華商国際
CMIC OCEAN EN-TECH

OFFSHORE as BASE
ENERGY as VALUE DRIVER
TECHNOLOGY as ACCELERATOR
CAPITAL as INCUBATOR
GLOBALIZATION as FOUNDATION

Annual Report 2018

Stock Code: 206

SMS MARIAM & SMS FAITH jack-ups loading out

“ OFFSHORE AS BASE

ENERGY AS VALUE DRIVER

TECHNOLOGY AS ACCELERATOR

CAPITAL AS INCUBATOR

GLOBALIZATION AS FOUNDATION “

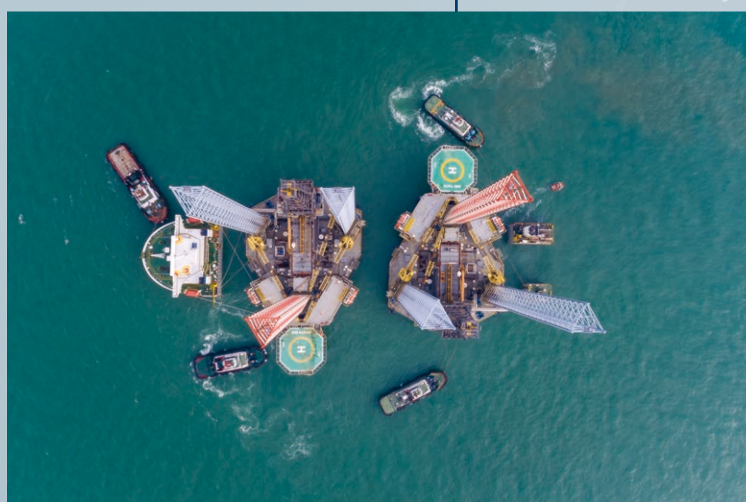
COMMITMENT TO DELIVER

“ A WORLD CLASS INTEGRATED

VALUE CHAIN SUPPLIER

OF OFFSHORE ENERGY

TECHNOLOGY “



SMS MARIAM & SMS FAITH jack-ups loading out on dry-tow transporter

Cover photo illustration: On 6 December 2018, SMS FAITH jack-up at the Pearl River Estuary en-route to the Middle East. This jack-up unit is one of the two sister ships of the same model owned by WME, which is a joint venture between CMIC Ocean En-Tech Holding Co., Ltd. and China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.) (“Fund”). Both units are in the Middle East on contract to the Abu Dhabi National Oil Company.

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CORPORATE PROFILE

BUSINESS OVERVIEW

CMIC Ocean En-Tech Holding Co., Ltd. ("CMIC" or the "Company", formerly known as TSC Group Holdings Limited) 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 global subsidiaries (the "Group") are primarily engaged in asset investments and operations management of offshore platforms and an integrated value chain supplier of offshore and onshore energy technology, products and services.

Together with our substantial shareholder, China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.) (the "Fund"), we provide integrated financing and asset solutions to global clients. In a business update announced on 4 March 2019, our affiliated joint venture, Wealthy Marvel Enterprises Limited (the "JV" or "WME") (owned as to 50% by Alliance Offshore Group Limited ("AOG", a wholly-owned subsidiary of the Company) and 50% by the Fund) entered into agreements with Shelf Drilling ("SHLF"), the world's largest operator of jack-up rigs by number of active shallow water rigs of Clarksons's Statistics as at 31 December 2018, for four units of jack-up rigs and subscription of shares in SHLF. Of the four rig units, two units will be sold and another two units will be chartered on bareboat basis to SHLF. We deliver efficient and high-quality integrated solutions to enhance the intrinsic value of our assets as well as to create value for our customers. Our principal objective is to position the Company at the front of cyclical opportunities as a means of completing a strategic business transformation from offshore core equipment manufacturing to offshore rig asset investments, operations and management.

The Company has already developed and accumulated a comprehensive scope of engineering capabilities which includes the design, manufacture, installation and commissioning of onshore and offshore drilling rig equipment and general packages. Specific equipment products include cranes, machine rack pipes, jacking systems, power control and transmission systems, tension adjustment and compensation devices and systems, etc. Rigs maintenance, repair and operation (MRO) products and services include oilfield expendables, accessories and parts manufacturing, sale and repair services.

The Company pays close attention to the development of clean energy and technology related industries, proactively looks for the opportunities for investment and consolidation with marine energy science and technology related industries to realise synergistic effects of each business segments through investing in the undervalued opportunities along the industrial supply chain to enhance the overall performance of our business and maximises the interest of the shareholders and investors.

CNOOC 932 platform-Super M2 Jack-up rigs

Our TSC brand includes core equipment on CNOOC drilling platforms which recently successfully discovered oil and gas worth over RMB100 billion

Blue Whale No. 1, the world's most advanced ultra-deep water dual-rig semi-submersible drilling platform

Our TSC brand provides core equipment such as oil and gas burner for the Exploitation of combustible ice of blue whale no. 1

CORPORATE PROFILE

STRATEGIC TRANSFORMATION

The Company aims to be a world-class integrated value chain supplier of offshore energy technology and solutions by adopting a strategic framework of "Offshore as the base, Energy as the value driver, Technology as the accelerator, Capital as the incubator and Globalisation as the foundation". The framework leverages on the Company's accumulated experience in equipment engineering design, manufacturing, project execution and operations with the new team's competencies in the capital market, investments, mergers and acquisitions.

Within the above strategic framework, the affiliated joint venture WME entered into purchase agreements with China Merchants Industry Holdings ("CMIH") to acquire 2 units of CJ-46 jack-up rigs which were chartered on a bareboat basis to Selective Marine Services to operate on drilling contracts with the Abu Dhabi National Oil Company ("ADNOC") in 2018. Additionally, the JV on completion of agreements will become strategic partners with Shelf Drilling ("SHLF"), the world's largest operator of jack-up rigs by number of active shallow water rigs of CLARKSONS's Statistics as at 31 December 2018, through agreements entered for the sale of two units of CJ-46 jack-up rigs, bareboat charter of further two units of CJ-46 jack-up rigs and a subscription of shares in SHLF in February 2019. These transactions provide the means for the Company to drive strategic business transformations by significantly broadening market opportunities for core offshore equipment and services with a strategic partner such as SHLF in a recovering market for offshore rig assets.

On 28 December 2018, the Company's shareholders passed an unanimous resolution to approve the Rights Issue on the basis of one (1) rights share for every one (1) existing share held. The Company completed the Rights Issues in February 2019, and with net proceed approximately HK$657 million. The Rights Issue provides strong financial support for the Company's new business model which will enable further strategic transformation and long term development. This demonstrates the Company's long term strategies are recognised by strategic investors in the market.

As for mid and long term development plans, the Company intends to further strengthen its offshore engineering industrial value chain, with the help of the extensive experience of the old and new teams, continue to acquire high-quality platform assets and to enhance effectiveness and efficiency of utilisation and brand influence on offshore engineering assets. By utilising our channels of accessing capital, the Company will continue to expand its offshore engineering assets operation and management business and achieve full development in 2019.

CMIC successfully delivers the "SMS MARIAM" to the Middle East for operations

CMIC successfully delivers the "SMS FAITH" to the Middle East for operations

CORPORATE PROFILE

MILESTONES

1995

Emer International started business in Houston, Texas, U.S.A. and took the lead to introduce a number of advanced equipment and technologies to China's oil and gas industry

2001

HHCT, Emer International's first manufacturing facility founded in Xi'an, China, manufactured power control and driving system for onshore drilling

2002

Emer International's 2nd manufacturing facility founded in Qingdao, China. It is a manufacturing plant for hydraulic ends and accessories of mud pumps

2005

Emer International was listed on GEM of the Stock Exchange on 28 November 2005

2007

Emer International acquired Zhengzhou Highlight and Zhengzhou GEAR, obtained solid over control production line and lifting system product line, became the only company in China that can provide research and development, design and manufacture of lifting device for jack-up rigs

2008

Emer International acquired GME (London AIM), and was rebranded as TSC Offshore, expanded the product line of offshore drilling equipment and acquired the whole package capability of offshore drilling rigs. It has become one of the few global companies that can provide the whole package of offshore drilling rigs in parallel with NOV and MH

CORPORATE PROFILE

MILESTONES

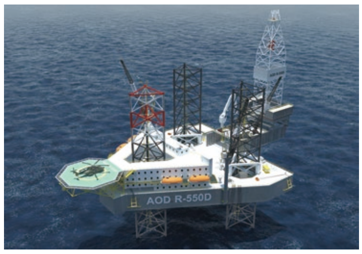
2009

TSC Offshore transferred its listing to the Main Board of the Stock Exchange

2011

- TSC Offshore rebranded as TSC Group
- CIMC becomes strategic shareholder of TSC

2013



Alliance with Zentech and CSSC to construct high spec R-550D jack-up drilling rigs

Establishment of Qingdao equipment manufacturing base

2018

In February 2018
China Merchant & Great Wall Ocean Strategy & Technology Fund (L.P.) became the controlling shareholder of TSC Group

In July 2018
Establishment of Hong Kong Strategic Headquarters

In December 2018, two CJ46 drilling rigs were bareboat chartered to SMS, to provide services to Abu Dhabi National Oil Company, a strategic transformation breakthrough for the Company.

2019

華商國際 CMIC OCEAN EN-TECH

In February 2019
- Minsheng Trust became our strategic shareholder
- TSC Group Holdings Limited was officially renamed as CMIC Ocean En-Tech Holding Co., Ltd.

In February 2019
The annual meeting of CMIC was held in Yantai, started a new chapter of strategic transformation

Global solutions

Deep distribution of global oil and gas hotspots, boosting the value integration of the offshore industry chain

global networks

oil and gas hotspot

GLOBAL NETWORKS

CORPORATE PROFILE

MAJOR EVENTS

2018

Feb

China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.) became the controlling shareholder of TSC Group Holdings Limited

May

Annual general meeting was held

Jul

Establishment of Hong Kong strategic headquarters

Aug

Board meeting was held

Dec

The joint venture WME purchased two CJ46 drilling rigs with very competitive price and rent to SMS to serve ADNOC

2019

Jan

華商國際 CMIC OCEAN EN-TECH

Renamed as CMIC Ocean En-Tech Holding Co., Ltd.

Feb

- Year 2019 conference meeting
- The Company successfully completed the Rights Issue and raised net proceeds of approximately HK$657 million

The joint venture WME, signed an agreement with SHLF, the largest jack-up offshore rig operator in the world, to lease and sell 2+2 CJ46 jack-up drilling rigs to, and will acquire shares in SHLF and become its strategic partner

FIVE YEARS FINANCIAL SUMMARY

The following is a summary of the consolidated results, assets and liabilities of the Group prepared on the basis set out in notes.

CONSOLIDATED RESULTS

	2018 US$'000	2017 US$'000	2016 US$'000	2015 US$'000	2014 US$'000
Revenue	**58,839**	76,552	142,531	194,899	270,586
Costs of sale	**(48,792)**	(67,331)	(104,745)	(140,543)	(195,339)
Gross profit	**10,047**	9,221	37,786	54,356	75,247
Other revenue and net income	**934**	2,411	5,685	3,842	883
Selling and distribution expenses	**(5,635)**	(6,902)	(5,170)	(12,554)	(9,849)
General and administration expenses	**(27,693)**	(25,991)	(33,409)	(33,089)	(33,292)
Other operating expenses	**(6,609)**	(58,797)	(111,841)	(5,975)	(5,461)
Finance costs	**(2,450)**	(4,352)	(4,363)	(4,545)	(3,221)
Share of results of associate	**1**	4	–	–	–
(Loss)/profit before taxation	**(31,405)**	(84,406)	(111,312)	2,035	24,307
Income tax	**(10,381)**	987	(264)	(738)	(3,365)
(Loss)/profit for the year attributable to equity shareholders of the Company	**(41,358)**	(82,790)	(110,450)	2,097	20,502

ASSETS AND LIABILITIES

	2018 US$'000	2017 US$'000	2016 US$'000	2015 US$'000	2014 US$'000
Non-current assets	**52,774**	73,355	86,057	115,591	103,090
Current assets	**228,008**	241,252	326,767	454,138	390,903
Current liabilities	**(245,183)**	(286,619)	(275,359)	(312,281)	(230,466)
Net current (liabilities)/assets	**(17,175)**	(45,367)	51,408	141,857	160,437
Non-current liabilities	**(7,201)**	(14,321)	(41,391)	(38,453)	(38,360)
Total assets	**280,782**	314,607	412,824	569,729	493,993
Total liabilities	**(252,384)**	(300,940)	(316,750)	(350,734)	(268,826)
Net assets	**28,398**	13,667	96,074	218,995	225,167

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 2018 are as set out on pages 90 to 91 of the audited financial statements.

2. The consolidated statement of financial position of the Group as at 31 December 2018 are as set out on pages 92 to 93 of the audited financial statements.

3. As a result of the adoption of HKFRS 15, *Revenue from contracts with customers*, with effect from 1 January 2018, the Group has changed its accounting policies in respect of revenue recognition. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to equity as at 1 January 2018. Figures in years earlier than 2018 are stated in accordance with the policies applicable in those years.

4. The Group adopted HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation*, from 1 January 2018. As a result, the Group has changed its accounting policies in relation to financial instruments. As allowed by HKFRS 9, the Group has not restated information relating to prior years. Differences in the carrying amounts of the financial assets resulting from the adoption of HKFRS 9 were recognised in accumulated losses and reserves at 1 January 2018. There was no difference in the carrying amounts of the financial liabilities. Prior to 1 January 2018, figures were stated in accordance with the policies applicable in those years.

CO-CHAIRMAN'S STATEMENT

Jiang Bing Hua
Co-chairman

The China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.) (the "Fund") was jointly established by China Merchant Group and China Great Wall Asset Management Co., Ltd. in the second half of 2017. On 9 February 2018, the Fund became the controlling shareholder of TSC Group (currently known as CMIC) through the issue of new shares by CMIC to the Fund. The new capital injection not only provided much needed funds for relief from pressures of the Company's operating cash flow but also brought new development opportunities for the transformation and upgrade of the Company's business. During the year, CMIC has now stabilised its existing businesses and have actively implemented transformative changes, strengthened its internal management and enhanced team integration. CMIC now has a new model for strategic transformation, innovation and development. With renewed efforts, we have explored new and innovative direction based on our past offshore equipment manufacture experience while focusing on new developments in the offshore asset management. The Company together with our new strategic shareholders continue to seek integration with value chain of the ocean energy technology industry.

On 28 December 2018, unanimous resolution was passed at the Company's general meeting to approve the Rights Issue of one (1) rights share for every one (1) existing share. The proceeds of approximately HK$657 million were raised through the Rights Issue which was completed in February 2019. This further laid a solid financial foundation for new business expansion and further strategic transformation of the Company towards long-term sustainable development.

With the support of extensive resources of the new and old management teams, the affiliated joint venture WME, successfully acquired two high spec CJ46 jack-up drilling rigs following completion of the Rights Issue. These rig units have been chartered to a drilling contractor. This step signifies a completion of a strategic breakthrough for the Company shifting from mainly a drilling rig equipment manufacturer and supplier to becoming an offshore assets management business. The affiliated joint venture WME also entered into further sales and charter agreements for 2+2 CJ46 jack-up drilling rigs with SHLF, the largest jack-up offshore rig operator in the world, and purchase of shares in SHLF, to become its strategic partner.

On the basis of retaining the original TSC Group's core management, the Company supplemented and optimised the middle and high-level management personnel. Through continuous integration and tuning, the Company has initially established a robust and efficient management team with a focus on offshore operations and capital operations, laying a solid foundation for talent protection for future strategic transformation. At the same time, the Company would focus on the integration of old and new corporate cultures and advocate a corporate culture of "firm belief, hard work, seeking truth from facts, boldly exploring new directions, solidarity, cooperation and courage to win the competition".

