acquisitions, capital operations and investments in sectors such as offshore marine and shipping, port and bonded logistics. Mr. Wang has high standing within the Group together with his extensive experience in the offshore industry. Mr. Wang is well versed with the business models and development of the Group and the development of the gas and oil industry. The Board, after due and careful consideration, is of the view that Mr. Wang is to date the single most suitable person to be the executive chairman and chief executive officer of the Group. Besides, there are some other management teams with responsibilities for the daily operations and business activities of the Group. The Board believes that the structure outlined above is beneficial to the Company and its business at the present.

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.

The Board comprises nine Directors up to the date of this annual report, including four executive Directors, namely Mr. Wang Hongyuan, Mr. Jiang Bing Hua, Mr. Zhang Menggui, Morgan and Mr. Yang Guohui; two non-executive Directors, namely Mr. Wang Jianzhong and Ms. Li Rong; and three independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny, Mr. Guan Zhichuan and Dr. Lu Xiaoming. 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 2017, 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. Wang Hongyuan, Mr. Zhang Menggui, Morgan, Ms. Li Rong, Mr. Chan Ngai Sang, Kenny and Dr. Lu Xiaoming will retire, and being eligible for election, offer themselves for re-election at the forthcoming annual general meeting to be held on 18 May 2018.

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.

BOARD OF DIRECTORS *(Continued)*

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 statements 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;

- 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 are 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 eight 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) annual audit issues arised from KPMG to Audit Committee and the directors; (ii) the approval of annual results of 2016 and appointment of non-executive Director; (iii) cash position of the Company; (iv) the resignation of Mr. Robert William FOGAL JR., appointment of Dr. Lu Xiaoming and redesignation of Mr. Zhang Menggui, Morgan and Mr. Wang Yong; (v) the transfer 49.05% of OGS Group; (vi) the approval of interim results of 2017; (vii) the proposed the subscription agreement with China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.), the proposed the change of the buyer for OGS Group, the establishment of Shenzhen OIM Offshore Tech. Ltd and the disposal of NHR Plant; and (viii) the further discussion regarding the subscription agreement with China Merchants Group.

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

For the year ended 31 December 2017, 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 other executive Directors.

BOARD OF DIRECTORS *(Continued)*

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.

A summary of training received by the Directors during the Year is as follows:

Name of Directors	Type of Trainings
Executive Directors:	
Mr. WANG Hongyuan (appointed on 9 February 2018)	A
Mr. JIANG Bing Hua	B
Mr. ZHANG Menggui, Morgan	B
Mr. WANG Yong (appointed on 11 April 2017 and resigned on 9 February 2018)	B
Mr. YANG Guohui (appointed on 9 February 2018)	A
Non-executive Directors:	
Mr. JIANG Longsheng (resigned on 9 February 2018)	B
Mr. Brian CHANG (resigned on 9 February 2018)	B
Mr. WANG Jianzhong	B
Ms. LI Rong (appointed on 9 February 2018)	A
Independent non-executive Directors:	
Mr. CHAN Ngai Sang, Kenny	A,B
Mr. BIAN Junjiang (resigned on 25 May 2017)	B
Mr. GUAN Zhichuan	A,B
Mr. Robert William FOGAL JR. (resigned on 22 June 2017)	B
Dr. LU Xiaoming (appointed on 22 June 2017)	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

BOARD OF DIRECTORS *(Continued)*

Directors' Continuous Training and Development *(Continued)*

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 Meeting**
Executive Directors:						
Mr. WANG Hongyuan (appointed on 9 February 2018)	N/A		N/A	N/A		N/A
Mr. JIANG Bing Hua	8/8		2/2	2/2		1/1
Mr. ZHANG Menggui, Morgan	8/8		2/2	2/2	2/2	1/1
Mr. WANG Yong (appointed on 11 April 2017, and resigned on 9 February 2018)	5/5					1/1
Mr. YANG Guohui (appointed on 9 February 2018)	N/A					N/A
Non-executive Directors:						
Mr. JIANG Longsheng (resigned on 9 February 2018)	7/8					0/1
Mr. Brian CHANG (resigned on 9 February 2018)	1/8					0/1
Mr. WANG Jianzhong	4/8					0/1
Ms. LI Rong (appointed on 9 February 2018)	N/A					N/A
Independent non-executive Directors:						
Mr. CHAN Ngai Sang, Kenny	8/8	4/4	2/2	2/2	2/2	1/1
Mr. BIAN Junjiang (resigned on 25 May 2017)	1/3	0/1	0/1	0/1	0/1	0/1
Mr. GUAN Zhichuan	7/8	4/4	2/2	2/2	2/2	0/1
Mr. Robert William FOGAL JR. (resigned on 22 June 2017)	2/3					0/1
Dr. LU Xiaoming (appointed on 22 June 2017)	4/4	2/2	N/A	N/A	N/A	N/A

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, who is a full-time employee of the Company, has taken no less than 15 hours of relevant professional trainings to update her skills and knowledge in 2017.

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 Dr. Lu Xiaoming (being the Chairman), Mr. Chan Ngai Sang, Kenny and Mr. Guan Zhichuan; and two executive Directors, namely, Mr. Wang Hongyuan and Mr. Jiang Bing Hua.

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 Yong, Dr. Lu Xiaoming and Mr. Zhang Menggui, Morgan. 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 2017 is set out below:

Remuneration band (US$)	**Number of individuals**
100,000 to 200,000	3
200,001 to 300,000	2
300,001 to 400,000	1
400,001 to 500,000	–

NOMINATION COMMITTEE

The nomination committee was established on 5 June 2009 with written terms of reference in compliance with the Code. A majority of its current members are independent non-executive Directors. Currently, the members of the committee are Mr. Wang Hongyuan (being the chairman), Mr. Zhang Menggui, Morgan, Mr. Chan Ngai Sang, Kenny, Mr. Guan Zhichuan and Dr. Lu Xiaoming.

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. Three of them are independent non-executive Directors and two 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 reviewed and discussed the resignation of Mr. Bian Junjiang and Mr. Robert William Fogal Jr. as non-executive Director and appointment of Dr. Lu Xiaoming as independent non-executive Director, Mr. Wang Yong from non-executive Director to executive Director and chief executive officer and Mr. Zhang Menggui, Morgan, from non-executive Director to executive Director, 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 assesses 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 three Directors, namely, Mr. Yang Guohui (being the chairman), 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 is 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 77 to 83 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$453,000 (2016: US$451,000) to the external auditor for its audit services. The Company has paid an aggregate of approximately US$27,000 (2016: US$Nil) to the external auditor for its non-audit services 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. Guan Zhichuan and Dr. Lu Xiaoming, 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.

AUDIT COMMITTEE *(Continued)*

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 four meetings to consider and review the interim and annual results of the Group, to consider and change of the audit committee member, 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 auditors 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 auditors.

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 2017, has been reviewed by the audit committee.

INDEPENDENCE OF THE COMPANY FROM ITS CONTROLLING SHAREHOLDERS IN RESPECT OF BUSINESS, PERSONNEL, ASSET, ORGANISATIONAL STRUCTURE AND FINANCE

The direct substantial Shareholders of the Company are China Merchants Capital Holdings (International) Limited and China Merchants Industry Holdings Co., Ltd. (their controlling shareholder are China Merchants Group) and Great Wall International Investment V Limited (it is wholly-owned by GW Asset Management). The Company has an independent and complete business system and has the capacity for independent operation in the market. The Company is independent from its substantial Shareholders in respect of our business, personnel, asset, organisational structure and finance, and they independently proceed with audit and assume the responsibilities and risks.

(1) Business: The production system, purchase system, auxiliary production system and sales system of the Company are independent. The Company owns the intangible assets such as industrial property, trademark, non-patent technology independently.

(2) Personnel: The labour, personnel and salary management institutions of the Company are independent. The system is complete. The Company and the substantial Shareholders do not share staff or senior management. All of the Company's staff and senior management are paid by the Company. The financial personnel of the Company have no part-time job in affiliates.

(3) Assets: The property rights between the Company and the substantial Shareholders are clear, with complete procedures. The property rights are managed by the Company independently. The substantial Shareholders do not occupy or govern the assets of the Company nor interfere in its operation management of the assets.

INDEPENDENCE OF THE COMPANY FROM ITS CONTROLLING SHAREHOLDERS IN RESPECT OF BUSINESS, PERSONNEL, ASSET, ORGANISATIONAL STRUCTURE AND FINANCE *(Continued)*

(4) Organisational structure: The Board, the Supervisory Committee and other internal institutions of the Company are complete and operate independently. The substantial Shareholders perform their rights according to the law and assume the corresponding obligations without directly or indirectly interfering with the business activities of the Company by overstepping the general meeting.

(5) Finance: The finance department, financial accounting system, financial management system and bank account of the Company are independent and it pays taxes independently.

During the Reporting Period and as at date of this annual report, the Company has not provided undisclosed information to the substantial Shareholders and the de facto controllers, and there was no other non-compliance governance problem.

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.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS *(Continued)*

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

To promote effective communication, the Company also maintains a website at http://www.t-s-c.com, where extensive information and updates on the Company's business developments and operations, financial information and other information are posted.

SHAREHOLDERS' RIGHTS

Annual reports and interim reports offer comprehensive information to the Shareholders on operational and financial performance whereas annual general meetings provide a forum for the Shareholders to exchange views directly with the Board. The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. The executive Chairman of the Company and a member of the audit committee attended the general meetings held on 25 May 2017 and 5 February 2018 to answer questions at these meetings.

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

PROCEDURE FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

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

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.

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT SHAREHOLDERS' MEETINGS *(Continued)*

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

Registered Office: Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office in Hong Kong: Unit 03, 19/F
Bangkok Bank Building
No.18 Bonham Strand West
Sheung Wan
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 2017.

I. ABOUT THE REPORT

This Report provides an annual update on the performance in 2017 in various aspects of Environmental, Social, and Governance of TSC Group Holdings Limited (hereinafter referred to as "the Group" or "TSC").

Reporting Scope

This Report covered the operating sites of the Group's Qingdao facility manufacturing base, Qingdao TSC Offshore Equipment Company Limited (TSC-OE), and TSC Oil and Gas Services Group Holdings Limited (TSC-QD).

Reporting period: 1 January to 31 December 2017.

Reporting cycle: This Report is published once a year concurrently with the Company's Annual Report.

Reporting reference

This Report has been prepared pursuant to the "Environmental, Social and Governance (ESG) Reporting Guide" published by the Hong Kong Stock Exchange in December 2015.

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). Currently, TSC has 27 wholly-owned subsidiaries worldwide.

The Group's main business areas include: the design, manufacture, installation, and commissioning of capital equipment, packages on land and offshore rigs, oilfield expendables and supplies, as well as the provision of engineering services.

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 a high degree of social responsibility, environmental protection, safety and sustainable economy as key factors in ensuring business continuity and success."

The Group pursues the values of tolerance, openness, reliability and cooperation in both business development and social activities, and have introduced effective tools to ensure full implementation of social, safety and environmental policies within the Group. These areas of work involve the Group's employees, business associates, supply chain partners, as well as 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 the Group's philosophy of corporate social responsibility, with an emphasis on the following aspects:

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

IV. CORPORATE GOVERNANCE

All Directors of the Group 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. The Group is striving to maintaining the highest standards of ethics and integrity in all aspects of business activities, and to ensure that the Group's operations are fully compliant with applicable laws and regulations. All Directors believe that implementation of 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 is striving to promoting communication with its stakeholders. The Group's stakeholders are comprised of customers, employees, community groups, government bodies, etc. and the Group had unscheduled communication with them through various means for achieving transparency as well as mutual understanding of the Group's aspirations for corporate social responsibility, in the aim for catalysing TSC to achieve its goal of sustainable corporate development.