With the deepening of the transformation and development and the realisation of the strategic layout, in February 2019, the Company officially changed its name to "CMIC Ocean En-Tech Holding Co., Ltd.", and is committed to building its brand as a "world-class operator delivering the integrated chain value of offshore energy technology". The new senior management team gradually fit into the culture of the Company, and has further put its efforts in optimising the brand strategy management, marking the successful opening of the first year of CIMC.

In 2019, CMIC will continue to deepen its transformation and development, and utilise its internal and external resources to realise the balanced development of the offshore asset management, offshore equipment manufacturing and oil and gas service business. It will break through the difficulties arising from the industry's downturn and seek to achieve turnaround, to reward the long-term support and trust of all shareholders.

Yours sincerely,

Jiang Bing Hua
Co-Chairman

Hong Kong, 28 March 2019

EXECUTIVE CHAIRMAN AND CEO'S STATEMENT

Wang Hongyuan
Executive Chairman & CEO

2018 was the first year of strategic transformation for the TSC Group Holdings Limited (currently known as CMIC) and to introduce new strategic investment into CMIC. We have strong support of our strategic shareholders and investors for the Company's accumulated technical experience, industry resources and global network advantages. Base on these we have begun resource integration projects using our offshore engineering industrial value chain leveraged on industrial capital of our strategic shareholders. We now have an effective platform for winning over opportunities available from the integration and reorganisation of China's offshore engineering industry and the integration of upstream and downstream offshore engineering manufacturing resources in China. Together, this will gradually form the strong base for growth within the industrial value chain using the Company's manufacturing, leasing, sale, operation, management, repair, maintenance and other key component capabilities as a hub.

Execution of the Company's strategic shareholder's business plans were affected in 2018 by the changing global political and economic situation such as the Sino-US trade conflict and the blockade of technology patents. This resulted in a deferral of the execution of a substantial part of the Company's development plan till late November 2018. In addition, global energy trends were significantly affected by geopolitical factors and the volatile oil and gas market expected recovery during the year. Consequently, in 2018, the Company's revenue reduced to US$58.84 million which was a decrease of 23.1% as compared to 2017. However, due to tighter cost control and effort in securing orders for land drilling rigs, the Company's gross profit margin increased to 17.1%. The Company eventually recorded a loss attributable to equity shareholders of the Company of US$41.36 million in 2018, which was a significant decrease of 50% compared to the loss of US$82.79 million in 2017. Excluding non-cash costs such as impairments and provisions, its operating loss was US$23.04 million. With the introduction of strategic investors, the Company's pressures on cash and exposures to debt servicing burdens have been reduced and the pressures of financial and liquidity risks during the year have also been significantly reduced.

In the past year, with the new involvement in the Company's business by strategic shareholders, the new management team went through a period of changes. Although the Board fulfilled its duties scrupulously, some imperfection was inevitable. In this regard, the Board dedicated performance of its duties towards directing the new management team to continuously transform business processes to increase efficiency and team effectiveness. In 2019, the Company intends to complete the task of clearing up redundant assets and reducing debt and redundant overhead burdens. The reorganization and integration of the Company's operations in China will further improve controls to significantly improve existing businesses. Additionally, with more in-depth and closer cooperation with strategic shareholders such as CIMC and China Merchants Industry, the Company's business income and product lines will also continue to improve. With the support of the Fund and strategic shareholders, the Company completed the Rights Issue of one (1) rights share for every one (1) existing share in February 2019 and completed the purchase two CJ-46 jack-up rigs which were chartered out on a bareboat basis through the affiliated joint venture WME at a competitive rate of US$20,000 per day in February 2019 as well. Also, the affiliated joint venture WME and the Fund have signed agreements to invest in Shelf Drilling, the world's largest Jack-up rig operator. Shelf Drilling subscribes to a successful business concept of FIT-FOR-PURPOSE which is founded on the principle cost effective operations and maintenance of its rig fleet. These investments pave the way for complementary strategies which can provide opportunities for the Company's offshore engineering, core equipment supply and service business. It is believed that with the deepening interaction between the Board and management, the related synergy businesses will gradually contribute to mutual benefits.

EXECUTIVE CHAIRMAN AND CEO'S STATEMENT

With the trust and support of all shareholders, the Company successfully completed the Rights Issue of one (1) rights share for every one (1) existing share held in 2018. The Subscription Price for the Rights Shares was HK$0.45 per share which represented a premium of 12% above the share price of HK$0.395 per share on the first trading day after the Rights Issue (i.e. January 15, 2019). This was unusual in the Hong Kong capital market where rights issues were generally completed at a discount. The premium underscores the goodwill commitment to the interests of smaller and medium shareholders by strategic shareholders. The timing for the completion of the Rights Issue was critical to enable the Company to complete its restructuring plans in order to regain long term sustainability after a prolonged period of downturn of the global offshore engineering industry. Unfortunately, the capital market prevailing at the time of the Rights Issue was relatively depressed and the pricing of the Rights Shares was a critical consideration by the Board and strategic shareholders as a large discount would damage the interests of small and medium shareholders and would not raise sufficient funds to complete restructuring plans. Therefore, the management of the Group was cautious in working with the Board and strategic shareholders to reach agreement on the pricing of the Rights Issue and the details of the related fund-raising projects to protect the interests of small and medium-sized shareholders, including but not limited to setting the price above the share price on the issuance date, and using the funds raised to acquire high-quality offshore engineering assets at a price significantly lower than that prevailed in the industry market. This does not fully take into account the interests of small and medium-sized shareholders in the short term, but also bring significant opportunities for the Group's long-term development.

In 2019, the Company will emphasise the balanced development concept of "quality first, profit priority, scale moderate". We intend to form deeper alliances through strategic cooperation with investment partners to consolidate the listing platform with potential cross-border financing platforms. The original TSC business platform in China will also be expanded to cover offshore engineering assets management and to develop innovative research and development opportunities. The Company will strive for more resources support from strategic major shareholders, actively grasp the opportunities for the recovery and development of offshore energy industry, and further expand the scale in a timely and appropriate manner to introduce new strategic investment partners, optimize shareholder structure, to create long-term good value returns for investors.

Investments in clean energy and intelligent technology are areas which the Company will also look into the future in order to extend and integrate into the offshore engineering equipment manufacturing value chain. These will include investments in strategic assets, operations and management of marine energy science and technology-related industries. Continued research and development will be carried out to seek undervalued components within the energy value chain to gradually build synergies with other business sectors and ultimately to enhance the core competitiveness of overall business.

Finally, I would like to thank all shareholders for their support and trust in CMIC, and all strategic partners and stakeholders for their continued commitment and support. I hope that you will continue to pay attention to the transformation and development of CMIC. We are confident to overcome all difficulties to achieve a comprehensive "breakthrough" in all business sectors in 2019, so as to provide shareholders and investors with better performance.

Yours sincerely,

Wang Hongyuan
Executive Chairman & CEO

Hong Kong, 28 March 2019

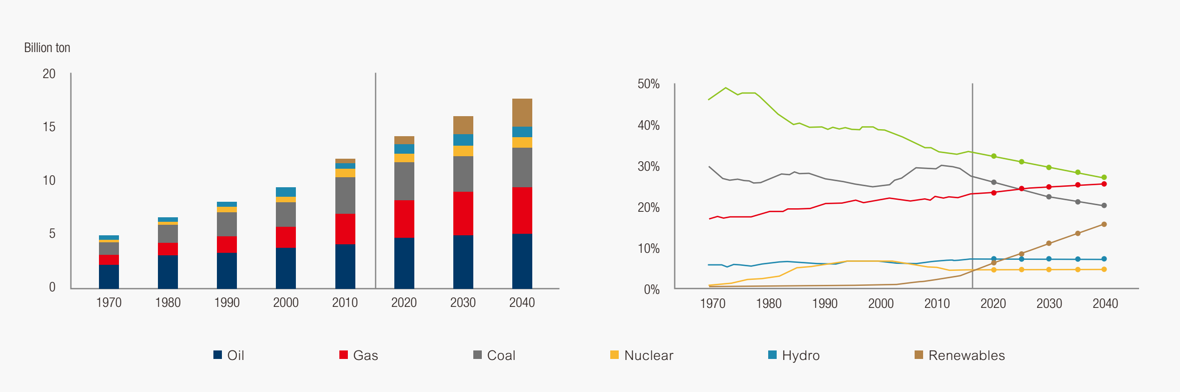
MARKET REVIEW AND PROSPECT

I. MARKET ANALYSIS OF THE INDUSTRY

Component of the global energy demand – oil remains dominant for a long time

According to the statistics released by BP ENERGY OUTLOOK in 2019, the demand for oil and gas accounts for over 53%, remaining to be the highest proportion, of the global energy demand structure by 2040. Among them, the annual growth rate of gas is 1.7% and its demand exceeds coal as the second largest source of energy of the world. By 2040, oil remains to be the primary component of all kinds of energy, with demand ranging from 80 million to 130 million barrels per day.

Component of global energy demand



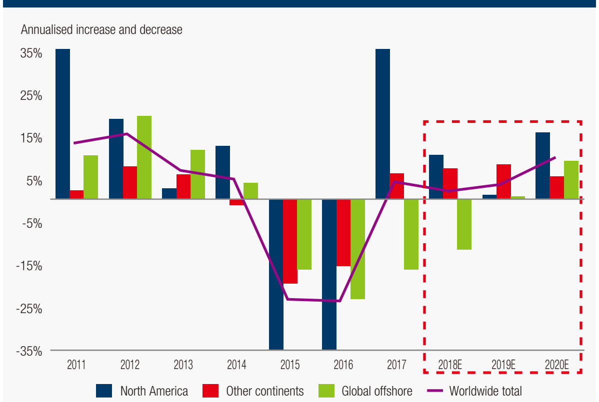
In 2018, notwithstanding the fluctuation in crude oil price, oil price gradually recovered over the fluctuation in the first half. The Brent crude oil price gradually increased from US$66.57/barrel at the beginning of January 2018 to US$86.29/barrel in early October, representing an increase of 29.6%. The Brent crude oil price recorded a sharp decline since October due to factors such as the increased geopolitical risk in the Middle East and the US-China trade war, and the price decreased by 32% to the lowest of US$58.71/barrel by the end of November. In December, oil price basically maintained around US$60. The average annual Brent crude oil price was US$43.74, US$54.15 and US$71.4 in 2016, 2017 and 2018, demonstrating an overall recovery of oil price in the past three years. The International Energy Agency ("IEA") expects that the supply of global oil will be further tightened in 2019. The IEA expects that the growth in global oil demand maintained at 1.40 million barrels per day in 2019. The overall oil and gas industry was positive.

Increasing Upstream Expenditure on the Oil Industry

According to the statistics of Wood Mackenzie, the capital investment in upstream E&P (Exploration & Production) of the global oil and gas industry has increased and is expected to maintain steady growth during the period from 2020 to 2030. According to statistics of Barclays Bank lc, the capital investment in global upstream E&P increased by 8% from US$357 billion in 2017 to US$383.8 billion in 2018, and is expected to increase by 8% to US$414.5 billion in 2019. Meanwhile, the capital expenditure from global offshore oil experienced a significant increase, and the three largest oil companies in China declared in 2019 that they would increase upstream capital expenditure to improve the overall utilisation rate of rigs.

Statistics and forecast for global oil and gas industry upstream capex, 2007-2023

Gradual rebound in global offshore oil capex



The Global Offshore Rigs Market

Although the supply in the global offshore rigs market is still greater than demand, with regard to the supply of the Jack-up drilling rig market that the Company focuses on, the supply of the Jack-up rigs remained relatively steady. With the ageing of the rigs in general, the demand for renewal is strong. As there are no new orders while there is a gradual decrease in the warm, cold stacked rigs and the growth in the number of old rigs to be dismantled was modest, the rig asset prices dropped to the lowest over the last decade. There was a steady increase in the demand for jack-up drilling, while the utilization rate of rigs kept increasing. The global jack-up drilling rigs enjoy an active demand from the Middle East and the worldwide top operators such as Shelf Drilling have dominated its demand.

Currently, the market demand for offshore rig gradually resumed. According to statistics and forecasts of CLARKSONS, an authoritative evaluation institution in the world, there were 477 shallow water jack-up rigs available in 2018, with 336 in demand, representing an oversupply of 141. The demand grew by 6% compared to 2017, and the supply basically remains at the same level. It is expected that the supply of jack-up rigs will be 469 in 2019, and the demand will be 361, representing an oversupply of 108. It is expected that the demand will increase by 7%, while the supply will decrease by 2%. The demand for jack-up rigs will increase at an average annual rate of 6.5%, while supply will reduce gradually. The overall market demand is picking up slowly from bottom. The average utilisation rate of the global jack-up rigs in 2018 was 70%, and it is expected to reach 77% by the end of 2019.

	Historical Statistics for Demand, Supply and Utilization Rate of Global Jack-up Rigs				Forecast	
	2015	2016	2017	**Dec-18**	**2019**	2020
Demand	348	305	316	**336**	**361**	383
Growth-y-o-y/y-t-d	-19%	-12%	4%	**6%**	**7%**	6%
Active Supply	469	474	479	**477**	**469**	481
Growth-y-o-y/y-t-d	-5%	1%	1%	**0%**	**-2%**	3%
Utilisation Rate	74%	64%	66%	**70%**	**77%**	80%

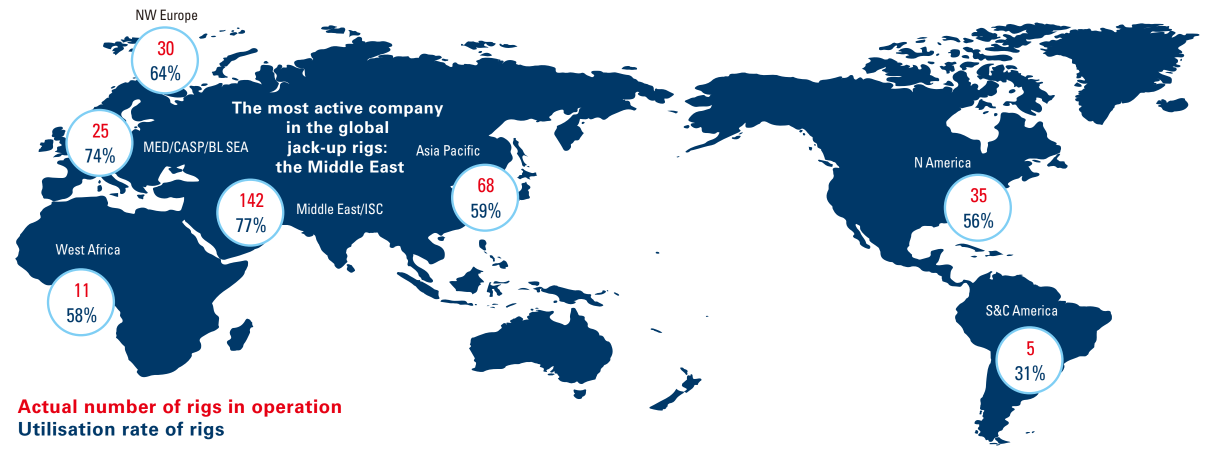
Notes: source: Clarksons

From 2016 to 2018, the demand for jack-up rigs increased slowly year by year, and the demand is expected to increase by 7% in 2019.

From 2016 to 2018, the supply of jack-up rigs remained basically unchanged. The supply side will have a cyclical recovery only with the overall renewal of old rigs.

The Middle East is the most active area in the world for using the jack-up rigs, with utilisation rate and the number of rigs in operation much higher than other regions. According to the 2018 statistics of CLARKSONS, the hotspots of major demand for global shallow water jack-up rigs concentrated in the Middle East, Asia Pacific region, Gulf of Mexico and North Sea of Norway. In 2018, the largest demand for jack-up rigs came from the Middle East, in which 142 rigs in operation with utilisation rate of 77%. The number of rigs in operation and utilisation rate ranked first in the world; the second was the Asia-Pacific region with 68 rigs in operation and utilisation rate of 59% and the third was the Gulf of Mexico with 35 rigs in operation and utilisation rate of 56%.

The number of jack-up rigs in operation and utilisation rate of rigs in different regions of the world



The top 10 operators in the world had received a substantial number of market orders, and their rigs are aging seriously with strong demand for replacement. According to the 2018 statistics of CLARKSONS, the top 10 jack-up rigs operators in the world had 41% of rig assets in 2018, and their average utilisation rate of rigs was 75%, which was higher than the global average of 70%, and their number of jack-up rigs operating in hotspots was much higher than other operators. For example, the number of rigs operating in North Sea of Norway, Middle East, the Asia Pacific region and the Gulf of Mexico accounted for 79%, 51%, 46% and 38%, respectively.

	No. of Global Jack-up Rig Fleet										
Owner	North America	Sth America	West Africa	NW Europe	Med & Caspian	Middle East/India	Asia Pacific	Yard Stay/ Off Hire	Stacked	Avg. Age	Total
Shelf Drilling			**4**		**3**	**17**	**2**	**1**	**10**	**32.6**	**37**
Ensco plc	4		1	6		**11**	3		9	20.9	34
CNOOC	1		1			**3**	21		7	17.1	33
Borr Drilling			2	4		**2**	1	1	18	10.3	28
ADNOC						**20**				21.5	20
Rowan Companies	2	3		4	1	**8**			2	16.5	20
CNPC						**4**	4		6	36.4	14
Maersk Drilling				8			1		5	11	14
ADES					6	**6**			1	9.1	13
Noble Corp	1			4		**6**			1	40.3	12
Total Top 10	8	3	8	26	10	**77**	32	2	59		225
Share of Total	4%	1%	4%	12%	4%	**34%**	14%	1%	26%		41%

Notes: source: Clarksons

The top 10 jack-up rigs operators have a total of 225 rigs, accounted for 41% of the world.

The largest jack-up rigs operator in the world has 37 rigs with an average age of 32.6 years, and the demand for replacement is extremely strong.

The ages of fleets of the second, fifth and seventh largest operators are more than 20 years, and the demand for replacement is strong.

Introduction of major jack-up rig operators:

Shelf Drilling: the largest jack-up drilling rig operator in the world with business covering the Middle East, Southeast Asia, India, West Africa and the Mediterranean region. The fleet currently has 37 jack-up rigs. In February 2019, the affiliated joint venture WME signed a sale agreement with Shelf Drilling, and will purchase shares in Shelf Drilling. This business cooperation and integration has expanded the scale of Offshore Assets of CMIC and strengthened the cooperation and future business synergy between CMIC and the global top offshore rig operators.

COSL: a subsidiary of CNOOC and the largest offshore oil field service company. It has 33 jack-up drilling rigs, two of which use the drilling package of TSC brand under CMIC. As a supplier of equipment, TSC, the Company's brand, has many years of business connection with COSL.

CPOE: a subsidiary of CNPC and the second largest offshore oil field service company. It has 14 jack-up drilling rigs. As a supplier of equipment, TSC, the Company's brand, has many years of business connection with CPOE.

Borr Drilling: the fourth largest jack-up drilling rig operator in the world. Established in 2016, in the past two years, Borr Drilling was an offshore drilling rig operator that have rapidly developed through the acquisition of high specification drilling rigs during the downturn of the industry. It currently has 28 jack-up drilling rigs. Borr Drilling purchased 9 PPL Pacific Class 400 jack-up drilling rigs from PPL SHIPYARD in October 2017, at a total consideration of US$1.3 billion, with an average purchase price per unit of US$139 million. The original construction cost of these rigs was US$209 million.

ADNOC: Abu Dhabi National Oil Company, the 12th largest oil company in the world, and an affiliated joint venture under CMIC. It had two CJ46 jack-up rigs (namely "SMS FAITH" and "SMS MARIAM") to provide offshore drilling services in March 2019.

The global jack-up rig fleet is aging overall, and the demand for replacement is strong. Among the global jack-up rig fleets, 78% of the jack-up rigs with size smaller than 300 feet aged more than 20 years, and they are now close to the end of their useful lives. The demand for replacement is strong. Only 14% of the jack-up rigs with size larger than 300 feet aged more than 20 years and they are the main force of the current jack-up rig fleet.

The jack-up rigs constructed during the 1980s in which construction activities were active, were close to the end of their useful lives. The accelerated pace for replacement and abandonment of the old-aged rigs will help these platforms under construction enter into the market, which will greatly ease the oversupply of the current jack-up rigs. The rental market will also have cyclical recovery. Due to the oversupply of the jack-up rigs, there was no new jack-up rigs order in 2018. There are currently a total of 80 jack-up rigs under construction, of which 74 are larger than 300 feet and 6 are smaller than 300 feet. There were 10 jack-up rigs delivered in the whole year, all of which are 300 feet or more.

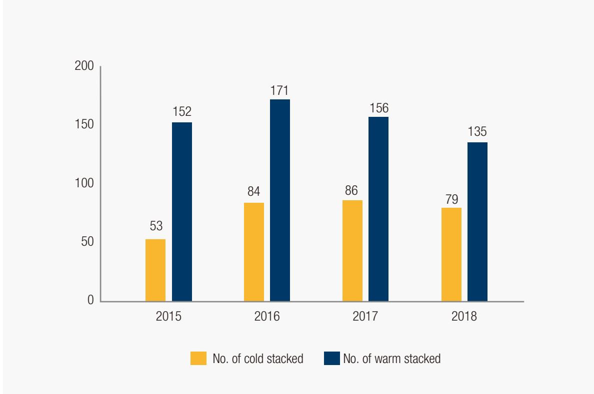
No. of Constructed Global Jack-up Rig Fleet by Year

Year for Commencement of Construction	Jack-Ups ≤300' feet	Jack-Ups >300' feet	Total
Total	280	270	550
1976-1980	**58**	**7**	**65**
1981-1985	**123**	**15**	**138**
1986-1997	10	11	21
1998-2008	17	61	78
2009+	45	170	215
Avg. Age Yrs	32.1	11.8	22.2
%<5 yrs	**5%**	**29%**	**17%**
%>20 yrs	**78%**	**14%**	**47%**

Notes: source: Clarksons
The global rigs are mainly old platforms with ages more than 20 years. They are now close to the end of life, so the demand for replacement is strong.

In 2018, there were 135 jack-up warm stacked rigs and 79 cold stacked rigs worldwide, representing a significant reduction as compared to 2016 and 2017. This indicates that the jack-up rig market is picking up with market demand gradually growing.

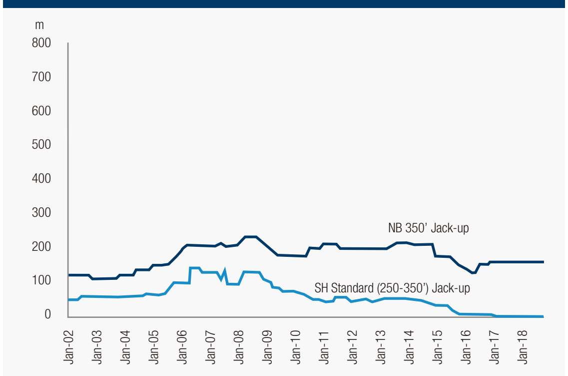
No. of cold and warm stacked jack-up rig by year worldwide



Rig asset prices are at their lowest point in nearly 10 years

There were no transactions in relation to jack-up rigs below 350 feet. Therefore, none of their transaction price was recorded. The price of jack-up rigs above 350 feet, deemed as the main transaction subject asset, was at its lowest over the last 10 years, presenting an excellent opportunity to purchase at the bottom price. According to market information from Clarksons, Borr Drilling acquired 9 Jack-up rigs of PPL Pacific Class 400 from PPL SHIPYARD in October 2017 at an aggregate consideration of US$1.3 billion, with an average purchase price of US$139 million per rig, which is the lowest price of Jack-up rigs in nearly 10 years. The original construction price of these rigs is US$209 million each.

Asset Prices for Jack-up Rigs



Sources: DNB Markets, IHS Petrodata

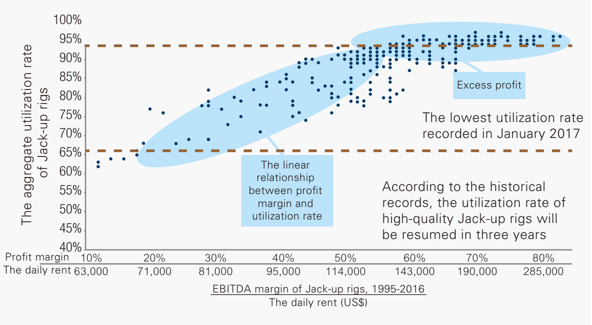
Historical Asset Price for Jack-up Rigs

	2011	2012	2013	2014	2015	2016	2017	Dec-18	This Year
NB Jack-Up 400ft#	205	205	220	210	160	170	170	**160-180**	*STEADY... 0%*
NB Jack-Up 350ft**	180	180	195	190	130	145	145	**130-160**	*STEADY... 0%*
SH Jack-Up 400ft Resale#								**100-150**	
SH Jack-Up 350ft+ 5-10yo^	215	218	225	190	110	75	90	**70-100**	*SOFTER... -6%*
SH Jack-Up Standard¨	50	45	50	40	13	10	5	**0-10**	*STEADY... 0%*

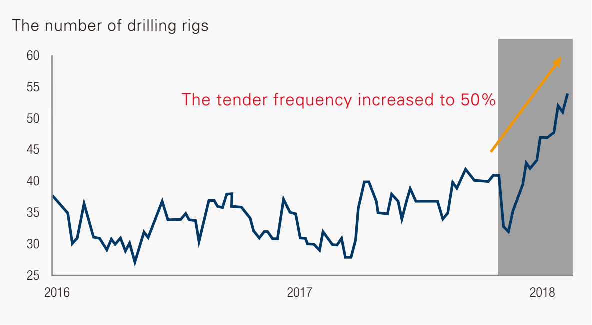
\# e.g. F&G JU-2000E design;
** e.g. MLT 116-E, GMSC CJ46;
^ e.g. KFELS B Class, Pacific 375;
¨ e.g. 1980s built MLT 116-C.

With the increase in the tender frequency of rigs of oil company, the utilisation rate and the daily rate of jack-up rigs rebounded. In 2018, the tender frequency of jack-up rigs increased by 83% from 30 rigs at the beginning of the year to 55 rigs. It is expected that the capital expenditure on offshore oil and gas E&P will increase by 9% in 2019. The utilisation rate of jack-up drilling rigs was around 65% in January 2017, the record low, reaching 70% by the end of 2018, and it is expected to reach 77% in 2019. The daily retirement and EBITDA margin will increase as the utilisation rate increased.

The profit margin of Jack-up rigs increased rapidly in line with the utilization rate



The recovery in Jack-up rigs growth



II. THE COMPANY'S DEVELOPMENT STRATEGY

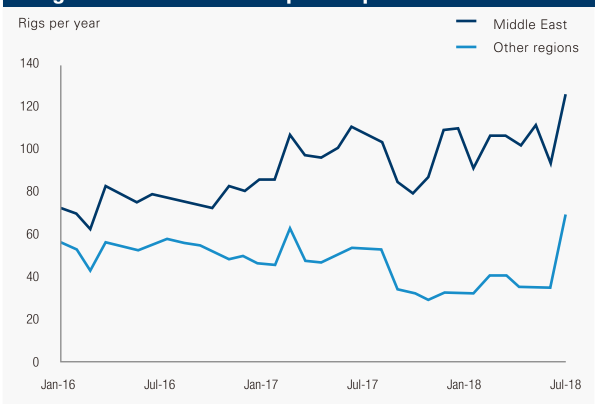
"Investment Strategy" of Offshore Engineering Assets Management Business

Since the oil price rebounded from a low point in 2016, the number of rig in operation in the world has gradually increased. Driven by the mining activities in the Middle East in 2018, the tendering frequency of rig and its utilisation rate have also been significantly improved. During this period, pre-tendering and tendering activities in West Africa and India began to resume in the second half of 2018, demonstrating that the whole jack-up rig market was gradually recovering and the current momentum is likely to remain.

Tendering activities & utilization rate of Jack-up rigs

The graph on the right shows the pre-tendering and tendering activities of the jack-up rigs in different regions, calculated in terms of rigs per year. As shown in the graph, the Middle East market has recovered markedly since the beginning of 2017, while the activities of the rest of the world have increased significantly in the second half of 2018 after the launch of activities by international oil companies in West Africa and India.

Pre-tendering and tendering activities of jack-up rigs in different areas up to September 2018



According to statistics by Clarksons, as of the end of 2018, there were 79 cold stacked jack-up rigs and about 80 new jack-up rigs under construction in the world. Supply and demand will remain unbalanced in the next 1-2 years, and daily rent will be still low. However, owing to the sharp increase in the number of tenders offered by oil companies and the popularity of new high-specification platforms operating in shallow water, it is expected that platforms with high utilisation rate will be leased out first.

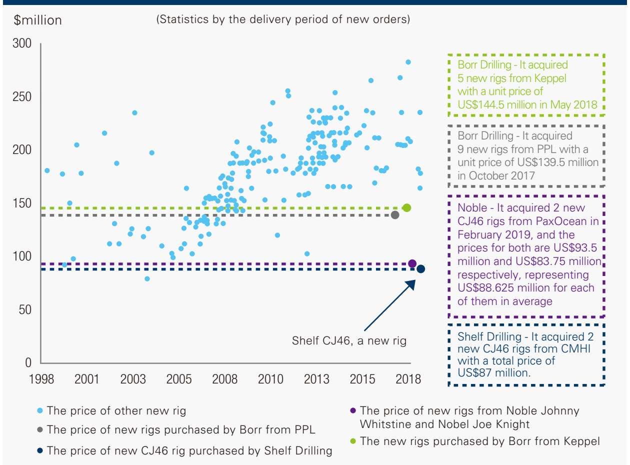
Large companies with strong cash flows in the industry have successively carried out M&A and integrations, while small companies were knocked out due to the exhaustion of the capital. The polarisation has become more apparent. In 2012, Shelf Drilling was established following the acquisition of 37 jack-up drilling rigs and 1 swamp barge from Transocean. Listed on the Oslo Bourse Norway in June 2018, Shelf Drilling is the world's largest operator of jack-up rigs by number of active shallow water rigs and owns 38 rigs as at 31 December 2018, with a market capitalisation of around US$490 million.

The revenue of Shelf Drilling of US$613 million in 2018 increased by approximately US$41.0 million or approximately 7.2% as compared to US$572 million in 2017, mainly due to two new drilling rigs and three newly acquired rigs put into operation. At the same time, the average daily rate of rigs and utilisation rate were higher than the market average during the same period (sources: Shelf's website).

Key business indicators	2015	2016	2017	Market Average during the same period	**2018**	**Market Average during the same period**
Average rentable drilling rigs	34.5	31.2	33.2	–	**36**	**–**
average daily rate (US$'000)	104.3	75.2	70.4	60.0	**64.9**	**52.5**
Average utilisation rate of drilling rigs	72%	74%	62%	57%	**68%**	**63%**

In February 2019, the affiliated joint venture WME signed a sale agreement for two CJ46 rigs with Shelf Drilling. The sales price of each rig was US$87 million. Compared with the integration of another industry leading enterprise Borr Drilling, the timing of purchase of the rig by the Company was better, because it was in the rising period of the industry, such that the capital and time cost was greatly reduced, and all the rigs purchased by the Company were leased (sources: Shelf's website).