V. STAKEHOLDER ENGAGEMENT *(Continued)*

Key stakeholders and corresponding communication channels are as follows:

Key Stakeholders	Principal Communication Channels
Customers	Visits and meetings Telephone conferences Customer questionnaires E-mails
Employees	Employee newsletters Group intranet
Community organisations	Volunteer activities Charitable activities Unscheduled meetings with each organisation

VI. PERFORMANCE OF ENVIRONMENTAL AND SOCIAL ASPECTS

Human Resource Management

Employment Policies

TSC is striving to maintain the equality in employment opportunity. Every vacancy in the Group is publically advertised online or via other appropriate channels. A fair selection process is conducted on each applicant's competence, skills, etc. The Group will not refuse the applications because of the attributes such as race, skin colour, gender, language, religion and/or political reason, etc.

In order to strengthen the attractiveness of all positions, the Group's remuneration system is based on job grade and performance. In addition to assuring employees' stable income from the basic pay portion, the Group also provides rewards in association with the employee's performance for recognition and retention of 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 for provision of additional coverage for employees. In addition, each mainland Chinese employee is entitled to sick leave benefit better than the statutory requirement. While the statutory requirement allows the employees' wages to be deducted by 30% during sick leave period, the Group provides employees with 6 days of paid sick leave in a year during which no wage deduction is required. Other employee benefits include free shuttle bus for pick-up, transport allowances, and call-time allowances, etc.

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

The Group is striving to promotion of the principle of harmony between work and family and hence does not encourage overtime work. The Group strictly controls the number of overtime hours by means of approval processes, all overtime works must be approved by department managers and abide by the local labour laws.

VI. PERFORMANCE OF ENVIRONMENTAL AND SOCIAL ASPECTS *(Continued)*

Human Resource Management *(Continued)*

Employment Policies *(Continued)*

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

During the reporting period, the Group did not identify any legal violation or complaint regarding discrimination or other employment practices.

As of 31 December 2017, this report covered the number of employees and average monthly employee turnover rate for the Qingdao operating sites:

	Number of Employees	Average Monthly Employee Turnover Rate (%)
Gender		
Male	281	1.51
Female	62	3.02
Job type		
Full-time	343	1.80
Part-time	0	0
Age		
18 – 30	86	2.66
31 – 45	193	1.85
46 – 60	59	0.40
> 60	5	0
	Total: 343	Overall average: 1.80

Policies for prohibition of Child Labour and Forced Labour

TSC strictly complies with relevant employment laws and regulations in each of its operating areas pertaining to child labour and forced labour. As a result, all job applicants are required to provide personal identification documents for verification. Prior to confirmation of employment contracts, the Group allows sufficient time for employees to read and understand the relevant terms and conditions, and contracts are to be signed only when employees fully understand the content.

During the reporting period, the Group did not identify any complaint or legal violation regarding child labour or forced labour.

VI. PERFORMANCE OF ENVIRONMENTAL AND SOCIAL ASPECTS *(Continued)*

Human Resource Management *(Continued)*

Policies for Career Development and Employee Development

The Group practises meritocratic principles and regularly provides its employees with the opportunity for promotion, which is based on a comprehensive evaluation of both employee's work performance and competence.

The Group also emphasises on training of potential talent, by assigning the Group's internal training team responsible for the talent development.

The Group has implemented 2 major training programs:

1. **Cedar Program:**

   This program develops high-potential talent and builds high-performance teams. Through the systematic training courses, the talent is developed into two directions (management and technology), and four types of talent (high potential talent, the global key talent, local key talent and technical expert). Talents shall be developed as core teams in TSC after accumulated three to five years of working experience.

2. **Spring Rain Project:**

   This project develops the internal training team in the company and could effectively inherit technology and corporate culture of TSC. Through systematic training, the Group firstly trains up a group of influential staff through sharing by a ratio of 1 to 3 mentoring models. They will then be developed as a high performing training team after accumulated three to five years of experience.

Apart from those trainings for enhancement of job competence, the Group also focused and arranged the relevant trainings for raising environmental awareness of the employees. Accumulated number of environmental training hours were 230 hours in 2017.

For the Qingdao operating sites covered by this report in 2017, the monthly average proportions of employees who have attended training and the monthly average number of trained hours achieved by each employee were as follows:

	Monthly Average Proportion of trained employees (%)	Monthly Average Number of Trained Hours per employee
Gender		
Male	3.31	0.0834
Female	2.81	0.0770
Employee level		
Senior management	2.43	0.0435
Middle management	2.07	0.0315
Junior employee	3.42	0.0927
Overall average	3.20	0.0820

VI. PERFORMANCE OF ENVIRONMENTAL AND SOCIAL ASPECTS *(Continued)*

Corporate Citizenship Behaviours

TSC is striving to becoming an excellent corporate citizen within the operating communities around the world. Through the community engagement approach such as volunteering activities or participation of community services, the Group is continuously communicating and meeting with various organisations of the local communities for understanding their expectations and endeavouring to fulfill the community needs.

In 2017, the community activities by the Group have gone further to support education. By lending the production areas to Ocean University of Qingdao for provision of on-site visit and learning venue to the Association of Chartered Certified Accountants (ACCA) college, this activity has benefitted 22 persons in total.

Occupational Health and Safety

Occupational Health and Safety Policy

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

The Group's commitment:

In order to continuously reduce the occupational health and safety impacts from the relevant business activities, the Group not only adheres to laws, regulations and industry standards as the baseline, and is also striving to achieve the corporate safety target of "Zero Occupational Disease" and "Zero Major Accident".

The Group insists on the "Stop Work" policy. Whenever there is a threat to personal safety, all individuals have the right to stop work in order to prevent the occurrence of work-related incidents.

The Group is concerned with employees' health and safety, and is striving to identify various opportunities for prevention of occupational disease through enhancement of work environment. The Group actively responds to issues raised by employees in relation to occupational health and safety, recognises and rewards those employees who have contributed to the continual improvement in these topics. The Group also ensures that all employees and stakeholders understand their responsibilities on the safety of their own and others affected by them. 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 purifying respirators, etc. Each year the Human Resources Department arranges with qualified medical institutions to provide free-of-charge physical examinations to those employees with hazards of occupational disease and to follow up with any problematic case. During the reporting period, the Group has arranged 32 employees of relevant departments to undertake physical examination, from which no confirmed case of occupational disease was identified.

The Group considers the mental health of employees to be valuable asset, and eases the pressures encountered by employees in their work through the establishment of psychological courses and group sharing activities, etc.

VI. PERFORMANCE OF ENVIRONMENTAL AND SOCIAL ASPECTS *(Continued)*

Occupational Health and Safety *(Continued)*

Occupational Health and Safety Policy *(Continued)*

Some of the Group's subsidiary companies, e.g. Qingdao TSC Offshore Equipment Company Limited, have already successfully achieved the occupational health and safety management system (OHSAS 18001). These companies have identified in details the sources of hazards in the workplace and have undertaken risk assessments according to the requirements of the aforementioned system. Relevant companies have evaluated the workplace on the occupational hazards in September, in order to ensure all positions with hazards were under appropriate control. TSC regularly holds different events for promoting knowledge of occupational health and safety and enhancing employee awareness, such as Occupational Disease Prevention Promotion Week, Work Safety Week, morning meetings, work safety analysis conferences, operational trainings e.g. welding safety, gas safety training, etc. In the various health & safety activities, there was a total of 413 participants, with 754 training hours in total. In addition, all workplaces strictly comply with the 7S system, namely Seiri (sorting), Seiton (set in order), Seisou (shine), Seiketsu (standardise), Shitsuke (sustain), Safety and Saving, including the use of display boards and the posting of safety signs to raise employees' awareness of safety.

As of 31 December 2017, the Group did not identify or receive any critical legal violation against the relevant health & safety regulations, also did not have any incident of fatality nor the number of working day lost due to work-related injury.

Supply Chain Management

Policies for managing Environmental and Social Risks in Supply Chain

Supplier management of the Group complies with QHSE criteria, one of the supplier selection criteria is evaluating their performance of corporate social responsibility. Suppliers are required to sign and comply with TSC's stipulated supplier code which contains clauses relating to environmental protection, anti-bribery, etc. The Group actively encourages communication with the suppliers through multiple channels (including telephone, e-mail, questionnaire, and training, etc.) to elaborate the corporate's social responsibility requirements to suppliers for promoting the benefits in achieving corporate social responsibility by both sides.

The Group has supplier quality assurance personnel (SQA) to evaluate various aspects of suppliers on regular basis, and to conduct audits on suppliers annually for verification of compliance with various aspects of TSC requirements. In early 2017, annual supplier evaluation has been proceeded according to the requirements of American Petroleum Institute. It covered 57 suppliers in total, 7 of which has gone through on-site assessment and the remaining 50 suppliers were evaluated by questionnaire, qualification document review, etc.

Currently, the Group's key material suppliers are based in China, USA and UK. As of 31 December 2017, there were a total of 137 qualified suppliers for provision of materials to TSC.

VI. PERFORMANCE OF ENVIRONMENTAL AND SOCIAL ASPECTS *(Continued)*

Supply Chain Management *(Continued)*

Policies for managing Environmental and Social Risks in Supply Chain *(Continued)*

Apart from considering the aforesaid evaluation scope, the Group also supports the reduction in emission of greenhouse gases and will prioritise the use of local suppliers possessing the same conditions as by non-local counterpart. Overseas procurement will proceed only when there is no appropriate local supplier, currently the proportion of local suppliers exceeds 95% of all existing suppliers. As of 31 December 2017, the geographical distribution of the Group's suppliers was as below:

Geographical locations	Number of suppliers
China	136
USA	1
Total	137

Environmental Sustainability

The Group's commitment:

In China's 12th Five Year Plan, various pollution control requirements and targets were strictly implemented in response to the crisis of environmental pollution encountered by China. Although the Group's industry is not seriously discharging pollutants, the Group enforces policies for prevention of environmental pollution with the role of being a responsible enterprise.

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

The Group also actively responds to employees' concerns regarding the environment, recognises and rewards those employees who contribute to continual improvement in environmental protection. This ensures all employees and stakeholders aware of their responsibilities towards the surrounding environment.

VI. PERFORMANCE OF ENVIRONMENTAL AND SOCIAL ASPECTS *(Continued)*

Environmental Sustainability *(Continued)*

Policies for Reducing Emission

I. Greenhouse Gas (GHG) Emission Policies

The Group understands that the emission of greenhouse gases (GHG) is one of the main causes of global warming at present. In order to mitigate the situation of pollution, the Group aims to reduce GHG emissions through the following measures:

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

2. Newly purchased equipment should comply with the national grading for energy consumption and equipment of low energy consumption should be prioritised in procurement; currently equipment of low energy consumption occupies 2% of all equipment at sites and this proportion will gradually increase for reducing emission in accordance to this policy;

3. Avoid unnecessary overseas business travels in order to reduce emission of carbons generated by transportation (such as aeroplanes);

4. Prioritise the use of local suppliers to reduce energy consumption resulting from the transportation of cargoes;

5. Promote the importance of "Reducing Carbon Emissions" along the supply chain;

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

7. Environmentally-friendly materials are used when renovating office buildings. Air quality testing was performed before they are used; office buildings are only put into use when air quality met the specified standards.

VI. PERFORMANCE OF ENVIRONMENTAL AND SOCIAL ASPECTS *(Continued)*

Environmental Sustainability *(Continued)*

Policies for Reducing Emission *(Continued)*

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

In 2017, GHG emission sources and volumes of the Group's operating sites in Qingdao covered by this report were listed as below:

GHG Emission Sources	Annual consumption	GHG Emission Volumes (tonnes carbon dioxide equivalent)
Diesel fuel consumption from mobile sources (litres)	21,300	56.85
Gasoline consumption from mobile sources (litres)	23,118	52.55
Propane consumption (kg)	5,122	15.37
Carbon dioxide consumption from fire extinguishers (kg)	50	0.05
Power consumption of manufacturing facilities (kWh)	1,168,038	1,216.63
Total GHG emissions		1,341.45
Production volume (tonnes)		106.17
GHG Emission Intensity		12.63 (tonne carbon dioxide equivalent/tonne)

II. Wastewater Discharge Policies

The technology in the manufacturing process does not involve the discharge of large amount of water or waste water. As a result, measures are generally regulated to daily operations:

1. Water is reused in exhaust gas handling system in spray-painting process;

2. Water conservation signs are put up in washrooms, pantries, canteens and dormitories.

VI. PERFORMANCE OF ENVIRONMENTAL AND SOCIAL ASPECTS *(Continued)*

Environmental Sustainability *(Continued)*

Policies for Reducing Emission *(Continued)*

III. Waste Reduction Policies

In accordance with the 3R principle:

1. Optimise industrial processes, improve utilisation of steel plates and reduce the quantity of scrap steel materials;
2. Undertake classification of hazardous wastes, affix hazardous waste labels, and arrange recycling and disposal with qualified subcontractors; currently the identified hazardous wastes included: waste oil residues, scrap paint containers, waste mineral oils such as the waste paint residues recycled from water curtain system amounted to 2.19 tonnes in a year and these hazardous wastes were passed to qualified agencies for handling;
3. Undertake simple classification of general waste and regularly sell it to recyclers;
4. Recycle scrap iron pieces from the machining process; scrap steel was recycled by qualified agencies and currently the recycling rate reached 95%;
5. Prepare hazardous waste management plans on an annual basis, establish waste reduction targets with all relevant departments, undertake monthly evaluations, and adopt appropriate control measures for waste reduction if required;
6. Adopt lean production methods to change paints of low consumption in 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;

The Group has demonstrated the following performance of waste reduction in the reporting period through the implementation of the aforesaid policies and measures:

Types of Wastes	Annual weight (tonnes)	Intensity per production unit (tonnes/tonnes)
Hazardous wastes	9.82	0.0925
Scrap steel	18.78	0.1769
Scrap paper cartons	0.71	0.0067
Scrap wooden boxes	4.50	0.0424
Domestic wastes	9.20	0.0867

VI. PERFORMANCE OF ENVIRONMENTAL AND SOCIAL ASPECTS *(Continued)*

Environmental Sustainability *(Continued)*

Policies for Efficient Use of Resources

Green Office Policy:	The use of office resources is reduced by using double-sided printing instead of single-sided printing; the prioritisation of paperless offices; reminding employees and visitors to save water in daily operations; using water-saving device in toilets and automatic taps in newly-built office blocks, as well as LED lighting; currently energy saving lighting occupied 12% of all lightings at the operating sites and this proportion will be gradually increasing in accordance to the replacement plan; automatic lighting control in public areas; using solar panels to power road lights in newly-built factories and using translucent tiles in construction to make full use of natural light, etc;
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; in addition, the Group is striving to use environmental materials, currently environmental procurement occupied 40% of total procurement;
Green Manufacturing Policy:	Optimise industrial processes, improve utilisation of steel plates and reduce the quantity of scrap steel materials; in 2017 the Group has raised the utilisation rate of steel plates and extruded profiles as follows:

Utilisation rate	Steel plates	Extruded profiles
2017	83%	90%
2016	75%	85%
Annual comparison	↑8%	↑5%

Through the implementation of the aforesaid green management, the Group has implemented the following performance in resource conservation during the reporting period:

Measures for conservation	Savings
Newly established buildings – use of LED energy saving lightings	1,881 kWh per month
Newly established road lights in factory – use of solar panels for electricity	52,200 kWh per month
Newly established water curtain system for absorption of paint exhaust gas	5 cubic meters per month

VI. PERFORMANCE OF ENVIRONMENTAL AND SOCIAL ASPECTS *(Continued)*

Environmental Sustainability *(Continued)*

Policies for Efficient Use of Resources *(Continued)*

During the reporting period, major resources consumed at the Group's operating sites were listed as below:

Resources	Annual consumption	Intensity of Consumption per production unit
Municipal Electricity (KWh)	1,168,038	11,001.58
Fresh Water (cubic meters)	12,393	116.73
Wooden Packaging materials (tonnes)	24.9	0.23

Policies for mitigation of impacts to Environment and Natural Resources

Provision of 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;

Provision of 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;

Promotion of environmental protection along the supply chain:

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

During the reporting period, the Group did not identify at operating sites having any legal violation or complaint related to environment.

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. PERFORMANCE OF ENVIRONMENTAL AND SOCIAL ASPECTS *(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 the materials should be qualified before storage.

Raw materials used in products that require classification must undergo classification society approval. All the materials should be qualified before storage.

2) Manufacturing Process

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

Manufacturing processes for products that require classification must undergo classification approval, and can only be proceed if they get approval.

3) Final Inspection

Completed products undergo final inspection and comprehensive FAT testing.

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

4) Nonconforming Product Control

If nonconformities are found during the quality inspection process, the nonconforming product is analysed and processed. Nonconforming products should be segregated in the manufacturing process.

Apart from monitoring of product quality, the Group is also concerned on the protection of intellectual property. The Group has signed confidentiality agreement with employees for prohibition of employees disclosing product information to unauthorised personnel. For electronic information relevant to customers and own-branded products, such as specifications and drawings, they will be encrypted for protection from leakage. Where appropriate, the Group will even apply patent from the relevant authorities.

The Group has established a comprehensive complaint handling system. Sales and project management team will firstly communicate with customers to identify the details of nonconforming situation, then the quality management team will convene the relevant departments for cause analysis and proposal of corrective actions. Eventually sales and project management team will reply to customers with the solution and the implementation status.

During the reporting period, the Group did not identify any legal violation or complaint relevant to the product responsibility. Also, no product was recalled because of reasons from the product's health & safety.

Furthermore, as a responsible enterprise, the Group adopts "Zero Tolerance" approach to those behaviours which seriously violate the business ethics, such as bribery, extortion, fraud, money laundering.

VI. PERFORMANCE OF ENVIRONMENTAL AND SOCIAL ASPECTS *(Continued)*

Business Ethics *(Continued)*

4) Nonconforming Product Control *(Continued)*

The Group is striving to provide an integrity business platform and has continuously implemented the following measures, including:

1. In 2012, the Group formulated the "TSC Code of Business Conduct" to which all board members, managers, employees, agents and representatives must adhere; In 2017, the Group even announced and implemented the new revision of "Employee Handbook", which contained the requirements for prohibition of bribery, and has been signed and acknowledged by all employees;

2. An Audit Committee, Remuneration Committee, Supervisory 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;

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

5. Open tendering policy has been formulated and "comparison of quotations amongst at least 3 suppliers" is required, whereby the supplier with competitive price will be selected;

6. Starting since 2013, procurement personnel must comply with the "Revised Integrity Self-Discipline Code of Conduct for TSC China (including China MRO) Procurement Personnel";

7. The Group appoints independent auditing organisation to proceed auditing and reporting on an annual basis. In 2017, the content of internal control auditing would be separately disclosed on its own. Subsidiary companies would appoint the local auditing organisations to proceed individual reporting and tax calculation in accordance with the principles of the operating regions for enhancement of the Group's internal control.

During the reporting period, the Group did not identify any reported case or legal violation relevant to the corruption.

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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 84 to 174, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017 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)*

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

Refer to notes 10, 11 and 12 to the consolidated financial statements and the accounting policies in notes 1(h), 1(i), 1(j)(ii) and 1(k)(ii).

The Key Audit Matter	How the matter was addressed in our audit
The carrying values of property, plant and equipment, interest in leasehold land held for own use under operating leases and intangible assets as at 31 December 2017 were allocated to the cash-generating units ("CGUs") to which they belong. 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. 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 property, plant and equipment, interest in leasehold land held for own use under operating leases and intangible assets included the following: • 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; • 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 property, plant and equipment, interest in leasehold land held for own use under operating leases and intangible assets *(Continued)*

Refer to notes 10, 11 and 12 to the consolidated financial statements and the accounting policies in notes 1(h), 1(i), 1(j)(ii) and 1(k)(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. We identified the valuation of 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; • evaluating the discount rates used in the cash flow forecasts by benchmarking against other similar companies in the same industry; • 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 • considering the disclosures in the consolidated financial statements in respect of impairment testing of 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 17 to the consolidated financial statements and the accounting policies in notes 1(k)(i) and 1(n).

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 2017 totalled US$40.1 million after deduction of an allowance for doubtful debts of US$68.6 million. 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. 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.	Our audit procedures to assess the recoverability of trade receivables included the following: • 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; • 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; • 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;

KEY AUDIT MATTERS *(Continued)*

Recoverability of trade receivables *(Continued)*

Refer to note 17 to the consolidated financial statements and the accounting policies in notes 1(k)(i) and 1(n).

The Key Audit Matter	How the matter was addressed in our audit
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.	• 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 2016 with the actual new provisions, write offs and recoveries in respect of trade receivables as at 31 December 2016 during the current year; and • comparing cash receipts from debtors subsequent to the financial year end relating to trade receivable balances at 31 December 2017 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.

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, 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.

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

– 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.