The lowest price of jack-up rig asset over the last two decades



Against the backdrop of merger and integration of the whole industry, the Company managed to acquire shares in the world's largest jack-up rig operator and successfully capture the high ground from the demand for global shallow-water jack-up rigs. Leveraging on the leading position of Shelf Drilling in the industry and its edges in superb operational management, the Company has entered the first echelon of global offshore asset operational management, which lays a solid foundation for the subsequent comprehensive development of offshore management business.

In 2019, CMIC would face opportunities and challenges while undergoing transformation and upgrade and exploring new business models. The Company will actively seize the timing when the global offshore market recovers from a prolonged downturn and to look for new opportunities. At present, CMIC adheres to a balanced development concept of "quality first, benefit priority, scale moderate" as the fundamental development strategy, focuses on "Offshore as the base, Energy as the value driver, Technology as the accelerator, Capital as the incubator and Globalization as the foundation", and is committed to creating a "world class global marine energy technology industry chain value integration operator". Appreciating that we operate in a dynamically changing global environment the Company will continually adapt in order to seize opportunities, optimise operations and to execute strategies to realise its long term vision. Based on its insight and grasp of the changing global industry, the Company would revise, optimise and continuously improve the ability to implement its strategies.

Offshore asset management business "development strategy"

Through exploration and practice in 2018, the Company has worked out a development strategy to integrate industrial chain value, and ultimately achieves business transformation and development through counter-cyclical layout and pro-cyclical development. In 2019, the Company will continue to seize the opportunity arising from global counter-cyclical offshore industry, accelerate the integration of low-cost high-quality offshore assets, and expand the scale of offshore asset management platform in Singapore. First of all, the Company should work with strategic investors and shareholders across industries, and strengthen its cooperation with Shelf Drilling to promote the sales and leasing of 2+2 CJ46 rig assets and enhance business synergy with customers. Secondly, the Company actively seeks to establish strategic cooperation mechanism with new partners in global offshore industry and investors. In addition to the cooperation opportunities from offshore drilling rigs, the Company also actively explores the chance for investment integration in LNG carriers and other areas, and gradually improve industry reputation of CMIC and AOG (its subsidiaries in Singapore), in offshore asset investment and management area. Thirdly, the Company should strengthen communication with CSSC Huangpu Shipyard (中船集團黃埔船廠) and establish a mutually beneficial and winning cooperation model by solving the disposal plan of H6001 rig assets as soon as possible. Fourthly, the Company should maintain close cooperation with its strategic shareholder, CIMC Raffles and China Merchants Industry (招商工業), a related party of the Fund (the Company's controlling shareholder), and make efforts on its part to help subsequent integration of the whole offshore industry in China and form a long-term strategic cooperation with CIMC Raffles in future. Fifthly, the Company will speed up the implementation of the preparatory work for expansion of its offshore operations center in Singapore, and seek to expand the offshore assets management scale to 6-8 in AOG (its subsidiary in Singapore). By actively connecting with financial leasing business, the Company would seize the opportunity to acquire under-value quality asset.

By making the offshore asset management business larger and stronger, the Company will benefit from the double benefits arising from the future asset value appreciation and the increase in daily fee rate resulted from the increase in rig utilisation rate.

The development strategies of the core offshore equipment manufacturing and service business

The existing businesses of the Company are mainly the sales and services provided relating to the core offshore and land rig equipment, drilling packages and oilfield spare parts and consumption parts sales. With the cyclical recovery of the O&G industry, the number of global land rigs has steadily increased. According to the statistics of Baker Hughes on the quantity of rigs, the global land rigs reached the lowest level of 1,405 units in May 2016, and averaged 1,593 units per month throughout the whole year. The annual average number was 2,029 units per month in 2017, 2,211 units per month in 2018, and 2,244 units in December 2018. The increase between 2017 and 2018 was 9%. As the primary market for the Company's drilling equipment, North America had an increase of 14% from an average of 1,082 units per month last year to an average of 1,233 units per month in 2018. The recovery was strong. With regard to the drilling products market, the drilling market in North American has gradually become active since the first half of 2018, and the Company's new orders for drilling consumables and spare parts kept increasing month by month. In 2018, the sales and service orders of the Company's power control products, jacking systems and oilfield spare parts and consumables have increased. In 2019, the Company will continue to increase investment and efforts in sales and marketing to achieve an overall steady growth of the existing business. For land drilling products, the Company will continue to focus on high-end markets in North America, the Middle East as well as Xinjiang and Sichuan in China, and strengthen cooperation with land rigs factories.

For the offshore rigs market, over excessive construction in previous years has resulted in the oversupply of offshore drilling platforms, based on which the orders for the construction of new platforms and drilling packages are insufficient in the near term. However, the impairment of the new platform assets and the decline in the daily rate indicate that the pace for disassembling of the old platforms with 30-year-old ship or above accounting for more than 55% in the market, would speed up and this would result in a relatively saturated market of drilling rigs, a significant increase in rental activities and improvement in the utilisation rate of offshore rigs. By the end of 2018, the utilisation rate of jack-up drilling rigs was approximately 75%. The demand for the maintenance services of single drilling equipment and the demand for spare parts have also increased. The Company will strengthen cooperation with, and receive more orders from, the shipyard of CM Industry for offshore products in 2019, and would continue to enhance the communication and cooperation with Yantai CIMC Raffles (中集烟台來福士). With the affiliated joint venture WME investment in international first-class offshore drilling services companies such as Shelf Drilling, there will have a significant potential for achieving synergy between the supply and services of offshore products, including the sales and services of offshore drilling products such as power control, jacking system, cranes, piping systems, spare parts, etc.

Leveraging on the accumulated competitive advantages of the Company's talent pool, technology, quality and project management track record accumulated in the O&G and offshore industry, as well as the experience and strengths of the Fund, the controlling shareholder, with respect to acquisitions and capital markets, the Company will identify opportunities along the industry value chain to expand new products, new technologies and new market models for the existing businesses.

In 2019, the Company will fully settle the focus issues faced by the original TSC China's offshore equipment manufacturing business segment, which include fragmentation, scale limitation and difficulty to integrate. This will effectively integrate existing domestic business segments in Qingdao OE, Zhengzhou, Xi'an and Beijing to build a new "TSC" product and market brands, and reshape TSC's leading position in the core offshore equipment manufacturing.

For overseas business, in 2019, the Company will centralise management of overseas business and solve the shortcomings of previous overseas outlets due to fragmentation, small scale and lack of brand advantage. The Company will consider Houston as CMIC's overseas headquarters to solidify its overseas headquarters management platform, and enhance its operational control and performance review of its overseas companies to strictly control the cash cost of each overseas branch. The Company encourages each overseas company to take the initiative to solicit sales business, open up new profitable business segments, and increase operating revenue and cash flows through improvement of quality and efficiency.

Forming development strategies for nurturing innovation and R&D of new business

In 2018, the Company had conducted detailed industry research and market analysis on clean energy such as LNG and hydrogen energy, and actively sought to expand the starting point of original offshore business. Through proper investment in the under-valued segment of the whole industry chain, the Company achieved linkage effect across the Group's business segments and enhanced the core competitiveness of the Group's overall business. Meanwhile, the Company also researched high growth potential technology based opportunities to enhance in-house key technology capabilities and foster innovation and R&D through joint investment or shareholding cooperation, all of which are expected to help achieve the strategic goals of CMIC.

Supported by its offshore equipment manufacturing and offshore rig asset management, CMIC actively promoted the expansion of oil and gas industry chain. With its focus on "clean energy" and "production technology", CMIC looks for potential investment opportunities to expand the width and breadth of the Company's business so as to achieve sustainable development of the Company's business and provide investors with continuous investment return.

III ADVANTAGEOUS RESOURCES FOR CMIC

Support from strategic shareholders and complementary strength

In addition to the China Merchant & Great Wall Ocean Strategy & Technology Fund (L.P.), the Company's strategic investors and shareholders include the CIMC Group, Minsheng Trust (民生信託), China Merchants Capital (招商資本), Great Wall International Asset Management Corporation (長城國際資產管理公司) and China Merchants Industry Holdings (招商局工業集團). The combined footprint and business synergies of the Company and its investors and shareholders in offshore manufacturing and capital operations, or extensive sharing of experience will provide ample resources to the Company for expansion and integration between industry and finance, project investment and risk control. CMIC's competitive edge brings about significant opportunities for synergistic strategies to complement and create value for the businesses of our strategic investors and shareholders.

Positioning for the Offshore Asset Cycle

Access to competitively priced rig assets and shipyard facilities in cooperation with both China Merchant Industry Holdings and the CIMC Group will provide competitive advantages for the Company.

In 2018 the affiliated joint venture WME entered into purchase agreements with China Merchants Industry Holdings ("CMIH") to acquire two units of CJ-46 Jack-up rigs for bareboat charter to Selective Marine Services who will operate the rigs on drilling contracts with the Abu Dhabi National Oil Company ("ADNOC"). In February 2019, the affiliated joint venture WME, and Shelf Drilling, the world's largest jack-up offshore platform operator, entered into a sale agreement for two CJ46 rigs and a lease agreement containing pre-emptive purchase rights for two CJ46 rigs at an unit price of US$ 87 million, and upon completion of the sale, will acquire shares in Shelf Drilling to become its strategic shareholder.

Upon the completion of the above transactions, the affiliated joint venture WME will own and manage 4 CJ46 jack-up drilling rigs with leases and sell 2 CJ46 rigs through its joint venture with the Fund.

Capital operation and integration between industry and finance: utilize "financial portfolio" to acquire quality assets

Strategic investors were continuously introduced by aid of the financial leverage effect arising from actively working with strategic partners such as the Fund and China Merchants Commerce Leasing (招商局通商租賃), and the open market of the Company's listed platform. The Company made full use of "financial portfolio", including funds, financial leasing and stocks, to support the strategic layout of offshore asset acquisition:

In December 2018, the general meeting of CMIC passed unanimously a resolution in relation to Rights Issue on the basis of one (1) rights share for every one (1) existing share and proceeds of approximately HK$657 million were raised in February 2019;

In 2019, the Company will continue to enhance its ability and means in capital operation, and strived to connect with strategic partners such as state offshore industrial funds, state corporate policy loan, insurance funds and trust funds, and leveraged its strength in raising capital to drive its development towards transformation. Currently, the Company has actively negotiated with potential investors such as renowned Chinese financial institutions to implement key projects such as fundraising and share issues in 2019 as planned.

Securing the relationship with industry leaders to seize opportunities, acquiring shares in the international leading offshore asset operators, and capturing high grounds from global offshore demand

The offshore market is a globally integrated international market. The top global asset operators maintain long-term and stable cooperation with first-rate national and international oil companies. They have higher rig assets utilisation rates in all aspects compared to average market level, and are extraordinarily capable in handling assets. Their operation efficiency in rig and asset maintenance level is much higher than the average. Thus, deepening cooperation with leading operators would significantly increase the probability of leasing and selling rigs, while persistently securing stable rental income.

In 2019, the affiliated joint venture WME conducted transaction with Shelf Drilling, the largest jack-up offshore rig operator in the world, which in turn established a solid foundation for comprehensively promoting the operation and management of offshore assets in the future, and helped capture the high ground from global offshore demand. In 2019, we will continue to support Shelf Drilling to improve its funding situation and revise its schedule on the replacement of obsolete rigs, while continuing to inject under-valued but high-quality assets to subsequently expand offshore assets and build a top global drive platform.

Global networks with extensive coverage

The Company has been in the global oil and gas and offshore industries for many years, and has built up a global network of important technical knowhow. The global network includes presence in areas of high activity in energy, offshore and technology. The Company will keep up with market dynamics, look for opportunities to achieve global cooperation and win-win situations, and improve quality and efficiency of investment management services.

Robust corporate structure and financial strength:

The Company has established a strategic and management-oriented headquarters in Hong Kong and refined its operation management system. Achieving a balance of high quality assets, solid cash position and excellent operation management will make us a preferred partner within the industry. A robust development model coupled with a solid strategic synergy will enable us to establish a broad base for financial solutions. The Company is responsible for the interests of shareholders, and its employees and intends to continuously optimise operation management and strive to fulfill corporate social responsibilities to ensure the maximum benefits for all stakeholders.

For reference only, all market and strategy analysis presented in this annual report is from the Company's perspective, for which the Company does not assume any legal liabilities.

COMMITMENT TO DELIVER AN INTEGRATED VALUE CHAIN OF OFFSHORE ENERGY TECHNOLOGY

OVERVIEW

Recovery of the global economy in 2018 was adversely affected by trade friction and the negative impact of trade protectionism. Volatile crude oil prices trading between US$60 and US$80 per barrel, added to market uncertainties. And with the remaining oversupply from previous years in all sectors of the offshore industry, our customers remained prudent on new investments in capital expenditures during the year.

In these market circumstances, the Group's main focus during 2018 was to further develop its existing businesses and to focus on new areas of business innovation and transformation. Leveraging on the relevant engineering technology and solutions accumulated in past years, the Group actively developed its existing business by investing more resources and sales efforts in manufacturing of high end equipment such as land rigs and in components, consumables and maintenance & repair service relating to operation and maintenance of oil and gas drilling. The Group increased focus in the China region where exploration and production activities continues to grow.

Although the rate of aged rig being retired from operations continued at an increasing pace, the overall rig situation remains in excess of new rig contracts. Since China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.) became the substantial shareholder, the Group performed actively to execute innovative and transformative solutions for platform assets and exploring assets management business in offshore industry based on its own and the shareholder's advantages to further drive future business development and sustainable growth.

FINANCIAL REVIEW

	2018	2017	Change	
	US$'000	US$'000	US$'000	%
Revenue	**58,839**	76,552	(17,713)	(23.1)
Gross Profit	**10,047**	9,221	826	9.0
Gross Profit Margin	**17.1%**	12.0%		
Loss from operations	**(28,956)**	(80,058)	51,102	63.8
Net loss attributable to Equity Shareholders	**(41,358)**	(82,790)	41,432	50.0
Net Loss Margin	**(70.3%)**	(108.1%)		
Loss per Share (Basic and diluted)	**(US2.98 cents)**	(US11.79 cents)	US8.81 cents	74.7

Revenue

The overstocking and weak demand for platform products in the offshore industry market was due to the depressed demand in O&G industry. The Group's revenue decreased from US$76.6 million in 2017 to US$58.8 million in 2018. The land rig related products showed some improvements when oil price recovered at the beginning of the year. The Group invested sales efforts in land rigs in China, which contributed part of revenue this year.

Segment Information by Business Segments

	2018		2017		Increase/ (decrease)	
	US$'000	**%**	US$'000	%	US$'000	%
Capital Equipment and Packages	**32,724**	**55.6**	26,540	34.7	6,184	23.3
Oilfield Expendables and Supplies	**24,604**	**41.8**	45,135	59.0	(20,531)	(45.5)
Engineering Services	**1,511**	**2.6**	4,877	6.3	(3,366)	(69.0)
Total revenue	**58,839**	**100.0**	76,552	100.0	(17,713)	(23.1)

Capital Equipment and Packages

Revenue recognised on Capital Equipment and Packages projects increased by 23.3% in 2018 compared to 2017. It increased from US$26.5 million in 2017 to US$32.7 million in 2018. The addition of drilling related equipment of US$6.2 million was mainly driven by sales of land rigs and its products.

Oilfield Expendables and Supplies

The decrease of 45.5% from US$45.1 million in 2017 to US$24.6 million in 2018 for Oilfield Expendables and Supplies was due to the slow down in sales in Venezuela in 2018 as resulted from its political upheaval. Revenue in South America decreased by 64.1% to US$11.0 million in 2018 compared to US$30.7 million in 2017.