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

28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

(Expressed in United States dollars)

	Note	2017 $'000	2016 $'000
Revenue	3	**76,552**	142,531
Cost of sales		**(67,331)**	(104,745)
Gross profit		**9,221**	37,786
Other revenue and net income	4	**2,411**	5,685
Selling and distribution expenses		**(6,902)**	(5,170)
General and administrative expenses		**(25,991)**	(33,409)
Other operating expenses		**(10,652)**	(5,440)
Impairment losses on goodwill	5(c)	**–**	(19,621)
Impairment losses on doubtful debts	5(c)	**(3,461)**	(56,864)
Impairment losses on gross amount due from customers for contract work	5(c)	**(44,684)**	(29,916)
Loss from operations		**(80,058)**	(106,949)
Finance costs	5(a)	**(4,352)**	(4,363)
Share of profits of associates		**4**	–
Loss before taxation	5	**(84,406)**	(111,312)
Income tax credit/(expense)	6(a)	**987**	(264)
Loss for the year		**(83,419)**	(111,576)
Attributable to:			
Equity shareholders of the Company		**(82,790)**	(110,450)
Non-controlling interests		**(629)**	(1,126)
Loss for the year		**(83,419)**	(111,576)
Loss per share	9		
Basic and diluted		**(11.79) cents**	(15.73) cents

The notes on pages 91 to 174 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017
(Expressed in United States dollars)

	2017 **$'000**	2016 $'000
Loss for the year	**(83,419)**	(111,576)
Other comprehensive income for the year:		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of subsidiaries and associates (with nil tax effect)	**657**	(11,007)
Total comprehensive income for the year	**(82,762)**	(122,583)
Attributable to:		
Equity shareholders of the Company	**(82,142)**	(121,400)
Non-controlling interests	**(620)**	(1,183)
Total comprehensive income for the year	**(82,762)**	(122,583)

The notes on pages 91 to 174 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017
(Expressed in United States dollars)

	Note	2017 $'000	2016 $'000
Non-current assets			
Property, plant and equipment	10	**41,200**	50,778
Investment properties	10	**8,157**	8,207
Interest in leasehold land held for own use under operating leases	11	**7,552**	7,339
Other intangible assets	12	**1,620**	3,619
Interest in associates	14	**288**	182
Other financial assets	15	**1,455**	2,226
Deferred tax assets	24(b)	**13,083**	13,706
		73,355	86,057
Current assets			
Inventories	16	**29,765**	39,714
Trade and other receivables	17	**55,964**	76,068
Gross amount due from customers for contract work	18	**133,085**	199,186
Amount due from a related company	19	**101**	101
Tax recoverable	24(a)	**405**	241
Pledged bank deposits		**563**	1,505
Cash and cash equivalents	20	**15,287**	9,952
		235,170	326,767
Non-current asset classified as held for sale	21	**6,082**	–
		241,252	326,767
Current liabilities			
Trade and other payables	22	**234,207**	259,467
Bank loans and other borrowings	23	**47,601**	8,057
Tax payable	24(a)	**4,811**	7,835
		286,619	275,359
Net current (liabilities)/assets		**(45,367)**	51,408

At 31 December 2017
(Expressed in United States dollars)

	Note	2017 $'000	2016 $'000
Total assets less current liabilities		**27,988**	137,465
Non-current liabilities			
Bank loans and other borrowings	23	**14,321**	41,260
Deferred tax liabilities	24(b)	**–**	131
		14,321	41,391
NET ASSETS		**13,667**	96,074
CAPITAL AND RESERVES			
Share capital	28(b)	**9,094**	9,094
Reserves		**4,395**	86,202
Total equity attributable to equity shareholders of the Company		**13,489**	95,296
Non-controlling interests		**178**	778
TOTAL EQUITY		**13,667**	96,074

Approved and authorised for issue by the board of directors on 28 March 2018.

Wang Hongyuan
Director

Jiang Bing Hua
Director

The notes on pages 91 to 174 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(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 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))	–	–	–	–	–	–	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 and 1 January 2017	**9,094**	**127,805**	**2,161**	**(13,965)**	**5,336**	**(1,285)**	**5,482**	**627**	**8,295**	**(48,254)**	**95,296**	**778**	**96,074**
Changes in equity for 2017													
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(82,790)**	**(82,790)**	**(629)**	**(83,419)**
Other comprehensive income	**–**	**–**	**–**	**648**	**–**	**–**	**–**	**–**	**–**	**–**	**648**	**9**	**657**
Total comprehensive income	**–**	**–**	**–**	**648**	**–**	**–**	**–**	**–**	**–**	**(82,790)**	**(82,142)**	**(620)**	**(82,762)**
Equity-settled share-based transactions	**–**	**–**	**–**	**–**	**(1,561)**	**–**	**–**	**–**	**–**	**1,896**	**335**	**–**	**335**
Deregistration of subsidiaries with non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**20**	**20**
Balance at 31 December 2017	**9,094**	**127,805**	**2,161**	**(13,317)**	**3,775**	**(1,285)**	**5,482**	**627**	**8,295**	**(129,148)**	**13,489**	**178**	**13,667**

The notes on pages 91 to 174 form part of these financial statements.

For the year ended 31 December 2017
(Expressed in United States dollars)

	Note	**2017 $'000**	2016 $'000
Operating activities			
Loss before taxation		**(84,406)**	(111,312)
Adjustments for:			
Depreciation	5(c)	**5,814**	5,975
Impairment losses on doubtful debts	5(c)	**3,461**	56,864
Impairment losses on others financial assets	5(c)	**772**	2,435
Impairment losses on goodwill	5(c)	**–**	19,621
Impairment losses on gross amount due from customers for contract work	5(c)	**44,684**	29,916
Impairment losses on property, plant and equipment	5(c)	**3,251**	–
Impairment losses on intangible assets	5(c)	**448**	–
Share of profits of associates		**(4)**	–
Write-off of trade debtors	5(c)	**142**	16
Write down of inventories	16(b)	**6,025**	9,752
Amortisation of interest in leasehold land held for own use under operating leases	5(c)	**208**	211
Amortisation of intangible assets	5(c)	**1,691**	2,294
Loss on deregistration of subsidiaries	5(c)	**786**	–
Finance costs	5(a)	**4,352**	4,363
Interest income	4	**(187)**	(371)
(Gain)/loss on disposal of property, plant and equipment	5(c)	**(78)**	520
Equity-settled share-based payment expenses	5(b)	**335**	72
Foreign exchange (gain)/loss		**(2,029)**	861
Operating (loss)/profit before changes in working capital		**(14,735)**	21,217
Decrease in inventories		**4,763**	7,573
Decrease/(increase) in trade and other receivables		**18,664**	(29,868)
Decrease in gross amount due from customers for contract work		**21,417**	7,437
Decrease in trade and other payables		**(27,849)**	(20,182)
Cash generated from/(used in) operations		**2,260**	(13,823)
People's Republic of China ("PRC") enterprise income tax and overseas tax paid		**(2,447)**	(1,571)
Net cash used in operating activities		**(187)**	(15,394)

For the year ended 31 December 2017
(Expressed in United States dollars)

	Note	**2017 $'000**	2016 $'000
Investing activities			
Payment for purchase of property, plant and equipment		**(3,176)**	(908)
Payment for acquisition of intangible assets		**–**	(45)
Interest received		**187**	371
Decrease in pledged bank deposits		**961**	3,434
Proceeds from disposal of property, plant and equipment		**309**	566
Construction expenditure on property under development		**–**	(3,239)
Payment for investment in an associate		**(93)**	–
Net cash (used in)/generated from investing activities		**(1,812)**	179
Financing activities			
Capital contribution from non-controlling interests		**–**	4
Interest paid		**(3,432)**	(3,897)
Proceeds from new bank loans		**20,243**	10,524
Repayment of bank loans		**(9,610)**	(27,225)
Dividends paid to non-controlling interests		**–**	(414)
Net cash generated from/(used in) financing activities		**7,201**	(21,008)
Net increase/(decrease) in cash and cash equivalents		**5,202**	(36,223)
Cash and cash equivalents at 1 January		**9,952**	46,505
Effect of foreign exchange rate changes		**133**	(330)
Cash and cash equivalents at 31 December		**15,287**	9,952

The notes on pages 91 to 174 form part of these financial statements.

(Expressed in United States dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). 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 2017 comprise the Group and the Group's interest in associates.

The functional currency of the Company is Hong Kong dollars ("HK$"). Subsidiaries of the Company have their functional currencies other than HK$, mainly 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, except for financial instruments classified as available-for-sale which are stated at their fair value as explained in the accounting policies set out in note 1(f).

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 1(x)).

As at 31 December 2017, the Group had net current liabilities of $45,367,000. Notwithstanding the net current liabilities of the Group at 31 December 2017, the Group's consolidated financial statements for the year ended 31 December 2017 has been prepared on a going concern basis as the directors are of the opinion that the Group would have adequate funds to meet its obligations as and when they fall due in light of the completion of the allotment of new shares with net proceeds amounting to HK$505,070,000 (equivalent to $64,649,000) on 9 February 2018.

(Expressed in United States dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

(c) Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 20(b) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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(o) or 1(p) 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(k)).

(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 note 1(k)). 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Associates *(Continued)*

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

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

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(k)).

(f) 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 is 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(u)(v) and (vi).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments in equity securities *(Continued)*

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

When the investments are derecognised or impaired (see note 1(k)), 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.

(g) 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(k)(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 estimated useful lives of 20 years. Rental income from investment properties is accounted for as described in note 1(u)(iv).

(h) Property, plant and equipment

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

- freehold land and buildings;
- buildings held for own use which are situated on leasehold land classified as under operating leases (see note 1(j)); 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(w)).

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

– Freehold land is not depreciated.

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

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

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

– Office equipment, furniture and fixtures	3 - 5 years
– Plant and machinery	3 - 20 years
– Motor vehicles	5 years

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

(i) Intangible assets

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(w)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(k)). 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(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Intangible assets *(Continued)*

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

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

Both the period and method of amortisation are reviewed annually.

(j) Leased assets

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

(i) Classification of assets leased to the Group

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leased assets *(Continued)*

(ii) Operating lease charges

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

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

(k) 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)*

(k) 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(k)(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(k)(ii).

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

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

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

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

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

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

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

(ii) Impairment of other assets

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

– property, plant and equipment;

– investment property;

– interest in leasehold land held for own use under operating leases;

– other intangible assets; and

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

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

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

– Recognition of impairment losses

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

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. 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(k)(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.

(l) 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Inventories *(Continued)*

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.

(m) 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(u)(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".

(n) Trade and other receivables

Trade and other receivables 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(k)(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.

(o) 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.

(p) 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(t)(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.

(Expressed in United States dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) 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.

(r) 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Employee benefits *(Continued)*

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

Share option scheme and share award scheme *(Continued)*

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).

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.

(s) Income tax

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Income tax *(Continued)*

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

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

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

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

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

(Expressed in United States dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Income tax *(Continued)*

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

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

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

  - the same taxable entity; or

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

(t) 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(t)(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.

(Expressed in United States dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

(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.

(u) 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Revenue recognition *(Continued)*

(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.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vi) Interest income

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

(v) 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) 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.

(x) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

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

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

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

(Expressed in United States dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

(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.

(z) Segment reporting

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

(Expressed in United States dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Segment reporting *(Continued)*

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 27 and 29 contain information about the assumptions and their risk factors relating to 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.

(Expressed in United States dollars unless otherwise indicated)

2 ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

(c) Other impairment losses

If circumstances indicate that the carrying value of investments in subsidiaries, property, plant and equipment, investment properties, interest in leasehold land held for own use under operating leases 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 assets are discounted to their present value, which requires significant judgement relating to revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

(d) Net realisable value of inventories

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

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. 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(m) and 1(u)(iii), revenue and profit recognition on an incomplete 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.

(Expressed in United States dollars unless otherwise indicated)

2 ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

(f) Construction contracts *(Continued)*

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.

The Group also assesses the recoverability of the "Gross amount due from customers for contract work" regularly. Impairment loss is provided when the expected outcome of the construction contract is impaired.

In preparing the financial statements for the year ended 31 December 2017, the directors of the Company have reviewed the construction contracts and consider that no provision for loss is required. Material adjustments to the budgeted costs may occur in future if there is a significant change in the market environment.

3 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:

	2017 **$'000**	2016 $'000
Capital equipment and packages		
– Sales of capital equipment	**20,324**	7,989
– Construction contracts revenue		
– Rig products and technology	**5,313**	32,669
– Rig turnkey solutions	**903**	35,409
	26,540	76,067
Oilfield expendables and supplies		
– Sales of expendables and supplies	**45,135**	60,874
Engineering services		
– Service fee income	**4,877**	5,590
	76,552	142,531

(Expressed in United States dollars unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(a) Revenue *(Continued)*

The Group's customer base is diversified and includes three customers (2016: two customers) with whom transactions have exceeded 10% of the Group's revenues. In 2017, 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, are listed as follows:

	2017 **$'000**	2016 $'000
Customer A [1]	**15,058**	N/A [3]
Customer B [2]	**9,417**	33,030
Customer C [2]	**8,334**	N/A [3]
Customer D [1]	**N/A [3]**	31,683

1 Revenue from sales of capital equipment and packages.

2 Revenue from sales of oilfield expendables and supplies.

3 The corresponding revenue did not contribute over 10% of the total revenue of the Group.

Details of concentrations of credit risk arising from these customers are set out in note 29(a).

(b) Segment reporting

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

– Capital equipment and packages: the design, manufacturing, installation and commissioning of capital equipment and packages on land and offshore rigs

– Oilfield expendables and supplies: the manufacturing and trading of oilfield expendables and supplies

– Engineering services: the provision of engineering services

(i) Segment results, assets and liabilities

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

Segment assets include all tangible assets, intangible assets and current assets with the exception of interest in associates, other financial assets, cash and cash equivalents, 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.

(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)*

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 associates, directors' and auditors' remuneration and other head office or corporate income and expenses.

In addition to receiving segment information concerning segment results, management is provided with segment information concerning revenue (including inter-segment revenue), depreciation and amortisation and additions to non-current segment assets used by the segments in their operations. Inter-segment revenue is priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below.

	Capital equipment and packages		Oilfield expendables and supplies		Engineering services		Total	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000
Revenue from external customers	**26,540**	76,067	**45,135**	60,874	**4,877**	5,590	**76,552**	142,531
Inter-segment revenue	**1,514**	1,675	**1,723**	967	**325**	3,450	**3,562**	6,092
Reportable segment revenue	**28,054**	77,742	**46,858**	61,841	**5,202**	9,040	**80,114**	148,623
Reportable segment results	**(65,909)**	(51,838)	**(12,966)**	(46,084)	**(3,666)**	(3,894)	**(82,541)**	(101,816)
Depreciation and amortisation for the year	**4,477**	4,552	**1,968**	1,947	**682**	1,181	**7,127**	7,680
Impairment of								
– property, plant and equipment	**–**	–	**2,222**	–	**1,029**	–	**3,251**	–
– goodwill	**–**	19,621	**–**	–	**–**	–	**–**	19,621
– other intangible assets	**–**	–	**–**	–	**448**	–	**448**	–
Reportable segment assets	**211,431**	293,177	**63,587**	78,984	**6,793**	11,340	**281,811**	383,501
Additions to non-current segment assets during the year	**155**	5,258	**3,021**	2,672	**–**	–	**3,176**	7,930
Reportable segment liabilities	**(195,903)**	(219,446)	**(36,433)**	(37,040)	**(1,246)**	(1,844)	**(233,582)**	(258,330)

(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

	2017 **$'000**	2016 $'000
Revenue		
Reportable segment revenue	**80,114**	148,623
Elimination of inter-segment revenue	**(3,562)**	(6,092)
Consolidated revenue (note 3(a))	**76,552**	142,531
Loss		
Segment results	**(82,541)**	(101,816)
Finance costs	**(4,352)**	(4,363)
Share of profits of associates	**4**	–
Unallocated head office and corporate income and expenses	**2,483**	(5,133)
Consolidated loss before taxation	**(84,406)**	(111,312)
Assets		
Reportable segment assets	**281,811**	383,501
Interest in associates	**288**	182
Other financial assets	**1,455**	2,226
Cash and cash equivalents	**15,287**	9,952
Pledged bank deposits	**563**	1,505
Deferred tax assets	**13,083**	13,706
Tax recoverable	**405**	241
Unallocated head office and corporate assets	**1,715**	1,511
Consolidated total assets	**314,607**	412,824
Liabilities		
Reportable segment liabilities	**(233,582)**	(258,330)
Bank loans and other borrowings	**(61,922)**	(49,317)
Tax payable	**(4,811)**	(7,835)
Deferred tax liabilities	**–**	(131)
Unallocated head office and corporate liabilities	**(625)**	(1,137)
Consolidated total liabilities	**(300,940)**	(316,750)

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, interest in leasehold land held for own use under operating leases, other intangible assets, interest in associates and other financial assets ("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 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 intangible assets, and the location of operations, in the case of interest in associates and other financial assets.

	Revenue from external customers		**Specified non-current assets**	
	2017 **$'000**	2016 $'000	**2017** **$'000**	2016 $'000
Hong Kong	**–**	–	**228**	226
Mainland China	**10,456**	69,230	**53,643**	53,680
North America	**23,282**	13,790	**5,147**	15,056
South America	**30,667**	39,333	**39**	50
Europe	**3,759**	1,500	**1,171**	2,267
Singapore	**984**	4,800	**26**	48
Indonesia	**958**	8,208	**–**	–
Others (other part of Asia, India etc.)	**6,446**	5,670	**18**	1,024
	76,552	142,531	**60,272**	72,351

4 OTHER REVENUE AND NET INCOME

	2017 **$'000**	2016 $'000
Interest income	**187**	371
Rental income	**379**	251
Net foreign exchange (loss)/gain	**(107)**	2,470
Others	**1,952**	2,593
	2,411	5,685

(Expressed in United States dollars unless otherwise indicated)

5 LOSS BEFORE TAXATION

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

	2017 $'000	2016 $'000
(a) Finance costs		
Interest on bank loans and other borrowings	**4,352**	4,785
Less: Interest expense capitalised into property under development*	**–**	(422)
	4,352	4,363

* The borrowing costs had been capitalised at a rate of 5.64% - 7.06% per annum during the year ended 31 December 2016.

	2017 $'000	2016 $'000
(b) Staff costs#		
Contributions to defined contribution retirement plans	**3,051**	3,965
Equity-settled share-based payment expenses (note 27)	**335**	72
Salaries, wages and other benefits	**19,899**	26,290
	23,285	30,327
(c) Other items		
Amortisation of interest in leasehold land held for own use under operating leases# (note 11)	**208**	211
Amortisation of intangible assets (note 12)	**1,691**	2,294
Depreciation#		
– property, plant and equipment (note 10)	**5,302**	5,628
– investment properties (note 10)	**512**	347
Impairment losses on doubtful debts (note 17(b))	**3,461**	56,864
Impairment losses on other financial assets (note 15)	**772**	2,435
Impairment losses on goodwill	**–**	19,621
Impairment losses on property, plant and equipment (note 10)	**3,251**	–
Impairment losses on other intangible assets (note 12)	**448**	–
Impairment losses on gross amount due from customers for contract work (note 18)	**44,684**	29,916
Write-off of trade debtors	**142**	16
Research and development costs	**4,417**	5,662
Net foreign exchange loss/(gain)	**107**	(2,470)
(Gain)/loss on disposal of property, plant and equipment	**(78)**	520
Loss on deregistration of subsidiaries	**786**	–
Auditors' remuneration	**453**	451
Minimum lease payments under operating leases in respect of land and buildings	**2,164**	2,689
Cost of inventories# (note 16(b))	**64,037**	103,437

\# Cost of inventories includes $8,423,000 (2016: $15,462,000) 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.

(Expressed in United States dollars unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2017 $'000	2016 $'000
Current tax		
Provision for the year		
– Hong Kong Profits Tax	**–**	1,159
– PRC enterprise income tax	**63**	833
– Overseas corporation income tax	**204**	707
	267	2,699
Over-provision in respect of prior years	**(2,387)**	(769)
	(2,120)	1,930
Withholding tax		
PRC withholding tax	**592**	492
Deferred tax		
Origination of temporary differences (note 24(b))	**541**	(2,158)
	(987)	264

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year. Taxation for the United States corporate income tax for 2017 is calculated at 34% (2016: 34%) of the estimated taxable income 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% (2016: 15%) under the relevant PRC tax rules and regulations.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

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

	2017 **$'000**	2016 $'000
Loss before taxation	**(84,406)**	(111,312)
Notional tax on loss before taxation, calculated at the rates applicable to profits/losses in the jurisdictions concerned	**(15,456)**	(21,579)
Tax effect of non-deductible expenses	**1,871**	6,254
Tax effect of non-taxable income	**(602)**	(902)
Tax effect of profits entitled to tax reductions in the PRC	**(453)**	(1,101)
Tax effect of unused tax losses not recognised	**4,302**	1,503
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**1,467**	–
Tax effect of other temporary differences not recognised	**9,679**	16,366
Over-provision in prior years	**(2,387)**	(769)
Withholding tax	**592**	492
Actual tax (credit)/expense	**(987)**	264

During the year ended 31 December 2017, a new corporate tax law was enacted in the United States. With effect from 1 January 2018, the corporate income tax rate in the United States will be reduced from 34% to 21%. The deferred tax assets and liabilities of the Group's subsidiaries in the United States were remeasured using the revised tax rate and an income tax charge of $2,192,000 was recognised in profit or loss for the year.

In addition, one of the Group's subsidiaries in the PRC was not granted a reduced tax rate of 15% under the relevant PRC tax rules and regulations. As a result, this subsidiary is subject to corporate income tax rate of 25% starting from the year ended 31 December 2017. The deferred tax assets of this subsidiary were remeasured using the revised tax rate and an income tax credit of $725,000 was recognised in profit or loss for the year.

(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	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Executive directors:								
Mr Zhang Menggui (note (i))	**–**	10	**337**	731	**13**	13	**350**	754
Mr Jiang Bing Hua	**–**	–	**298**	701	**17**	17	**315**	718
Mr Wang Yong (note (ii))	**–**	–	**258**	–	**68**	–	**326**	–
Independent non-executive directors:								
Mr Bian Junjiang (resigned on 25 May 2017)	**6**	15	**–**	–	**–**	–	**6**	15
Mr Chan Ngai Sang, Kenny	**31**	31	**–**	–	**–**	–	**31**	31
Mr Guan Zhichuan	**15**	15	**–**	–	**–**	–	**15**	15
Mr Robert William Fogal Jr. (resigned on 22 June 2017)	**12**	15	**–**	–	**–**	–	**12**	15
Non-executive directors:								
Mr Jiang Longsheng	**15**	15	**–**	–	**–**	–	**15**	15
Mr Brian Chang	**15**	15	**–**	–	**–**	–	**15**	15
Mr Yu Yuqun (resigned on 4 July 2016)	**–**	8	**–**	–	**–**	–	**–**	8
Mr Wang Jianzhong (appointed on 4 July 2016)	**15**	8	**–**	–	**–**	–	**15**	8
Dr Lu Xiaoming (appointed on 22 June 2017)	**8**	–	**–**	–	**–**	–	**8**	–
	117	132	**893**	1,432	**98**	30	**1,108**	1,594

Note: (i) Mr Zhang Menggui was re-designated from non-executive director to executive director on 22 June 2017.

(ii) Mr Wang Yong was appointed as a non-executive director on 11 April 2017 and re-designated to executive director on 22 June 2017.