Engineering Services

Engineering Services revenue decreased from US$4.9 million in 2017 to US$1.5 million in 2018 mainly due to reduced demand for offshore engineering services.

Segment Information by Geographical Regions

	2018		2017		Increase/ (decrease)	
	US$'000	**%**	US$'000	%	US$'000	%
Mainland China	**29,118**	**49.5**	10,456	13.7	18,662	178.5
North America	**10,175**	**17.2**	23,282	30.4	(13,107)	(56.3)
South America	**11,003**	**18.7**	30,667	40.1	(19,664)	(64.1)
Europe	**5,307**	**9.0**	3,759	4.9	1,548	41.2
Singapore	**94**	**0.2**	984	1.3	(890)	(90.4)
Indonesia	**48**	**0.1**	958	1.3	(910)	(95.0)
Others	**3,094**	**5.3**	6,446	8.3	(3,352)	(52.0)
Total revenue	**58,839**	**100.0**	76,552	100.0	(17,713)	(23.1)

Gross Profit and Gross Profit Margin

The Gross Profit of US$10.0 million for the year of 2018 increased by 9.0% from US$9.2 million in the previous year. Gross Profit Margin increased from 12.0% in 2017 to 17.1% in 2018. The increase was mainly due to high profit margin contribution from power control packages and drop in write-down for inventories during the year.

Other Revenue and Net Income

The decrease in Other Revenue and Net Income from US$2.4 million in 2017 to US$0.9 million in 2018 was mainly due to increase in exchange loss by US$0.9 million and drop in government subsidy granted by US$0.9 million in 2018.

Selling and Distribution Expenses

Selling and Distribution Expenses decreased by US$1.3 million from US$6.9 million in 2017 to US$5.6 million in 2018. 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. The decrease of Selling and Distribution Expenses was due to the sales decline and cost control in 2018.

General and Administrative Expenses

General and Administrative Expenses increased from US$26.0 million in 2017 to US$27.7 million in 2018. The increase was mainly due to increase in travelling expenses, research and development cost and professional fees.

Other Operating Expenses

The decrease in Other Operating Expenses from US$10.7 million in 2017 to US$4.2 million in 2018 was mainly due to decrease in amortisation of intangible assets and impairment loss on property, plant and equipment.

Finance Costs

Finance Costs, primarily interest on bank loans and other borrowings, amounted to approximately US$2.5 million in 2018. The interest was mainly incurred in respect of the bond notes issued at the end of 2014. The bond notes were due for repayment in April and May 2018. Also, the Group repaid bank loans in order to cut interest cost.

Group's Liquidity and Capital Resources

As at 31 December 2018, the Group carried tangible assets of approximately US$51.1 million (2017: US$63.0 million) being property, plant and equipment, investment properties, interest in leasehold land held for own use under operating leases and non-current asset classified as held for sale. During the year, the Group disposed of its properties in the United States.

As at 31 December 2018, the Group's intangible assets was approximately US$0.4 million (2017: US$1.6 million). The reduction in intangible assets was due to amortisation charge for the year. As at 31 December 2018, the Group's interest in associates was approximately US$0.3 million (2017: US$0.3 million) and deferred tax assets was approximately US$2.5 million (2017: US$13.1 million). Part of deferred tax assets was charged to consolidated statement of profit or loss in 2018.

As at 31 December 2018, the Group's current assets amounted to approximately US$228.0 million (2017: US$241.3 million). Current assets mainly comprised of inventories of approximately US$145.9 million (2017: US$29.8 million), trade and other receivables of approximately US$56.3 million (2017: US$56.0 million), and gross amount due from customers for contract work of approximately US$nil (2017: US$133.1 million). Majority of the amount due from customers for contract work was adjusted to inventories due to change in timing of revenue recognition upon the adoption of HKFRS 15 during the year.

The continuous downturn of the O&G market resulted in further write-down for inventories of US$3.2 million (2017: US$6.0 million) and impairment loss for trade and other receivables of US$2.4 million (2017: US$3.5 million).

As at 31 December 2018, amount due from a related company amounted to approximately US$0.1 million (2017: US$0.1 million), pledged bank deposits amounted to approximately US$0.8 million (2017: US$0.6 million) and cash and cash equivalents amounted to approximately US$19.8 million (2017: US$15.3 million).

As at 31 December 2018, current liabilities amounted to approximately US$245.2 million (2017: US$286.6 million), mainly comprised of trade and other payables of approximately US$201.3 million (2017: US$234.2 million), bank loans and other borrowings of approximately US$10.3 million (2017: US$47.6 million), and current tax payable of approximately US$4.1 million (2017: US$4.8 million). The decrease in short-term bank loans and other borrowings was mainly due to the Bond Notes expired in April and May 2018 and repayment of the bank loans. Contract liabilities amounted to US$29.4 million (2017: US$nil), trade and other payables as at 31 December 2017 amounting to US$28.5 million was reclassified to contract liabilities as at 1 January 2018 upon the adoption of HKFRS 15 during the year.

As at 31 December 2018, the Group had non-current liabilities of approximately US$7.2 million (2017: US$14.3 million), which comprised of bank loans and other borrowings of approximately US$7.1 million (2017: US$14.3 million) and deferred tax liabilities of US$0.1 million (2017: US$nil). 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 2018 was 89.9% (2017: 95.7%).

Significant Investments and Disposals

On 21 July 2017, two 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. Agreement A: pursuant to which Thousand Code Limited ("TCL") agreed to sell 21.05% of the equity interests in Qingdao TSC to Beijing He Ju Tian Yang Investment Management Centre (北京合聚天揚投資管理中心(有限合伙)) ("Purchaser A") at the cash consideration of RMB25,684,000; and Agreement B: pursuant to which TCL agreed to sell 28% of the equity interests in Qingdao TSC to Zheng Yuan Heng Tong (Tianjin) Petroleum Technology Limited (正源恒通(天津)石油科技合夥企業(有限合夥)) ("Purchaser B") at the cash consideration of RMB34,159,720. Since the parties have not been able to complete the transaction as contemplated or reach consensus or attentive arrangement of sale, the transaction would not proceed.

On 23 November 2018 (after trading hours), China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.) (the"Fund"), AOG and the JV, entered into the share subscription and joint venture agreement ("Subscription and Joint Venture Agreement"), pursuant to which (i) AOG would subscribe for, and the Fund would procure the JV to allot and issue, 50,000,000 shares of US$1.00 each, representing 50% of the enlarged issued share capital of the JV after the completion, at a total subscription price of US$50 million (the "JV Subscription"), (ii) the Fund would contribute the self-elevating drilling units (the "Rig Assets") to the JV at the total consideration of US$150 million, out of which US$50 million would be satisfied by the JV by the allotment and issue of 49,999,999 shares of US$1.00 each to the Fund, which together with the one share owned by the Fund would represent 50% of the enlarged share capital of the JV after the completion, and the balance of the consideration of US$100 million would be satisfied by a shareholder's loan to be advanced by the Fund to the JV. Pursuant to the Subscription and Joint Venture Agreement, the parties agreed to regulate their respective rights and obligations towards the management and operation of the JV upon completion of the JV Subscription pursuant to the Subscription and Joint Venture Agreement. For the year ended 31 December 2018, the JV had no material assets or liabilities. Immediately after the completion of the JV Subscription, the JV would be owned as to 50% by the Company and 50% by the Fund. The JV Subscription has been completed on 20 February 2019.

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

Capital Structure

At 31 December 2018, there were 1,473,156,204 shares in issue and the Company carried a share capital of approximately US$18,854,000. Subsequent to the year end, on 4 February 2019 the capital structure of the Company was increased by way of Rights Issue as set out in the Subsequent Events section below.

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 and plant and machinery with aggregate net book value of US$19.7 million (2017: Interest in leasehold land held for own use under operating leases, building, inventories, trade receivables and plant and machinery with aggregate net book value of US$57.7 million).

(ii) Corporate guarantees given by Zhengzhou TSC Offshore Equipment Co. Ltd. and TSC Oil and Gas Services Group Holdings Ltd. to the extent of banking facilities outstanding of US$3.8 million (2017: 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 Holding Inc. to the extent of banking facilities outstanding of US$10.8 million) as at 31 December 2018.

(iii) Corporate guarantees given by the Company to the extent of banking facilities outstanding of US$3.6 million (2017: US$4.2 million) as at 31 December 2018.

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 closely monitors its compliance with these covenants. As at 31 December 2018, the Group did not meet certain covenants of a bank loan of US$3.6 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 2018 and 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 Connected Transactions

On 23 November 2018 (after trading hours), the Fund, AOG and the JV entered into the Subscription and Joint Venture Agreement, pursuant to which (i) AOG will subscribe for, and the Fund will procure the JV to allot and issue, 50,000,000 shares of US$1.00 each, representing 50% of the enlarged issued share capital of the JV after the Completion, at a total subscription price of US$50 million, (ii) the Fund will contribute the Rig Assets to the JV at the total consideration of US$150 million, out of which US$50 million will be satisfied by the JV by the allotment and issue of 49,999,999 shares of US$1.00 each to the Fund, which together with the one share owned by the Fund will represent 50% of the enlarged share capital of the JV after the Completion, and the balance of the consideration of US$100 million will be satisfied by a shareholder's loan to be advanced by the Fund to the JV. Pursuant to the Subscription and Joint Venture Agreement, the parties agreed to regulate their respective rights and obligations towards the management and operation of the JV upon completion of the JV Subscription.

The JV Subscription has been completed on 20 February 2019.

Staff Employees and Remuneration Policy

As at 31 December 2018, the Group had approximately 518 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

In the past year and 2019, the external economic situation we faced has become more complicated and volatile. From an international perspective, trade protectionism re-found its stage in the global market along with increasing trade friction, tightened liquidity of the US dollar interest rate hike and negative impact to the multilateral trading system, which in turn adversely affected the global economy recovery. From a domestic perspective, China is standing at a crucial juncture where economic structure is optimising and new growth drivers are taking the place of old ones. In the current volatile situation, China will be under greater downward pressure for its overall economic growth, and the manufacturing climate index may continue to decline.

For the energy industry, the annual average price of Brent crude oil was US$43.74 in 2016 and US$54.15 in 2017, and the crude oil price in 2018 was teetering between US$60 and US$80 with an average price of US$71.4. For the past three years, the oil price has gradually recovered in fluctuation, and the upstream capital expenditure will gradually increase. It is predicted that investment in offshore drilling from oil companies will maintain a compound annual growth rate of 9% between 2018 and 2022. In the meantime, along with the development of global energy structure towards "light carbonisation", the clean energy demand for natural gas will maintain a growth rate of about 1.7%, much higher than the annual growth rate of 0.7% of oil, for which natural gas is expected to replace coal as the second largest source of energy in 2035. The Company shall focus on LNG industry for its tremendous investment opportunities.

Judging from the supply and demand of offshore assets, the excessive construction caused by the offshore boom in previous years has resulted in the oversupply of offshore drilling platforms, based on which the demand for construction orders for new platforms is still stagnant in the near term. However, the impairment of the new platform assets and the decline in the daily rate indicate that the inefficiency of the 30-year-old ship or above accounting for more than 55% and the accelerating elimination of the old platforms with high maintenance cost, would finally contribute to a comparatively saturated market of drilling platform and significantly increased rental activities. With the reduction of platform supply, the elimination of old platforms and the recovery of the oil industry, the increase in upstream capital investment of oil companies has contributed to a rise in the overall utilisation rate of jack-up drilling rigs. Presently, the average utilisation rate of jack-up drilling rigs is approximate to 75%, and the platform utilisation rate has the chance to recover to more than 80% in 2020. Based on our previous experience, the daily rate will increase significantly once the platform utilisation rate reaches 80% or more.

Strategy and Prospects

With the Fund becoming the controlling shareholder of CMIC, the Company will be committed to building a brand as the "world-class operator delivering the integrated chain value of offshore energy technology" by adhering to the balanced development concept of "Quality comes first and benefit takes priority under moderate scale" and focusing on the intentions in "Offshore as the base, Energy as the accelerator, Technology as the incubator, Capital as the value driver and Globalisation as the foundation".

With the improvement of the offshore industry market, the international offshore industry has acquired the opportunity to reshuffle. After years of accumulation in the offshore industry, CMIC has laid a solid foundation in various aspects including internationalised employment of talents, project management and market performance. In 2019, the Company will seize the counter-cyclical chance of the global offshore industry to accelerate the integration of low-cost and high-quality offshore assets, in order to expand the scale of AOG offshore asset management platform in Singapore. First of all, the Company is to seek potential investment opportunities in the offshore industry by leveraging the capital financing advantages of the offshore fund and the listed platforms as well as the rental and sales of offshore assets. Secondly, the Company is to proactively establish a long-term mutually beneficial strategic cooperation mechanism with top offshore industry investors in the world. In addition to the cooperation opportunities for offshore drilling platforms, the Company will actively explore investment integration opportunities in LNG aspects and other fields to gradually increase the publicity of CMIC in the offshore assets investment and management. Thirdly, the Company is to enhance the communication with domestic shipbuilding enterprises, striving to find out an overall cooperation model for "offshore inventory assets". Fourthly, the Company is to maintain close cooperation with related party China Merchants Group and strategic shareholder CIMC International Marine Containers (Group) Ltd. for seeking coordinate development in the integration of offshore assets. Fifthly, the Company is to accelerate the implementation of the preparatory work for the CMIC Singapore Offshore Operations Center, so as to further enhance the scale and awareness of CMIC offshore asset management business in 2019 by actively bridging the financial leasing business and grasp the chance to acquire low-value and high-quality assets.

PLANS FOR FUTURE MATERIAL INVESTMENTS, ASSETS AND CAPITAL INTEGRATION

The Company has raised a net total of approximately HK$657 million through the Rights Issue (details as provided in the Subsequent Events section below), which is intended to be used for the acquisition of offshore drilling rig assets, repayment of existing debt and general working capital of the Group.

The Company strategically positioned itself as a world-class operator delivering the integrated chain value of offshore energy technology. The Company will seek potential resource integration and investment opportunities around the marine, energy and technology industry chain. Firstly, the Company has to strengthen its offshore asset management business and seek potential investment opportunities in the offshore industry by leveraging the capital financing advantages of the offshore fund and the listed platforms as well as the rental and sales of offshore assets. Secondly, the Company has to actively explore the opportunity for investment integration of clean energy including LNG. Thirdly, the Company pays attention to the development of new technologies and potential investment projects in the field of smart manufacturing.

In considering 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. Overall, the potential acquisition and development plans being considered are intended to improve financial performance of the Company by expanding its business direction and creating a new profit model, so as to provide a firm basis for future growth expansion.

CHANGE OF CONTROLLING SHAREHOLDER

On 14 December 2017, the Company entered into a subscription agreement ("Subscription Agreement") with Fund (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 (the "Subscription"). 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 of the Company.

As disclosed in the Circular dated 19 January 2018, the part of gross proceeds from the Subscription amounting to approximately HK$353,550,000, representing approximately 70% of the proceeds of the Subscription (the "Proceeds") were intended to be used to fund the expansion of the Group's existing business and/or potential acquisition to be decided by the Board after the Completion.

As at 29 March 2018, the Board decided the amount of HK$217,000,000 to be used for repayment of Bond Notes shall be carved out from the part of the Proceeds intended for expansion of the Group's existing business and/or potential acquisition since the Group has not yet reached the stages of business expansion or acquisitions where there is an imminent need for the funds.

Further details regarding the change of the Proceeds was set out in the announcement dated 29 March 2018.

APPOINTMENT AND RESIGNATION OF EXECUTIVE DIRECTORS

- Mr. Yang Guohui has been appointed as an Executive Director and Chief Operating Officer ("COO") with effect from 9 February 2018, and he has resigned as an Executive Director with effect from 1 April 2018 due to work reallocation. Mr. Yang remains as the COO of the Group.