(Expressed in United States dollars unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2016: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2016: three) individuals are as follows:

	2017 $'000	2016 $'000
Salaries and other emoluments	**356**	889
Share-based payments	**–**	–
Retirement scheme contributions	**38**	68
	394	957

The emoluments of the two (2016: three) individuals with the highest emoluments are within the following bands:

	2017 Number of individuals	2016 Number of individuals
HK$1,000,001 - HK$1,500,000	**1**	–
HK$1,500,001 - HK$2,000,000	**1**	1
HK$2,000,001 - HK$2,500,000	**–**	1
HK$3,500,001 - HK$4,000,000	**–**	1

(Expressed in United States dollars unless otherwise indicated)

9 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of $82,790,000 (2016: loss of $110,450,000) and the weighted average number of 702,025,000 (2016: 702,025,000) ordinary shares in issue during the year excluding ordinary shares purchased by the Group, calculated as follows:

Weighted average number of ordinary shares

	2017 **$'000**	2016 $'000
Issued ordinary shares at 1 January	**707,120**	707,120
Effect of purchase of shares held for share award scheme	**(5,095)**	(5,095)
Weighted average number of ordinary shares at 31 December	**702,025**	702,025

(b) Diluted loss per share

Diluted loss per share equals to basic loss per share for the years ended 31 December 2017 and 2016 because the potential ordinary shares outstanding were anti-dilutive.

(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 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	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
At 1 January 2017	**36,605**	**11,283**	**22,357**	**1,927**	**2,393**	**74,565**	**9,005**	**83,570**
Exchange adjustments	**1,728**	**406**	**1,096**	**28**	**92**	**3,350**	**525**	**3,875**
Additions	**2,174**	**567**	**297**	**13**	**125**	**3,176**	**–**	**3,176**
Transferred to non-current asset classified as held for sale (note 21)	**(8,671)**	**–**	**–**	**–**	**–**	**(8,671)**	**–**	**(8,671)**
Reclassification	**603**	**(62)**	**(541)**	**–**	**–**	**–**	**–**	**–**
Disposals	**–**	**(174)**	**(1,110)**	**(500)**	**(590)**	**(2,374)**	**–**	**(2,374)**
At 31 December 2017	**32,439**	**12,020**	**22,099**	**1,468**	**2,020**	**70,046**	**9,530**	**79,576**
Accumulated depreciation and impairment losses:								
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
At 1 January 2017	**5,657**	**5,915**	**9,638**	**803**	**1,774**	**23,787**	**798**	**24,585**
Exchange adjustments	**392**	**286**	**472**	**12**	**76**	**1,238**	**63**	**1,301**
Charge for the year	**2,061**	**1,447**	**1,531**	**35**	**228**	**5,302**	**512**	**5,814**
Impairment losses	**2,563**	**6**	**680**	**–**	**2**	**3,251**	**–**	**3,251**
Transferred to non-current asset classified as held for sale (note 21)	**(2,589)**	**–**	**–**	**–**	**–**	**(2,589)**	**–**	**(2,589)**
Reclassification	**52**	**(3)**	**(49)**	**–**	**–**	**–**	**–**	**–**
Written back on disposals	**–**	**(142)**	**(961)**	**(500)**	**(540)**	**(2,143)**	**–**	**(2,143)**
At 31 December 2017	**8,136**	**7,509**	**11,311**	**350**	**1,540**	**28,846**	**1,373**	**30,219**
Net book value:								
At 31 December 2017	**24,303**	**4,511**	**10,788**	**1,118**	**480**	**41,200**	**8,157**	**49,357**
At 31 December 2016	30,948	5,368	12,719	1,124	619	50,778	8,207	58,985

(Expressed in United States dollars unless otherwise indicated)

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

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

(i) The Group has submitted applications for the issue of property ownership certificate in respect of buildings held for own use carried at cost of $1,811,000 to the relevant PRC government authorities. At 31 December 2017, the certificate has not yet been issued.

(ii) 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.

(iii) During the year ended 31 December 2017, the Group committed to a plan to sell a premise included in land and buildings held for own use with carrying amount of $8,304,000 as disclosed in note 21. Impairment losses of $2,222,000 were recognised to write down the carrying amount of this premise to its fair value less cost to sell upon classification of this premise as held for sale.

(iv) During the year ended 31 December 2017, certain subsidiaries of the Group in the PRC were loss-making in light of the prevailing industry environment, which were indications that non-current assets of these subsidiaries may be impaired. The Group assessed the recoverable amounts of the cash-generating unit to which these assets belong. As a result, an impairment loss of $1,477,000 was recognised and allocated to reduce the carrying amount of property, plant and equipment and intangible assets by $1,029,000 and $448,000 respectively.

As the carrying amounts of these assets have been reduced to their recoverable amounts, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses on other assets of the CGUs to which these assets belong.

The recoverable amounts of these assets are determined based on value-in-use calculations. These calculations use cash flow projections based on the financial budgets approved by management covering a five-year period. Management assumed there will not be significant growth for the CGUs to which these assets belong with reference to the past financial performance of these CGUs and current economic environment.

The above impairment losses were recognised in "other operating expenses" in the consolidated statement of profit or loss.

(Expressed in United States dollars unless otherwise indicated)

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

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

	2017 **$'000**	2016 $'000
Outside Hong Kong		
– Freehold	**–**	9,337
– medium-term leases	**32,460**	29,818
	32,460	39,155

(c) 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)*

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

(i) Fair value hierarchy *(Continued)*

	Fair value at 31 December 2017 $'000	Fair value measurements as at 31 December 2017 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurement				
Investment properties:				
– Mainland China	**10,416**	**–**	**–**	**10,416**

	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 years ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers 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 Industrial – Mainland China	Replacement cost method	Profit margin for construction costs	10%
Investment properties Commercial – Mainland China	Income approach	Occupancy rate	95%

(Expressed in United States dollars unless otherwise indicated)

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

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

(ii) Information about Level 3 fair value measurements *(Continued)*

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 measurement is positively correlated to the profit margin for 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. The fair value measurement is positively correlated to the occupancy rate.

The valuation of the investment properties was carried out by an independent valuer, which has staff who hold recognised and relevant professional qualification and have experience in the location and category of the investment properties being valued.

(d) 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:

	2017 **$'000**	2016 $'000
Within 1 year	**429**	405
After 1 year but within 5 years	**644**	1,014
	1,073	1,419

(Expressed in United States dollars unless otherwise indicated)

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

	2017 **$'000**	2016 $'000
Cost:		
At 1 January	**8,600**	9,198
Exchange adjustments	**502**	(598)
At 31 December	**9,102**	8,600
Accumulated amortisation:		
At 1 January	**1,261**	1,135
Exchange adjustments	**81**	(85)
Charge for the year	**208**	211
At 31 December	**1,550**	1,261
Net book value:		
At 31 December	**7,552**	7,339

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.

(Expressed in United States dollars unless otherwise indicated)

12 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 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
At 1 January 2017	**6,767**	**9,017**	**4,639**	**2,477**	**874**	**660**	**365**	**24,799**
Exchange adjustments	**374**	**623**	**67**	**144**	**38**	**–**	**–**	**1,246**
At 31 December 2017	**7,141**	**9,640**	**4,706**	**2,621**	**912**	**660**	**365**	**26,045**
Accumulated amortisation and impairment losses:								
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
At 1 January 2017	**6,049**	**7,181**	**4,639**	**2,184**	**628**	**209**	**290**	**21,180**
Exchange adjustments	**355**	**528**	**67**	**131**	**25**	**–**	**–**	**1,106**
Impairment losses	**–**	**–**	**–**	**–**	**–**	**418**	**30**	**448**
Charge for the year	**539**	**847**	**–**	**124**	**103**	**33**	**45**	**1,691**
At 31 December 2017	**6,943**	**8,556**	**4,706**	**2,439**	**756**	**660**	**365**	**24,425**
Net book value:								
At 31 December 2017	**198**	**1,084**	**–**	**182**	**156**	**–**	**–**	**1,620**
At 31 December 2016	718	1,836	–	293	246	451	75	3,619

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

As set out in note 10(a), an impairment loss of $448,000 was recognised to write down the carrying amount of intangible assets.

(Expressed in United States dollars unless otherwise indicated)

13 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.

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
			Group's effective interest	Held by a subsidiary	
Emer International Limited	Hong Kong	2,000,000 shares	100%	100%	Investment holding, trading of rig equipment and provision of rig turnkey solutions
TSC Oil and Gas Services Group Holdings Ltd ("TSC (Qingdao)") #* (青島天時油氣裝備服務集團股份有限公司)	PRC	$29,400,000	100%	100%	Manufacturing and trading of oilfield expendables and supplies
TSC-HHCT (Xian) Control Technologies Limited ("TSC-HHCT") #* (海爾海斯(西安)控制技術有限公司)	PRC	RMB17,000,000	100%	100%	Manufacturing and trading of rig electrical control system
TSC Manufacturing and Supply, LLC ("TSC M&S")	USA	$28,529,900	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	$39,832,000	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)

13 INTEREST IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
			Group's effective interest	Held by a subsidiary	
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 Limited	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

* Unofficial English translation

(Expressed in United States dollars unless otherwise indicated)

13 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.

	2017 **$'000**	2016 $'000
NCI percentage	**21%**	21%
Current assets	**7,322**	9,205
Non-current assets	**582**	2,697
Current liabilities	**(4,507)**	(5,930)
Non-current liabilities	**–**	(132)
Net assets	**3,397**	5,840
Carrying amount of NCI	**713**	1,226
Revenue	**3,140**	4,995
Loss for the year	**(2,490)**	(3,312)
Total comprehensive income	**(2,443)**	(3,584)
Loss allocated to NCI	**(523)**	(696)
Dividend paid to NCI	**–**	(414)
Cash flows from operating activities	**(100)**	700
Cash flows from investing activities	**15**	37
Cash flows from financing activities	**(79)**	(2,049)

14 INTEREST IN ASSOCIATES

	2017 $'000	2016 $'000
Share of net assets	**288**	182

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

Name of associate	Form of business structure	Place of incorporation and business	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
Guangzhou Interstellar Offshore Engineering Co., Ltd	Establishment	PRC	RMB5,000,000	25%	25%	Professional technical services
南京昌時傳動科技有限公司	Establishment	PRC	RMB2,000,000	30%	30%	Manufacturing and trading of machinery parts

The above associates are accounted for using the equity method in the consolidated financial statements and do not have a significant impact on the Group's results and financial position. The share of profits from their continuing operations and total comprehensive income during the year ended 31 December 2017 are $4,000 (2016: $Nil) and $13,000 (2016: loss of $11,000), respectively.

(Expressed in United States dollars unless otherwise indicated)

15 OTHER FINANCIAL ASSETS

	2017 $'000	2016 $'000
Available-for-sale equity securities:		
– Unlisted	–	2,226
– Listed in Hong Kong	1,455	–
	1,455	2,226
Fair value of individually impaired available-for-sale equity securities	1,455	–

Other financial assets represent equity interests in an entity that was listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in March 2017. As at 31 December 2017, the equity securities were remeasured to their fair values and an impairment loss of $772,000 was recognised.

Fair value measurement of available-for-sale equity securities

Fair value hierarchy

	Fair value at 31 December 2017 $'000	Fair value measurements as at 31 December 2017 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurement				
Available-for-sale equity securities:				
– Listed in Hong Kong	1,455	1,455	–	–

During the year ended 31 December 2017, there were no transfers between Level 1 and Level 2, or transfers 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.