- Mr. Wang Yong resigned as an Executive Director and Chief Executive Officer with effect from 9 February 2018, following completion of the Subscription Agreement, and he has been re-appointed as President of the Group.

APPOINTMENT AND RESIGNATION OF NON-EXECUTIVE DIRECTORS

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

- Mr. Lou Dongyang has been appointed as a Non-Executive Director with effect from 1 April 2018.

- 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.

- Ms. Li Rong resigned as a Non-Executive Director with effect from 7 December 2018, because of her desire to devote more time to her family.

APPOINTMENT AND RESIGNATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

- Mr. Guan Zhichuan resigned as an Independent Non-Executive Director on 18 May 2018 because he, being a professor at the College of Petroleum Engineering of the China University of Petroleum, wanted to devote more time to his teaching.

- Dr. Lu Xiaoming resigned as an Independent Non-Executive Director on 18 May 2018 in pursuit of his personal career development and to focus more on his family matters.

- Mr. Zou Zhendong has been appointed as an Independent Non-Executive Director with effect from 18 May 2018.

- Mr. Chen Weidong has been appointed as an Independent Non-Executive Director with effect from 5 June 2018.

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; Mr. Jiang Bing Hua ceased to be the chairman of the Nomination Committee; 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.

- On 1 April 2018, Mr. Yang Guohui ceased to be the chairman of the Compliance Committee; and Mr. Lou Dongyang has been appointed as the chairman of the Compliance Committee.

- On 18 May 2018, Dr. Lu Xiaoming ceased to be the chairman of the Remuneration Committee of the Company, member of the Audit Committee of the Company and member of the Nomination Committee of the Company; Mr. Guan Zhichuan ceased to be the member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Compliance Committee of the Company; Mr. Zou Zhendong has been appointed as the chairman of the Remuneration Committee, member of the Audit Committee and member of the Nomination Committee of the Company.

- On 5 June 2018, Mr. Chen Weidong has been appointed as a member of each of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Compliance Committee of the Company respectively.

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 2018. As at 31 December 2018, the trustee held 5,095,000 Shares (representing 0.35% of the issued share capital of the Company) on trust under the Share Award Plan.

Subsequent to 31 December 2018, pursuant to the terms of the rules and trust deed of the share award plan, the trustee of the share award plan purchased 8,684,000 Shares on the Stock Exchange at a total consideration of about HK$3,867,549. As at the date of this announcement, the trustee held a total 13,779,000 Shares (representing 0.47% of the issued share capital of the Company) 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 2018. As at 31 December 2018, the total number of shares that may be granted under the Share Award Incentive Scheme is 21,213,606 Shares, representing 1.44% of the issued share capital of the Company.

SUBSEQUENT EVENTS

Change Of Company Name, Company Website, Company Logo And Stock Short Name

On 23 November 2018, the Board proposed to change the English name of the Company from "TSC Group Holdings Limited" to "CMIC Ocean En-Tech Holding Co., Ltd." and to change the Chinese name of the Company from "TSC集團控股有限公司" to "華商國際海洋能源科技控股有限公司". Subsequent to the approval of the change of Company Name by the shareholders by way of poll at its extraordinary general meeting held on 3 January 2019, the Certificate of Incorporation on Change of Name and the Certificate of Secondary Name were issued by the Registrar of Companies in Cayman Islands on 11 January 2019, and The Registrar of Companies in Hong Kong issued the Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company on 29 January 2019 both certifying the change of English name of the Company from "TSC Group Holdings Limited" to "CMIC Ocean En-Tech Holding Co., Ltd." and the adoption of the Chinese name "華商國際海洋能源科技控股有限公司" as the dual foreign name in Chinese of the Company.

The stock short name will be changed from "TSC GROUP" to "CMIC OCEAN" in English and from "TSC集團" to "華商國際海洋控股" in Chinese for the purpose of trading in the Shares on the Stock Exchange on 18 February 2019. The stock code of the Company on the Stock Exchange will remain unchanged as "206". The website of the Company was changed from "http://www.t-s-c.com" to "http://www.cmicholding.com" with effect from 13 February 2019. The logo of the Company has been changed to "". Further details regarding the Change of Company Name were as set out in the announcements dated 13 November 2018 and 13 February 2019; and the circular dated 4 December 2018.

Connected Transaction Sale Agreement Of Pump(s)

On 11 January 2019, Qingdao TSC Offshore Equipment Co., Ltd.* (青島天時海洋石油裝備有限公司) ("TSCOE"), an indirectly wholly-owned subsidiary of the Company, entered into the sale agreement with China Merchant Heavy Industry (Jiangsu) Co., Ltd. ("CMHI (Jiangsu)") pursuant to which TSCOE agreed to sell and CMHI (Jiangsu) agreed to purchase pump(s) (the "Sale Agreement"). The consideration shall be RMB7,490,000 (equivalent to approximately HK$8,493,660), which was determined after arm's length negotiations between the parties to the Sale Agreement with reference to the market for prices of comparable pumps.

CMHI (Jiangsu) is a wholly-owned subsidiary of China Merchants Industry Holdings Co., Ltd. ("CM Industry"), a company indirectly wholly-owned by China Merchants Group Limited* (招商局集團有限公司) ("CM Group").

The Fund is a controlling shareholder (beneficially interested in an aggregate of 765,186,000 Shares, representing approximately 51.94% of the entire issued share capital of the Company as at 11 January 2019) of the Company and therefore a connected person of the Company. The Fund is indirectly controlled by CM Group. CMHI (Jiangsu) is therefore an associate of CM Group, CM Industry and the Fund, and is a connected person of the Company under the Listing Rules. As a result, the Sale Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the transaction value relating to the Sale Agreement is more than 0.1% and less than 5%, the connected transaction shall be subject to the reporting and annual review requirements under Rule 14A.76 of the Listing Rules, but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Further details regarding the connected transaction sale agreement of pumps were as set out in the announcement dated 11 January 2019.

Rights Issue, Underwriting Agreement And Increase In Authorised Share Capital

On 8 November 2018, the Company entered into the underwriting agreement with the China Tonghai Securities Limited (formerly known as Oceanwide Securities Company Limited) ("Tonghai Securities") and CCB International Capital Limited ("CCBI") (the "Underwriters") ("Underwriting Agreement"), the rights issue on the basis of one Rights Share for every one Share held on 10 January 2019 as a record date ("Rights Issue") at the subscription price ("Subscription Price") of HK$0.45 per rights share ("Rights Share"). Pursuant to the Underwriting Agreement, Tonghai Securities has agreed to subscribe for, or procure the subscription for, up to 589,000,000 Rights Shares, being all the Underwritten Shares, and CCBI has agreed to procure the subscription for, on a best effort basis, any untaken Right Shares up to 118,970,204 Rights Shares. The Company intends to use the net proceeds for (i) Wealthy Marvel Enterprises Limited (the "JV") to allot and issue, 50,000,000 shares of US$1.00 each, representing 50% of the enlarged issued share capital of the JV after the completion of the Rights Issue pursuant to the subscription and joint venture agreement dated 23 November 2018 ("Subscription and Joint Venture Agreement"); (ii) repayment of the existing debts of the Group; and (iii) general working capital of the Group. On 28 December 2018, the Rights Issue resolution was passed by the independent shareholders of the Company at its extraordinary general meeting.

In order to facilitate the Rights Issue, to accommodate the future expansion and growth of the Group and to provide the Company with greater flexibility for future expansion in the share capital of the Company, on 28 December 2018, pursuant to a resolution passed by the shareholders of the Company at its extraordinary general meeting, the authorised share capital of the Company was increased to HK$1,000 million divided into 10,000,000,000 Shares. Further details regarding the Rights Issue, Underwriting Agreement, and Increase in Authorised Share Capital were as set out in the announcements of the Company dated 30 November 2018, 6 December 2018, 7 December 2018, 28 December 2018 and 1 February 2019; the circular dated 11 December 2018 and the prospectus dated 11 January 2019 of the Company.

Save as disclosed above in this announcement, no subsequent events occurred after 31 December 2018 which may have significant effects on the assets and liabilities of future operations of the Group.

EXECUTIVE DIRECTORS

Mr. WANG Hongyuan, aged 43, has been appointed as the executive chairman and chief executive officer of the Group since 9 February 2018. He is also a deputy general manager of China Merchants ("CM") Industry, the general manager of China Merchant Great-Wall Capital Management Ltd 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 the Subscriber's Fund management company.

Mr. JIANG Bing Hua, aged 68, has been appointed as the Co-Chairman of the Group since 9 February 2018. 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 group of China National Petroleum Corporation 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 60, is a co-founder and has been appointed as an executive Director of the Group since 22 June 2017. 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 group of China National Petroleum Corporation 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.

NON-EXECUTIVE DIRECTORS

Mr. WANG Jianzhong, aged 45, 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.

Mr. LOU Dongyang, aged 43, has been appointed a non-executive Director since April 2018. He is also the chief financial officer of China Merchants Industry Holdings Co., Ltd. Mr. Lou has served as an assistant engineer in the Chemical Engineering Office of the Institute of Standardization of Nuclear Industry and as secretary-general for the National Technical Committee for Standardization of Radioisotopes (全國放射性同位素標準化技術委員會) from July 1997 to October 2001, as an engineer in the Planning Department in China Isotope Company from October 2001 to August 2003, as a specialist of the board of supervisors for Key Large State-Owned Enterprises under the State Council from August 2003 to August 2004, as principal staff member of the board of supervisors for Key Large State-Owned Enterprises under the State Council from September 2008 to September 2012, as the assistant to the department director of the intellectual property administrative department of China Merchants Group Limited ("CM Group") from September 2012 to May 2015, as the assistant to the department director of the finance department (intellectual property department) of CM Group from May 2015 to October 2015, and as the deputy general manager of the finance department (intellectual property department) of CM Group from October 2015 to November 2017. Mr. Lou obtained a bachelor's degree in applied chemistry from Peking University in 1997 and a master's degree in business administration also from Peking University in 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN Ngai Sang, Kenny, aged 54, has been appointed 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 The Government of the Hong Kong Special Administrative Region 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.

Mr. ZOU Zhendong, aged 49, has been appointed an independent non-executive Director since May 2018. He is also serving as the independent director of Bestsun Energy Co. Ltd., an A share company listed in the Shanghai Stock Exchange, the senior partner of Sinowing Law LLP, Legal Representative of Sinowing (Beijing) AMC Co., Ltd., and further and concurrently as a member of the High-tech and E-Commerce Committee & International Business Committee of All China Lawyers Association. Mr. Zou used to work as the officer for the Chinese People's Association for Friendship with Foreign Countries, as the staff for China Native Produce & Animal By-Products Import & Export Corp., as the director of the 4th Department for China Commercial Foreign Trade Corporation, and as the partner in charge of international business department and IPR department for Beijing Dacheng Law Firm (aka Dentons for the moment). Mr. Zou was awarded a Bachelor Degree by the Renmin University of China in 1992, with major in international politics and minor in international economics. As being jointly elected by the Ministry of Justice of the People's Republic of China and Lord Chancellor's Office of the United Kingdom, Mr. Zou has worked and trained himself in London.

Mr. CHEN Weidong, aged 63, has been appointed as an independent non-executive Director with effect from June 2018. Mr. Chen has over 30 years' experience in offshore oil and gas industry. He supervised and organised 4 published books on petroleum economics and geopolitics. Mr. Chen is now serving as Guest Professor at Renmin University of China, Invited Researcher at Energy Security Center of Graduate School of Chinese Academy of Social Sciences, Dean of Minde Institute and Chair of DFS Energy Consultant (Beijing) Ltd. Mr. Chen used to work as Chief Energy Researcher of CNOOC Energy Economics Inst. Executive Vice President, Secretary of Board of Directors, and Chief Strategy Officer of China Oilfield Services Limited (a H-share company listed on the main board of the Stock Exchange of Hong Kong Limited from 2002, stock code: 2883). Mr. Chen obtained a bachelor's degree in geophysical exploration studies from Ocean University of China (formerly as Shandong College of Oceanology) in the People's Republic of China in 1982 and an MBA from Peking University in July 2001. He graduated from China University of Political Science and Law with a master diploma in July 2005.

SENIOR MANAGEMENT

Mr. WANG Hongyuan, aged 43, has been appointed as the executive chairman and chief executive officer of the Group since 9 February 2018. He is also a deputy general manager of China Merchants ("CM") Industry, the general manager of China Merchant Great-Wall Capital Management Ltd 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 the Subscriber's Fund management company.

Mr. JIANG Bing Hua, aged 68, has been appointed as the Co-Chairman of the Group since 9 February 2018. 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 group of China National Petroleum Corporation 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 60, is a co-founder and has been appointed as an executive Director of the Group since 22 June 2017. 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 group of China National Petroleum Corporation 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.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. YANG Guohui, aged 45, appointed as an executive Director and chief operating officer of the Company with effect from 9 February 2018 and he has resigned as an executive Director with effect from 1 April 2018 due to work reallocation. Mr. Yang remains as the chief operating officer of the Group. 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 China Merchant Great-Wall Capital Management Ltd, 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 China Merchant Great-Wall Capital Management Ltd.

Mr. XIE Shaohua, aged 48, appointed as chief financial officer of the Company with effect from 1 July 2018. Mr. Xie graduated from Central University of Finance and Economics in 1993 and received master degrees at the University of International Business and Economics and The Chinese University of Hong Kong in 2003 and 2005 respectively. Mr. XIE is a Chinese senior accountant. In 2016, he was awarded by the Ministry of Finance as a national leading accounting talents. From November 1998 to October 2002, he worked in the finance department of SINOTRANS & CSC Group Company. From November 2002 to May 2007, he served as the deputy general manager of the finance department of Sinotrans Limited (H shares, stock code: 00598). From September 2007 to June 2018, he was appointed as deputy general manager and chief financial officer of Sinotrans Shipping Co., Ltd. (red chip, stock code: 00368).

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 the Company in April 2012 as the senior Group vice president and Group chief operations officer. Prior to joining the Company, 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 China National Petroleum Corporation after graduating from the China Petroleum University in 1982. He also spent five 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.

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. It will expand to the offshore asset management and operation business. Save as disclosed above, 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 2018 is set out in the financial statements on pages 90 to 173.

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 2018, are extracted from the audited financial statements of the relevant annual reports of the Company, and are set out on page 9. This summary does not form part of the audited financial statements of the Group for the Year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

CMIC 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 67 to 82 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 29(b) to the financial statements. Details of the Company's share option schemes are set out in note 28 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association ("Articles") or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year. As at 31 December 2018, the trustee held a total 5,095,000 CMIC shares under the share award plan.

Subsequence after the Year, pursuant to the terms of the rules and trust deed of the share award plan, the trustee of the share award plan purchased 8,684,000 CMIC shares on the Stock Exchange at a total consideration of about HK$3,867,549. As at the date of the annual report 2018, the trustee held a total 13,779,000 CMIC 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 29(a) to the financial statements and in the consolidated statement of changes in equity on page 94, 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 2018 (2017: Nil), as computed in accordance with the Companies Law of the Cayman Islands. The details are set out in note 29(d) to the financial statements. The Company's share premium account, with a balance of approximately US$182,447,000 (2017: 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 38% of the Group's total sales for the Year and sales to the largest customer included therein accounted for approximately 10% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 19% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 5% of the Group's total purchases.