(Expressed in United States dollars unless otherwise indicated)

16 INVENTORIES

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

	2017 $'000	2016 $'000
Raw materials	**2,475**	9,644
Work in progress	**10,556**	6,064
Finished goods	**16,734**	24,006
	29,765	39,714

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

	2017 $'000	2016 $'000
Carrying amount of inventories sold	**58,012**	93,685
Write down of inventories	**6,025**	9,752
	64,037	103,437

(Expressed in United States dollars unless otherwise indicated)

17 TRADE AND OTHER RECEIVABLES

	2017 $'000	2016 $'000
Trade debtors and bills receivable	**108,703**	123,958
Less: allowance for doubtful debts (note 17(b))	**(68,577)**	(62,057)
	40,126	61,901
Other receivables, prepayments and deposits	**15,838**	14,167
	55,964	76,068

All of the other receivables, prepayments and deposits are expected to be recovered or recognised as expense within one year.

(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:

	2017 $'000	2016 $'000
Current	**5,657**	23,971
Less than 1 month past due	**3,356**	5,540
1 to 3 months past due	**5,477**	4,847
More than 3 months but within 12 months past due	**17,315**	15,124
More than 12 months past due	**8,321**	12,419
Amounts past due	**34,469**	37,930
	40,126	61,901

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.

(Expressed in United States dollars unless otherwise indicated)

17 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis *(Continued)*

Of the trade debtors and bills receivable of $108,703,000 (2016: $123,958,000), an amount of $144,000 (2016: $2,566,000) is 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(k)(i)).

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

	2017 **$'000**	2016 $'000
At 1 January	**62,057**	7,590
Exchange adjustments	**3,059**	(2,397)
Impairment losses recognised, net	**3,461**	56,864
At 31 December	**68,577**	62,057

At 31 December 2017, the Group's trade debtors of $81,962,000 (2016: $68,916,000) 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 $68,577,000 (2016: $62,057,000) were recognised.

(Expressed in United States dollars unless otherwise indicated)

17 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:

	2017 **$'000**	2016 $'000
Neither past due nor impaired	**5,065**	23,843
Less than 1 month past due	**2,937**	5,478
1 to 3 months past due	**4,285**	4,729
More than 3 months but within 12 months past due	**10,010**	12,115
More than 12 months past due	**4,444**	8,877
	21,676	31,199
	26,741	55,042

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.

(Expressed in United States dollars unless otherwise indicated)

18 CONSTRUCTION CONTRACTS

	2017 $'000	2016 $'000
Contract costs incurred plus recognised profits less recognised losses	**177,438**	220,738
Less: progress billings received and receivable	**(44,353)**	(24,116)
	133,085	196,622
Representing:		
Gross amount due from customers for contract work	**133,085**	199,186
Gross amount due to customers for contract work (note 22)	**–**	(2,564)
	133,085	196,622

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 $966,000 (2016: $2,035,000).

During the year ended 31 December 2017, impairment losses on gross amount due from customers for contract work of $44,684,000 (2016: $29,916,000) was recognised through profit or loss for a contract with uncertainties attached to its outcome.

19 AMOUNT DUE FROM A RELATED COMPANY

	2017 $'000	2016 $'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 due from Katy International Inc. 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.

(Expressed in United States dollars unless otherwise indicated)

20 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2017 **$'000**	2016 $'000
Cash at bank and on hand	**15,287**	9,952

(b) Reconciliation of liabilities arising from financing activities

	Total bank and other borrowings $'000
At 1 January 2017	49,317
Changes from financing cash flows	
Proceeds from new bank loans	20,243
Repayment of bank loans	(9,610)
Interest paid	(3,432)
	7,201
Other change	
Finance costs (note 5(a))	4,352
Exchange adjustments	1,052
At 31 December 2017	61,922

(Expressed in United States dollars unless otherwise indicated)

21 NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE

During the year ended 31 December 2017, the Group committed to a plan to sell a premise previously included in land and buildings held for own use (the "Disposable Asset") in the United States within the oilfield expendables and supplies segment, which is not part of the core businesses of the Group. In the opinion of the directors, the disposal of the Disposable Asset is expected to be completed within twelve months from the end of the reporting period.

The Disposable Asset with a carrying amount of $8,304,000 immediately prior to the classification as held for sale was written down to its fair value less cost to sell of $6,082,000. The measurement of fair value of the Disposable Asset involved Level 3 fair value measurement as defined in note 10(c)(i) and was based on market comparison approach. The significant unobservable input used in the fair value measurement was property-specific adjusting rate of the Disposable Asset to each comparable property and rates ranging from 0.9 – 1.2 were applied. The fair value measurement is positively correlated to these adjusting rates.

The valuation of the Disposable Asset was carried out by an independent valuer, which has staff who hold recognised and relevant professional qualification and have experience in the location and category of the Disposable Asset being valued.

22 TRADE AND OTHER PAYABLES

	2017 **$'000**	2016 $'000
Trade creditors and bills payable	**196,286**	217,800
Other payables and accrued charges	**37,921**	39,103
Gross amount due to customers for contract work (note 18)	**–**	2,564
	234,207	259,467

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

(Expressed in United States dollars unless otherwise indicated)

22 TRADE AND OTHER PAYABLES *(Continued)*

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:

	2017 $'000	2016 $'000
Within 1 month	**174,982**	192,936
More than 1 month but within 3 months	**2,153**	9,044
More than 3 months but within 12 months	**9,891**	9,297
More than 12 months but within 24 months	**8,597**	3,368
More than 24 months	**663**	3,155
	196,286	217,800

23 BANK LOANS AND OTHER BORROWINGS

At 31 December 2017, the bank loans and other borrowings were repayable as follows:

	2017 $'000	2016 $'000
Within 1 year or on demand	**47,601**	8,057
After 1 year but within 2 years	**4,992**	30,021
After 2 years but within 5 years	**5,969**	6,620
After 5 years	**3,360**	4,619
	14,321	41,260
	61,922	49,317

23 BANK LOANS AND OTHER BORROWINGS *(Continued)*

At 31 December 2017, the bank loans and other borrowings were secured as follows:

	2017 **$'000**	2016 $'000
Unsecured notes	**27,480**	26,748
Bank loans		
– secured	**23,653**	20,433
– unsecured	**10,789**	2,136
	61,922	49,317

(a) The bank loans carried interest at rates ranging from 3.75% to 7.50% per annum (2016: 3.75% 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 $57,689,000 (2016: $50,202,000).

(ii) 52.6% (2016: Nil) equity interest in TSC (Qingdao).

(iii) Corporate guarantees given by TSCOE, ZZOE, TSC (Qingdao) and TSC MS Holdings Inc to the extent of banking facilities outstanding of $10,789,000 (2016: given by TSCOE, TSC-HHCT, ZZOE, TSC China and TSC (Qingdao) to the extent of banking facilities outstanding of $2,120,000) as at 31 December 2017.

(iv) Corporate guarantees given by the Company to the extent of banking facilities outstanding of $4,172,000 (2016: $721,000) as at 31 December 2017.

Certain bank loans of the Group are subject to the fulfilment of covenants relating to statement of financial position ratios of certain subsidiaries, as are commonly found in lending arrangements with financial institutions. The drawn down loan balances would become payable on demand if the covenants are 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 2017, the Group did not meet certain covenants of a bank loan of $4,172,000 (2016: $314,000), which was fully repaid subsequent to the year end in accordance with the repayment schedule. Other than that, none of the covenants relating to the Group's bank loans had been breached.

(b) The Company issued two HK$ denominated unsecured notes with 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:

	2017 **$'000**	2016 $'000
Provision for the year	**267**	2,699
Provisional income tax paid	**(749)**	(1,056)
	(482)	1,643
Balance of income tax provision relating to prior years	**4,888**	5,951
	4,406	7,594

	2017 **$'000**	2016 $'000
Reconciliation to the consolidated statement of financial position:		
Tax recoverable	**(405)**	(241)
Tax payable	**4,811**	7,835
	4,406	7,594

(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/ (less than) 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 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)
At 1 January 2017	**(43)**	**(2,549)**	**(1,765)**	**673**	**(9,380)**	**(511)**	**(13,575)**
Exchange adjustments	**–**	**50**	**(77)**	**23**	**(42)**	**(3)**	**(49)**
Charged/(credited) to profit or loss (note 6(a))	**313**	**(445)**	**(1,588)**	**(437)**	**2,599**	**99**	**541**
At 31 December 2017	**270**	**(2,944)**	**(3,430)**	**259**	**(6,823)**	**(415)**	**(13,083)**

(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)*

	2017 $'000	2016 $'000
Reconciliation to the consolidated statement of financial position:		
Net deferred tax assets recognised in the statement of financial position	**(13,083)**	(13,706)
Net deferred tax liabilities recognised in the statement of financial position	**–**	131
	(13,083)	(13,575)

At 31 December 2017, the Group had temporary differences arising from undistributed profits of subsidiaries of $27,378,000 (2016: $47,189,000). 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 $174,243,000 (2016: $106,955,000) 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. Except for tax loss of the Group's PRC subsidiaries of $20,549,000 (2016: $14,554,000) which will expire within five years, 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.

(Expressed in United States dollars unless otherwise indicated)

25 EMPLOYEE RETIREMENT BENEFITS *(Continued)*

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 resolutions 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.

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 breach 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 years ended 31 December 2017 and 2016. The total consideration paid for the purchase of 5,095,000 shares in prior years 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 is 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 breach 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 during the current or prior years.

(Expressed in United States dollars unless otherwise indicated)

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 board of directors, 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".

(Expressed in United States dollars unless otherwise indicated)

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

Share Option Scheme *(Continued)*

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

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

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

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.

(Expressed in United States dollars unless otherwise indicated)

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

Share Option Scheme *(Continued)*

(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 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	47,760,000		

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)*

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

	2017		2016	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**HK$2.54**	**36,820,000**	HK$2.56	44,930,000
Forfeited during the year	**HK$4.16**	**(8,762,000)**	HK$2.65	(8,110,000)
Outstanding at the end of the year	**HK$2.06**	**28,058,000**	HK$2.54	36,820,000
Exercisable at the end of the year	**HK$1.93**	**25,218,000**	HK$2.55	31,433,000

The options outstanding at 31 December 2017 had a weighted average remaining contractual life of 4.39 years (2016: 3.48 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$2.90	HK$1.01	HK$1.90	HK$1.20	HK$2.06	HK$0.54	HK$2.32	HK$5.22	HK$5.60	HK$2.43
Exercise price	HK$2.11	HK$4.16	HK$2.90	HK$1.02	HK$1.97	HK$1.27	HK$2.06	HK$0.54	HK$2.32	HK$5.23	HK$5.60	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%	1.24%	3.38%	2.80%	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.

(Expressed in United States dollars unless otherwise indicated)

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 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 and 1 January 2017	**9,094**	**127,805**	**1,159**	**5,336**	**(12,359)**	**131,035**
Changes in equity in 2017:						
Total comprehensive income for the year	**–**	**–**	**(909)**	**–**	**(2,361)**	**(3,270)**
Equity-settled share-based transactions	**–**	**–**	**–**	**(1,561)**	**1,896**	**335**
Balance at 31 December 2017	**9,094**	**127,805**	**250**	**3,775**	**(12,824)**	**128,100**

28 CAPITAL AND RESERVES *(Continued)*

(b) Share capital

(i) Authorised and issued share capital

	2017		2016	
	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 and 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	2017 Number	2016 Number
10 November 2007 to 9 May 2017	HK$2.43	**–**	3,982,000
12 May 2008 to 11 November 2017	HK$5.60	**–**	4,780,000
15 July 2008 to 14 January 2018	HK$5.23	**1,000,000**	1,000,000
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**	7,288,000
1 March 2011 to 31 August 2020	HK$1.27	**2,320,000**	2,320,000
4 March 2013 to 3 September 2017	HK$1.02	**7,065,000**	7,065,000
28 February 2014 to 29 August 2018	HK$2.90	**4,105,000**	4,105,000
2 March 2015 to 1 September 2019	HK$4.16	**2,250,000**	2,250,000
24 June 2015 to 23 December 2019	HK$2.11	**600,000**	600,000
		28,058,000	36,820,000

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(v).

(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(r)(ii).

(v) Capital reserve

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

During the year ended 31 December 2016, TSC (Qingdao) was transformed into a company limited by shares. As a result, its net assets value in excess of share capital was transferred to capital reserve as a capital contribution.

(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 2017, as computed in accordance with the Companies Law (Revised) of the Cayman Islands amounted to $114,981,000 (2016: $115,446,000).

(e) Dividend

The directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: $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 2017 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 2017 was 96% (2016: 77%).

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 17(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, nil (2016: 5%) and 8% (2016: 77%) 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 17.

(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:

	2017 Contractual undiscounted cash outflow						2016 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	234,207	-	-	-	234,207	234,207	256,903	–	–	–	256,903	256,903
Bank loans	21,223	5,898	6,540	3,844	37,505	34,442	9,456	4,153	7,772	5,273	26,654	22,569
Unsecured notes	28,201	-	-	-	28,201	27,480	1,399	28,399	–	–	29,798	26,748
	283,631	5,898	6,540	3,844	299,913	296,129	267,758	32,552	7,772	5,273	313,355	306,220

(Expressed in United States dollars unless otherwise indicated)

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 and cash equivalents, 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 and cash equivalents and pledged bank deposits) at the end of the reporting period.

	2017		2016	
	Effective interest rate	**$'000**	Effective interest rate	$'000
Fixed rate borrowings:				
Bank loans	**3.75% – 7.50%**	**10,584**	3.75% – 5.66%	8,485
Unsecured notes	**8.5% – 8.6%**	**27,480**	8.5% – 8.6%	26,748
		38,064		35,233
Variable rate borrowings/ (deposits):				
Bank loans	**4.50% – 5.39%**	**23,858**	4.0 % – 7.21%	14,084
Less: Pledged bank deposits	**0.80% – 1.46%**	**(563)**	0.35 % – 2.55%	(1,505)
Cash and cash equivalents	**0.05% – 0.75%**	**(15,287)**	0.1 % – 1.55%	(9,952)
		8,008		2,627
Total net borrowings		**46,072**		37,860

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

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2017, 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 $80,000 (2016: $26,000). 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 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 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 2016.

(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 2017 and 2016, 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.

(Expressed in United States dollars unless otherwise indicated)

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)	
	2017	2016
	$'000	$'000
Trade and other receivables	**7,246**	9,263
Cash and cash equivalents	**557**	1,545
Trade and other payables	**(10)**	(253)
Net exposure arising from recognised assets and liabilities	**7,793**	10,555

(Expressed in United States dollars unless otherwise indicated)

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 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.

	2017		2016	
	Increase/ (decrease) in foreign exchange rates	**Effect on loss before tax $'000**	Increase/ (decrease) in foreign exchange rates	Effect on loss before tax $'000
United States dollars	**5%**	**(390)**	5%	(528)
	(5)%	**390**	(5)%	528

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss 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 2016.

(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 2017 and 2016.

(Expressed in United States dollars unless otherwise indicated)

30 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2017 not provided for in the financial statements were as follows:

	The Group 2017 $'000	2016 $'000
Contracted for	**6,875**	625

(b) At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group 2017 $'000	2016 $'000
Within 1 year	**829**	969
After 1 year but within 5 years	**2,682**	3,032
After 5 years	**–**	162
	3,511	4,163

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:

	2017 **$'000**	2016 $'000
Salaries and other emoluments	**1,644**	3,178
Share-based payments	**–**	–
Retirement scheme contributions	**168**	158
	1,812	3,336

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:

	2017 **$'000**	2016 $'000
Sales of capital equipment and packages	**945**	5,262

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 $88,000 (2016: $3,485,000) and $857,000 (2016: $1,777,000) 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	**2017** **$'000**	2016 $'000
Non-current assets			
Property, plant and equipment		**–**	–
Interest in subsidiaries		**157,001**	158,762
		157,001	158,762
Current assets			
Other receivables, prepayments and deposits		**36**	35
Cash and cash equivalents		**174**	75
		210	110
Current liabilities			
Other payables and accrued charges		**610**	661
Amounts due to subsidiaries		**1,021**	428
Other borrowings		**27,480**	–
		29,111	1,089
Net current liabilities		**(28,901)**	(979)
Total asset less current liabilities		**128,100**	157,783
Non-current liability			
Other borrowings		**–**	26,748
NET ASSETS		**128,100**	131,035
CAPITAL AND RESERVES	28(a)		
Share capital		**9,094**	9,094
Reserves		**119,006**	121,941
TOTAL EQUITY		**128,100**	131,035

(Expressed in United States dollars unless otherwise indicated)

33 NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

As disclosed in note 1(b), subsequent to the end of the reporting period, the Group allotted 765,186,000 new shares to the nominee of China Marchants & Great Wall Ocean Strategy & Technology Fund, Prime Force Investment Corporation with net proceeds amounting to HK$505,070,000 (equivalent to $64,649,000). After the completion of the share allotment, the directors consider the immediate parent and ultimate controlling party of the Group to be Prime Force Investment Corporation and China Merchants Group Limited, which is incorporated in the British Virgin Islands and the PRC, respectively.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 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
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
Amendments to HKAS 28, *Investments in associates and joint ventures*	1 January 2018
Amendments to HKAS 40, *Investment property: Transfers of investment property*	1 January 2018
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019

(Expressed in United States dollars unless otherwise indicated)

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations 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. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) fair value through other comprehensive income ("FVTOCI") as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

(Expressed in United States dollars unless otherwise indicated)

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 9, Financial instruments *(Continued)*

(a) Classification and measurement *(Continued)*

– For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost and FVTOCI will continue with their respective classification and measurements upon the adoption of HKFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group has the option to irrevocably designate as FVTOCI (without recycling) on transition to HKFRS 9. The Group plans to elect this designation option for the investments held on 1 January 2018 and will recognise any fair value changes in respect of these investments in other comprehensive income as they arise. The Group is in the process of making an assessment of what the impact on the available-for-sale investments is expected to be on adoption of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group upon adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses.

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.

Based on the assessment completed to date, the Group has identified the timing of revenue recognition is likely to be affected upon the adoption of HKFRS 15.

The Group's revenue recognition policies are disclosed in note 1(u). 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.

(Expressed in United States dollars unless otherwise indicated)

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

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

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.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from sales of goods under HKAS 18. However, revenue recognition for construction contracts currently accounted for under HKAS 11 is likely to be affected when HKFRS 15 is adopted.

Based on the assessment so far, certain constructions contracts of the Group may not fall into the 3 situations as identified under HKFRS 15 in which control of the promised good or service is regarded as being transferred over time. These involve construction of rig products and capital equipment to the customised specifications that potentially have an alternative use to the Group. Accordingly, recognition of the revenue and associated costs for these contracts will be deferred to a single point in time when the control of such products and equipment are transferred to the customers (i.e. upon the transfer of legal title and the customers' acceptance of the products/equipment).

The Group plans to elect to use the cumulative effect transition method for the adoption of HKFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by HKFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. Accordingly, revenue of certain of these construction contracts will have to be reversed as at 1 January 2018, upon the adoption of HKFRS 15.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 16, Leases

As disclosed in note 1(j), 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. As disclosed in note 30(b), at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to $3,511,000 for office properties, a portion of which is payable between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. 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.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.

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

	2017 **US$'000**	2016 US$'000	2015 US$'000	2014 US$'000	2013 US$'000
Revenue	**76,552**	142,531	194,899	270,586	201,928
Cost of sales	**(67,331)**	(104,745)	(140,543)	(195,339)	(138,151)
Gross profit	**9,221**	37,786	54,356	75,247	63,777
Other revenue and net income	**2,411**	5,685	3,842	883	1,981
Selling and distribution expenses	**(6,902)**	(5,170)	(12,554)	(9,849)	(7,000)
General and administration expenses	**(25,991)**	(33,409)	(33,089)	(33,292)	(32,961)
Other operating expenses	**(58,797)**	(111,841)	(5,975)	(5,461)	(4,934)
Finance costs	**(4,352)**	(4,363)	(4,545)	(3,221)	(3,372)
Share of results of associate	**4**	–	–	–	(54)
(Loss)/profit before taxation	**(84,406)**	(111,312)	2,035	24,307	17,437
Income tax	**987**	(264)	(738)	(3,365)	(2,138)
(Loss)/profit for the year	**(83,419)**	(111,576)	1,297	20,942	15,299

ASSETS AND LIABILITIES

			As at 31 December		
	2017 **US$'000**	2016 US$'000	2015 US$'000	2014 US$'000	2013 US$'000
Non-current assets	**73,355**	86,057	115,591	103,090	96,054
Current assets	**241,252**	326,767	454,138	390,903	258,626
Current liabilities	**(286,619)**	(275,359)	(312,281)	(230,466)	(142,664)
Net current (liabilities)/assets	**(45,367)**	51,408	141,857	160,437	115,962
Non-current liabilities	**(14,321)**	(41,391)	(38,453)	(38,360)	(7,772)
Net assets	**13,667**	96,074	218,995	225,167	204,244

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 2017 are as set out on page 84 to 85 of the audited financial statements.

2. The consolidated statement of financial position of the Group as at 31 December 2017 are as set out on pages 86 to 87 of the audited financial statements.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Hongyuan *(Executive Chairman and Chief Executive Officer)*
Mr. Jiang Bing Hua *(Co-Chairman)*
Mr. Zhang Menggui, Morgan
Mr. Yang Guohui *(Chief Operating Officer)*

Non-executive Directors

Mr. Wang Jianzhong
Ms. Li Rong

Independent non-executive Directors

Mr. Chan Ngai Sang, Kenny
Mr. Guan Zhichuan
Dr. Lu Xiaoming

COMPLIANCE OFFICER

Mr. Zhang Menggui, Morgan

ACTING CHIEF FINANCIAL OFFICER

Mr. Lim Joo Heng, Paul

COMPANY SECRETARY

Ms. Cheung Wai Sze, Candy

AUTHORISED REPRESENTATIVES

Mr. Zhang Menggui, Morgan
Mr. Jiang Bing Hua

AUDIT COMMITTEE

Mr. Chan Ngai Sang, Kenny *(Chairman)*
Dr. Lu Xiaoming
Mr. Guan Zhichuan

REMUNERATION COMMITTEE

Dr. Lu Xiaoming *(Chairman)*
Mr. Wang Hongyuan
Mr. Jiang Bing Hua
Mr. Chan Ngai Sang, Kenny
Mr. Guan Zhichuan

NOMINATION COMMITTEE

Mr. Wang Hongyuan *(Chairman)*
Mr. Zhang Menggui, Morgan
Mr. Chan Ngai Sang, Kenny
Dr. Lu Xiaoming
Mr. Guan Zhichuan

COMPLIANCE COMMITTEE

Mr. Yang Guohui *(Chairman)*
Mr. Chan Ngai Sang, Kenny
Mr. Guan Zhichuan
Ms. Cheung Wai Sze, Candy

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Sheung Wan
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China, Qingdao Branch
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

AUDITORS

KPMG

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