Save as disclosed under the paragraph headed "RELATED PARTY TRANSACTIONS" and note 32 to the financial statements, none of the Directors, or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The Directors who held office during the Year and up to the date of this annual report were:

Executive Directors:

Mr. WANG Hongyuan (appointed on 9 February 2018)
Mr. JIANG Bing Hua (re-designated to Co-Chairman on 9 February 2018)
Mr. ZHANG Menggui, Morgan
Mr. WANG Yong (resigned on 9 February 2018)
Mr. YANG Guohui (appointed on 9 February 2018 and resigned on 1 April 2018)

Non-executive Directors:

Mr. JIANG Longsheng (resigned on 9 February 2018)
Mr. Brian CHANG (resigned on 9 February 2018)
Mr. WANG Jianzhong
Mr. LOU Dongyang (appointed on 1 April 2018)
Ms. LI Rong (appointed on 9 February 2018 and resigned on 7 December 2018)

Independent non-executive Directors:

Mr. CHAN Ngai Sang, Kenny
Mr. GUAN Zhichuan (resigned on 18 May 2018)
Dr. LU Xiaoming (resigned on 18 May 2018)
Mr. ZOU Zhendong (appointed on 18 May 2018)
Mr. CHEN Weidong (appointed on 5 June 2018)

In accordance with Articles 86 and 87 of the Company's articles of association, Mr. Wang Jianzhong, Mr. Zou Zhendong and Mr. Chen Weidong 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 a fellow member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

DIRECTORS' SERVICE CONTRACTS

Mr. Wang Hongyuan has 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. He has 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 either party giving 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.

Mr. Lou Dongyang has entered into the letter of engagement with the Company for a term of 3 years commencing from 1 April 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. Mr. Lou has waived entitlement to annual remuneration.

Mr. Chan Ngai Sang, Kenny 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. Mr. Chan Ngai Sang Kenny is entitled to receive emoluments of HK$120,000.

Mr. Zou Zhendong has entered into a letter of appointment with the Company for a term of three years commencing from 18 May 2018 and expiring on 17 May 2021 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. Zou Zhendong is entitled to an annual remuneration of HK$120,000.

Mr. Chen Weidong has entered into a letter of appointment with the Company for a term of three years commencing from 5 June 2018 and expiring on 4 June 2021 subject to retirement by rotation and re-election in accordance with the Articles of Association, unless terminated by either party giving to the other not less than three months' prior written notice. Mr. Chen Weidong 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 2017 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.

APPOINTMENT OF EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

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

APPOINTMENT AND RESIGNATION OF EXECUTIVE DIRECTOR AND CHIEF OPERATING OFFICER

- Mr. Yang Guohui has been appointed as an executive Director and chief operating office ("COO") with effect from 9 February 2018, and he has resigned as an Executive Director with effect from 1 April 2018 due to work reallocation. Mr. Yang remains as the COO of the Group.

- Mr. Wang Yong resigned as an executive Director and Chief Executive Officer with effect from 9 February 2018, following completion of the subscription agreement dated 14 December 2017 and entered into between the Company and the Fund ("Subscription Agreement"), and Mr. Wang has been re-appointed as President of the Group.

APPOINTMENT AND RESIGNATION OF NON-EXECUTIVE DIRECTORS

- Ms. Li Rong had been appointed as a Non-Executive Director with effect from 9 February 2018 and she resigned as a Non-executive Director with effect from 7 December 2018.

- Mr. Lou Dongyang has been appointed as a Non-Executive Director with effect from 1 April 2018.

- 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.

APPOINTMENT AND RESIGNATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

- Mr. Guan Zhichuan resigned as Independent Non-Executive Director on 18 May 2018 because he, being a professor at the College of Petroleum Engineering of the China University of Petroleum, wanted to devote more time to his teaching.

- Dr. Lu Xiaoming resigned as Independent Non-Executive Director on 18 May 2018 in pursuit of his personal career development and to focus more on his family matters.

- Mr. Zou Zhendong has been appointed as an Independent Non-Executive Director with effect from 18 May 2018.

- Mr. Chen Weidong has been appointed as an Independent Non-Executive Director with effect from 5 June 2018.

The Company would like to take this opportunity to thank Mr. Jiang Longsheng, Mr. Brian Chang, Dr. Lu Xiaoming and Ms. Li Rong 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 better from -613.8% to -144.3% 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 in 2017 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, decreased from 95.7% in 2017 to 89.9% 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 2018 is set out in the sections of "Executive Chairman and Co-Chairman's Statement", "Market Review and Prospect" 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 maximisation 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 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 24 to 34 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 options 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. All share options previously granted but unexercised under the Post-IPO Scheme were lapsed on 15 March 2018 due to change of the control of the Company (as defined in the Codes on Takeovers and Mergers and Share Repurchase).

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 would 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. All share options previously granted but unexercised under the New Scheme were lapsed on 15 March 2018 due to change of control of the Company (as defined in the Codes on Takeovers and Mergers and Share Repurchase).

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 2018 is 3,784,040 Shares, representing 0.13% of the issued share capital of the Company.

As at the date of the annual report 2018, there was no share options granted and outstanding under all the share option schemes 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 2018 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 01.01.2018	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 31.12.2018
(i)	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)	–
(ii)	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)	–	–
(iii)	Directors:									
	Mr. Jiang Longsheng	29.12.2008	29.06.2009 to 28.12.2018	0.54	400,000	–	(400,000)	–	–	–
	Mr. Bian Junjiang	29.12.2008	29.06.2009 to 28.12.2018	0.54	350,000	–	–	(350,000)	–	–
					750,000	–	(400,000)	(350,000)	–	–
	Employees and other	29.12.2008	29.06.2009 to 28.12.2018	0.54	980,000	–	(450,000)	(530,000)	–	–
	Sub-total				1,730,000	–	(850,000)	(880,000)	–	–
	Total				4,430,000	–	(850,000)	(2,580,000)	(1,000,000)	–

Notes:

1. All dates are shown day, month, year.
2. The vesting period of the options was 5 years and started from the date of grant and became 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 were 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 2018.

SHARE OPTION SCHEMES *(Continued)*

Details of movement of options under the New Scheme for the year ended 31 December 2018 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 01.01.2018	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 31.12.2018
(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	04.09.2012	04.03.2013 to 03.09.2022	1.02	7,065,000	–	–	(7,065,000)	–	–
(iv)	Employees	30.08.2013	28.02.2014 to 29.08.2023	2.9	4,105,000	–	–	(4,105,000)	–	–
(v)	Employees	02.09.2014	02.03.2015 to 01.09.2024	4.16	2,250,000	–	–	(2,250,000)	–	–
(vi)	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 was 5 years and started from the date of grant and became 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 were 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 2018.

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 2018.

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

As at 31 December 2018, 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					Number of underlying Shares (in respect of share options granted under the Post-IPO Scheme) (Note 2)	Approximate percentage of the Company's issued share capital
Name of Directors	Personal interests	Family interests	Corporate interests	Other interests	Total		
Mr. Zhang Menggui, Morgan (Note 1)	4,656,000	–	120,046,200	–	124,702,200	0	8.46%
Mr. Jiang Bing Hua (Note 1)	4,656,000	–	120,046,200	–	124,702,200	0	8.46%
Mr. Chan Ngai Sang, Kenny	500,000	–	–	–	500,000	0	0.03%

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. Please refer to the section "Share Option Schemes" above for details of share options held by the Directors and chief executives of the Company.

Save as disclosed above, as at 31 December 2018, 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 28 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 2018, 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	8.46%
Madam Zhang Jiuli (Note 2)	Interest of the spouse	124,702,200 Shares	8.46%
Global Energy Investors, LLC. (Note 3)	Corporate	120,046,200 Shares	8.15%
China International Marine Containers (Group) Co., Ltd. (Note 4)	Corporate	92,800,000 Shares	6.30%
China International Marine Containers (Hong Kong) Ltd. (Note 4)	Corporate	92,800,000 Shares	6.30%
China Great Wall AMC (International) Holdings Company Limited (Note 5)	Corporate	765,186,000 Shares	51.94%
China Great Wall Asset Management Co., Ltd. 中國長城資產管理股份有限公司 (Note 5)	Corporate	765,186,000 Shares	51.94%
China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.) (Notes 5,6,7 & 8)	Corporate	765,186,000 Shares	51.94%
China Merchants Great-Wall GP Limited (Note 6)	Corporate	765,186,000 Shares	51.94%
Great Wall International Investment V Limited (Note 7)	Corporate	765,186,000 Shares	51.94%
China Merchants Group Limited 招商局集團有限公司 (Note 8)	Corporate	765,186,000 Shares	51.94%
China Minsheng Trust Co., Ltd (Note 9)	Corporate	589,000,000 Shares	19.99%
China Tonghai International Financial Limited (Note 9)	Corporate	589,000,000 Shares	19.99%
Lam Kin Hing, Kenneth & Chiu Chun Kit, Calvin (Note 9)	Corporate	589,000,000 Shares	19.99%
Oceanwide Securities Company Limited (Note 9)	Corporate	589,000,000 Shares	19.99%

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".

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)*

4. 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.

5. 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.) ("the Fund") are interested in under Part XV of the SFO.

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

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

8. 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 the Fund 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.

   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 the Fund 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 the Fund are interested in under Part XV of the SFO.

9. These interests represent the interest in right shares under the underwriting agreement entered into on 8 November 2018, which was announced in an announcement of the Company dated 8 November 2018.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

(ii) long positions in shares of subsidiaries of the Company:

Name of subsidiary	Name of substantial shareholder	Percentage of shareholding
Jurun Limited	Xingbo Limited	21%
CMIC Manufacturing and Supply De Colombia S.A.S.	Independence Drilling S.A.	40%
ATS Energy LLC	Axion Services Inc.	33%
	Petromax Industry Inc.	16%
Texas Unconventional Resources LLC	Mr. YANG Anping	20%
OIM Pte. Ltd.	Offshore CC FZE	5%

Save as disclosed above, as at 31 December 2018, there was no person (other than the Directors and chief executives of the Company whose interests are set out under the paragraph headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES" above and section headed "SHARE OPTION SCHEMES" below), had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 32 to the financial statements. Save as disclosed therein, there were no other transactions to be disclosed as related party transactions in accordance with the requirements of the Listing Rules and accounting principles generally accepted in Hong Kong.

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 2018.

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 55 to 66 of this annual report.

ON BEHALF OF THE BOARD
CMIC Ocean En-tech Holding Co., Ltd.

WANG Hongyuan
Executive Chairman

JIANG Bing Hua
Co-Chairman

Hong Kong, 28 March 2019

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 maximising the Company and its shareholders' interests as a whole.

CORPORATE GOVERNANCE PRACTICES

For the year ended 31 December 2018, 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.

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.

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 18 May 2018 as they were away from Hong Kong due to other important engagements at the time of this meeting. Three independent non-executive Directors and two non-executive Directors were absent from the last extraordinary general meeting of the Company held on 28 December 2018 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.

Rule 3.10(1), Rule 3.21, Rule 3.25 and Code A.5.1

During the resignation of Mr. Guan Zhichuan and Dr. Lu Xiaoming and the appointment of Mr. Zou Zhendong from 18 May 2018 to 5 June 2018, the Company failed to meet (i) the requirement of the minimum number of three independent non-executive Directors under Rule 3.10(1) of the Listing Rules; (ii) the requirement of the minimum number of three members and the composition requirement of the audit committee under Rule 3.21 of the Listing Rules; (iii) the composition requirement of the remuneration committee under Rule 3.25 of the Listing Rules; and (iv) the composition requirement of the nomination committee under Code Provision A.5.1 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. With effect from 5 June 2018, Mr. Chen Weidong has been appointed as an independent non-executive Director and a member of each of the audit committee, the nomination committee, the remuneration committee and the compliance committee of the Company respectively pursuant to Rules 3.11, 3.23 and 3.27 of the Listing Rules.

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.

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 eight Directors up to the date of this annual report, including three executive Directors, namely Mr. Wang Hongyuan, Mr. Jiang Bing Hua and Mr. Zhang Menggui, Morgan; two non-executive Directors, namely Mr. Wang Jianzhong and Mr. Lou Dongyang; and three independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny, Mr. Zou Zhendong and Mr. Chen Weidong. 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 judgement 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 2018, the Board had at all times complied with the requirement of the Listing Rules, except the deviation of Rule 3.10(1), Rule 3.21, Rule 3.25 and Code A.5.1 per disclosed above, 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 Jianzhong, Mr. Zou Zhendong and Mr. Chen Weidong will retire, and being eligible for election, offer themselves for re-election at the forthcoming annual general meeting to be held on 24 May 2019.

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 five meetings during the Year. The Directors are given sufficient time and information relating to the matters to be discussed in the Board meetings in advance, or except in special circumstances, consent to short notice is sought at times of urgency. In addition, the Company has maintained a procedure for the Directors to seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company. Moreover, the Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all Board meetings. The Company Secretary also keeps the minutes, which are open for inspection at any reasonable time on reasonable notice by any Director.

Matters considered and approved by the Board during the Year mainly related to (i) reviewing of the Company's business, optimise the board and management structure; (ii) the approval of annual results of 2017, appointment of non-executive Director, resignation of executive Director and change of the usage of part of proceeds of the subscription money; (iii) proposed rights issue, subscription of shares in a joint venture, increase the authorised share capital, resignation and appointment of two independent non-executive Directors; (iv) the approval of interim results of 2018 and approved of the proposed continuing connected transaction; and (v) proposed connected transaction and formation of joint venture with the Fund and proposed change of company name.

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 2018, 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 A.6.5 on Directors' training. Some Directors have attended seminars and conferences, which covered topics including the 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,B
Mr. JIANG Bing Hua	A,B
Mr. ZHANG Menggui, Morgan	A,B
Mr. WANG Yong (resigned on 9 February 2018)	B
Mr. YANG Guohui (appointed on 9 February 2018 and resigned on 1 April 2019)	A,B
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 and resigned on 7 December 2018)	A,B
Ms. LOU Dongyang (appointed on 1 April 2019)	A,B
Independent non-executive Directors:	
Mr. CHAN Ngai Sang, Kenny	A,B
Mr. GUAN Zhichuan (resigned on 18 May 2018)	B
Dr. LU Xiaoming (resigned on 18 May 2018)	B
Mr. ZOU Zhendong (appointed on 18 May 2018)	A,B
Mr. CHEN Weidong (appointed on 5 June 2018)	A,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 Meetings**
Executive Directors:						
Mr. WANG Hongyuan (appointed on 9 February 2018)	4/5		2/2	2/2		2/2
Mr. JIANG Bing Hua	5/5		2/2			2/2
Mr. ZHANG Menggui, Morgan	5/5			2/2		2/2
Mr. WANG Yong (resigned on 9 February 2018)	N/A					N/A
Mr. YANG Guohui (appointed on 9 February 2018, and resigned on 1 April 2018)	2/2				1/1	N/A
Non-executive Directors:						
Mr. JIANG Longsheng (resigned on 9 February 2018)	N/A					N/A
Mr. Brian CHANG (resigned on 9 February 2018)	N/A					N/A
Mr. WANG Jianzhong	2/5					0/2
Ms. LI Rong (appointed on 9 February 2018, and resign on 7 December 2018)	5/5					0/1
Mr. LOU Dongyang (appointed on 1 April 2018)	3/3				N/A	
Independent non-executive Directors:						
Mr. CHAN Ngai Sang, Kenny	5/5	2/2	2/2	2/2	1/1	1/2
Mr. GUAN Zhichuan (resigned on 18 May 2018)	1/3	1/1	2/2	2/2	1/1	0//1
Dr. LU Xiaoming resigned on 18 May 2018)	3/3	1/1	2/2	2/2		0//1
Mr. ZOU Zhendong (appointed on 18 May 2018)	2/2	1/1	N/A	N/A		0//1
Mr. CHEN Weidong (appointed on 5 June 2018)	2/2	1/1	N/A	N/A	N/A	0//1

DIRECTORS' INSURANCE

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

COMPANY SECRETARY

The Company Secretary of the Company, 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 2018.

REMUNERATION COMMITTEE

The remuneration committee was established on 20 October 2005 with written terms of reference in compliance with the Code. It comprises three independent non-executive Directors, namely Mr. Zou Zhendong (being the Chairman), Mr. Chan Ngai Sang, Kenny and Mr. Chen Weidong; 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 consider non-executive director and independent non-executive directors' salaries. 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 2018 is set out below:

Remuneration band (US$)	Number of individuals
Less than 100,000	2
100,000 to 200,000	–
200,001 to 300,000	1
300,001 to 400,000	–
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. Zou Zhendong and Mr. Chen Weidong.

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 eight 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 reviewed and discussed the appointment of non-executive Director and independent non-executive Directors, 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.

Under the remit of the nomination committee, it 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 and the Nomination 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. Lou Dongyang (being the chairman), Mr. Chan Ngai Sang, Kenny, Mr. Chen Weidong 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, one meeting of the compliance committee were held and the compliance committee reviewed and monitored the annual 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 83 to 89 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$530,000 (2017: US$453,000) to the external auditor for its audit services. The Company has paid an aggregate of approximately US$209,000 (2017: US$27,000) 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. Zou Zhendong and Mr. Chen Weidong, 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 two meetings to consider and review the interim and annual results of the Group, to discuss the risk management and internal control system with management, 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 2018, 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 www.cmicholding.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 18 May 2018 and 28 December 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 2706 – 2709, 27/F One Harbourfront 18 Tak Fung Street Hunghom, Kowloon Hong Kong

INVESTOR RELATIONS

The Company establishes different communication channels with investors to update the latest business development and financial performance to maintain a high degree of transparency and to ensure that there is no selective disclosure of internal information.

The company has always adopted a positive attitude to communicate with investors, the media and potential investors to increase the Company's brand recognition, strengthen investors' understanding and recognition of the Company, and achieve the value of shareholders ultimately.

Below are our communication methods, but not limited to:

ANNUAL AND INTERIM REPORT

Online annual report

Annual general meeting and extraordinary general meeting

Investors' Roadshow: In 2018, the company organised four roadshows, and introduced the Company to more than 20 potential investment institutions and existing shareholders.

ANNOUNCEMENTS, PRESS RELEASES AND CIRCULARS

Voluntary announcement

Media Press Conference

Investors' Conference: 5 times investors' meetings were organised in 2018 in order to communicate with investors in a face-to-face format

Industry analyst communication: The Company encourages analysts to publish their analysis reports actively to help investors evaluate the Company and its development opportunities and challenges.
Investor Relations Email: ir@cmicholding.com

The Company's website: www.cmicholding.com, the Company's website is the Company's main market promotion media, fully displaying the business and activities of CMIC.
Social Media: WeChat public account, the company uses the WeChat public account to publish company news, industry news, short films, photos and major events.

The Board is not aware of any significant changes in the Company's constitutional documents during the year ended 31 December 2018.

I. ABOUT THIS REPORT

This Environmental, Social, and Governance report (the "Report") provides an annual update on the various aspects of environmental, social, and governance performance by **CMIC Ocean En-Tech Holding Co., Ltd.** (the "Group") in the year 2018.

The content of this Report was compiled in accordance with the "Environmental, Social and Governance Reporting Guide" as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as well as the actual conditions of the Group. This Report is published annually in each financial year together with the Annual Report of the Company for the year.

This Report covers the environmental, social and governance status of the Group's following operating sites in Qingdao from 1 January 2018 to 31 December 2018 (the "Year"):

(1) Qingdao TSC Offshore Equipment Company Limited (TSC-OE); and

(2) TSC Oil and Gas Services Group Holdings Limited (TSC-QD).

II. BACKGROUND INFORMATION ON THE COMPANY

The Group and its global subsidiaries are principally engaged in the asset investment and operations management of offshore engineering platforms, clean energy and technology investments, and the design, manufacture and service of equipment and equipment related to onshore and offshore oil and gas exploration and development industries.

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

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

"The Group recognises a high degree of social responsibility and awareness in environmental sustainable development as key factors to the enterprise's persistent growth and success."

The Group pursues the values of tolerance, openness, reliability and cooperation in both business development and social activities, and has introduced effective measures to ensure full fulfilment of its social responsibility and implementation of its environmental policies. These areas of work involve the Group's employees, business associates, supply chain partners, and community groups related to the Group's business.

As a corporate citizen, the Group carries out the concept of corporate social responsibility through 5 policies in behavioural management, which requires all the Group's employees to participate and support. To this end, Part VI of this Report describes the Group's performance at the environmental, social and governance aspects for the Year.

IV. STAKEHOLDER ENGAGEMENT

The Group is striving to promoting communication with its stakeholders. The Group communicates on an unscheduled basis with relevant stakeholders including customers, employees, community groups and government bodies through various means to achieve transparency and develop mutual understanding of each other's aspirations for corporate social responsibility, thereby facilitating the Group to achieve its goal of sustainable corporate development.

Key stakeholders	Main 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

V. CORPORATE GOVERNANCE

All Directors of the Group recognise that good corporate governance is an indicator of company modernisation, as well as a prerequisite to the sustainability of business. Since inception, the Group has invested large amounts of resources and manpower into developing appropriate business management practices according to the needs of the business. The Group continually enhances the essence of corporate governance into its management structures and internal control procedures. The Group is striving to maintain the highest level of ethics, to achieve highest standards or best practices in all aspects of business activities, and to ensure that the Group's operations are fully compliant with relevant 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, and to safeguard and maximise the interests of stakeholders.

VI. PERFORMANCE OF ENVIRONMENTAL AND SOCIAL ASPECTS

(1) Human Resource Management

Employment Policies

The Group has been striving to maintain the equality in employment opportunity. Every vacancy in the Group is publicly 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 job 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 various positions, the Group's remuneration system is based on job grade and performance. The wages paid by the Group and its other subsidiaries have reached the minimum wage standards of the regions (including Hong Kong and Qingdao) in which the Group is operating. In addition to assuring employees' stable income from the basic salary, the Group also provides bonuses in association with the employee's performance for recognition and retention of outstanding employees.

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

(1) Human Resource Management *(Continued)*

Employment Policies *(Continued)*

Furthermore, the Group purchases additional commercial insurance (covering critical illness, traffic accident, etc.) for those employees who have reached a certain level of seniority for offering them additional coverage. 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.

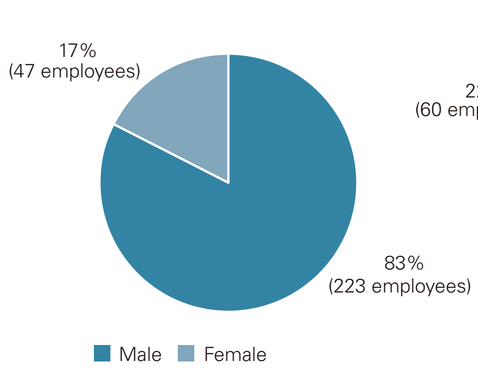
The Group is striving to promotion of the balancing between work and family and hence does not encourage overtime work. The Group strictly controls the number of overtime hours by requiring a review and approval process when overtime work is required, under which all overtime work must be approved by department managers and abide by the local labour laws.

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

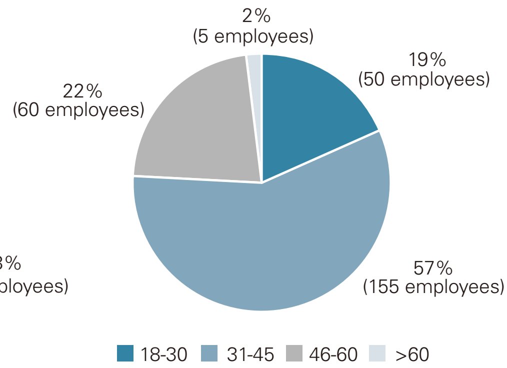
During the reporting period, the Group did not identify any legal violation or complaint relating to discrimination or other employment practices.

As of 31 December 2018, the Qingdao operation sites covered by this Report had 270 employees, all of whom were full-time employees and 57% of them ranged in the age group of 31 to 45.

No. of employees per gender



No. of employees age group



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

(1) Human Resource Management *(Continued)*

Employment Policies *(Continued)*

The average monthly employee turnover rate for the Year, which represented a significant improvement as compared with 2017, was summarised as below.

Gender	2018 Average Monthly Employee Turnover Rate (%)	2017 Average Monthly Employee Turnover Rate (%)
Male	0.97	1.51
Female	1.55	3.02
Age group		
18 – 30	1.31	2.66
31 – 45	1.29	1.85
46 – 60	0.28	0.40
> 60	0	0
	Overall average: 1.07	Overall average: 1.80

Prohibition of Child Labour and Forced Labour

The Group strictly complies with the employment laws and regulations in each of its operating locations 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 relating to child labour or forced labour.

Career Development of Employees

The Group fulfils the principle of meritocracy 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. In addition, the Group also emphasises on training of potential talent, and internal training team is appointed with the responsibility for talent development.

The Group is implementing two major types of training:

1. This type is designed to develop talents of high potential and establish teams of high performance. Through the systematic training courses, trainees are developed into two roles (managerial and technological) and four types of talent (namely, high potential talent, global key talent, local key talent and technical expert).

2. This type is designed to develop the internal training team within the company and to inherit effectively technology and corporate culture of the Group. Through systematic training, the Group firstly trains up a group of influential staff through sharing by a ratio of 1 to 3 mentoring model. They will then be developed to become high performance training team after accumulation of three to five years of experience.

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

(1) Human Resource Management *(Continued)*

Employment Policies *(Continued)*

Career Development of Employees

In 2018, the total number of trained employees reached 227 at the Qingdao operation sites covered by this Report, with a total of 1,035 training hours. Overall, the training results delivered in 2018 were far better as compared with 2017. The number of trained employees was double that of last year, and the average number of training hours per employee was as 2.5 times as that of the previous year. Moreover, some of the groups (such as middle management) recorded a soaring growth rate. All these data manifest the training resources invested and efforts made by the Group during the Year.

The following tables set forth the enhancement in performance achieved by the Group in terms of proportion of employees trained and the average number of training hours per employee during the Year:

	Monthly Average Proportion of Trained Employees (%)		
	2018	2017	Change (%)
Gender			
Male	**6.46**	3.31	95.17%
Female	**7.19**	2.81	155.87%
Employee Rank			
Senior management	**1.92**	2.43	-20.99%
Middle management	**10.78**	2.07	420.77%
Junior employee	**6.31**	3.42	84.50%
Overall average	**6.58**	3.20	105.63%

	Monthly Average Number of Training Hours per employee (hour)		
	2018	2017	Change (%)
Gender			
Male	**0.30**	0.083	259.71%
Female	**0.32**	0.077	315.58%
Employee Rank			
Senior management	**0.15**	0.044	244.83%
Middle management	**0.49**	0.032	1455.56%
Junior employee	**0.29**	0.093	212.84%
Overall average	**0.30**	0.082	265.85%

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

(2) Occupational Health and Safety (OHS)

For continued mitigation of the occupational health and safety impacts incurred from the operations, the Group is committed not only adherence to laws, regulations and industry standards as the baseline, and but also striving to achieve the corporate safety target of "Zero Occupational Disease" and "Zero Incident of Casualties".

All the 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 the relevant occupational health and safety matters within the Group. The Group adheres to the "Stop Work" policy: whenever employee is subject to safety risk, all individuals are empowered the right to stop work for preventing the occurrence of work-related incidents.

The Group is concerned with health and safety of employees and is striving to identify various opportunities for prevention of occupational disease through enhancement of work environment. The Group also actively responds to advice given by employees in relation to occupational health and safety, recognises and rewards those employees who have contributed to the continual improvement in those topics. In addition, the Group also ensures that all employees and relevant stakeholders understand their responsibilities on the safety of their own and others affected by them.

The Group provides suitable personal protective equipment (PPE) free of charge to its employees including helmets, safety goggles, protective masks, safety gloves, safety belts and purifying respirators. Employees exposed to hazards of occupational diseases, including those who work in painting and shot blasting processes, are arranged annually for free-of-charge physical examinations by qualified medical institutions for assuring the health conditions of employees. During the Year, the Group has arranged a total of 119 employees to undertake physical examination, from which no case of occupational disease was diagnosed.

In addition, the Group is striving to raising the safety awareness of its employees through promotion on bulletin boards and posting of safety signs. More importantly, the Group has also established safety training and education system and developed an annual training plan at the beginning of the Year. Occupational health and safety training courses are conducted regularly to its employees, training topics include general occupational health and safety education, correct usage of personal protective equipment, and safety precautions for various hazardous work, such as safe handling of dangerous chemicals, safe use of gas, safety of welding and measures for prevention of heatstroke in working environment of high temperature. Taking into consideration of various health and safety training programmes, the total number of the Group's employees trained in the Year was 270, reaching a total of 1,136 training hours. Moreover, the Group considers the mental well-being of employees to be valuable assets for the enterprises, and has alleviated employees' working pressure through arrangement of various activities such as mental well-being courses and group sharing.

Some of the subsidiaries within the Group (such as Qingdao TSC Offshore Equipment Company Limited), have established and achieved the certification for OHSAS 18001 safety management system. In accordance with the requirements of the management system, the Group has identified clearly the origins of dangers in the workplace and conducted risk assessment at those areas. Relevant companies have evaluated the workplace on the occupational hazards in September 2018 for assuring appropriate controls in all positions identified with hazards. In addition, the Group has established a 6S inspection system for regular check of workplaces and inspection of fire and electrical equipment, as well as formulation of plans for regular maintenance of equipment.

As of 31 December 2018, the Group neither identified any legal violation against the key regulations relating to occupational health and safety, nor any incident of work-related fatality. However, a total of 178 working days lost was recorded due to work-related injury.

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

(3) Supply Chain Management

The Group adopts QHSE criteria for supply management, through which its suppliers are selected with their performance of corporate social responsibility as one of the evaluation criteria. Suppliers are required to sign and comply with the Group's stipulated code of supplier's conduct, which contains clauses relating to environmental protection, anti-bribery, etc. The Group also actively encourages communication with the suppliers through multiple channels (including telephone, e-mail, questionnaire, and training, etc.) to elaborate the Group's requirements of corporate social responsibility by promoting the mutual benefits from fulfilment of the responsibility.

Distribution of Suppliers

The Group has the qualified supplier quality assurance personnel (SQA) to evaluate various aspects of suppliers on regular basis, and to conduct audits on specified suppliers for assuring their operations in compliance with the Group's requirements. As of 31 December 2018, there was a total of 115 qualified suppliers for provision of materials to the Group, and they were mainly based in China, the United States and Ireland.

Evaluation of Social Responsibility/Environmental Performance Aspects

Apart from considering the aforesaid scope of evaluation scope, and also for supporting the reduction in emission of greenhouse gases, the Group will give priority to local suppliers possessing the same conditions. The proportion of local suppliers currently accounts for approximately 95% of the total supply base, overseas procurement will be made only when suitable local suppliers are not available. Moreover, some suppliers are subject to the evaluation of social responsibility/environmental performance aspects, and approximately 20% of the Group's suppliers have fulfilled those evaluation requirements in the year.

Achievement of Supplier Evaluation

During the year, the Group has engaged 12 new suppliers. They had passed through the evaluation prior to procurement, and some of them were additionally required to go through on-site assessment for assuring compliance with the requirements of the Group and its customers. Moreover, each of the Group's existing suppliers is also subject to annual evaluation for continued monitoring of their performance. Those existing suppliers which may have significant impact on the Group's operations are even subject to on-site assessment, 37% of existing suppliers passed the on-site assessment in 2018.

(4) Environmental Sustainability

In response to the environmental risks faced by the country and the national policies, the Group is committed to being a responsible enterprise to implement policies for prevention of environmental pollution, despite the industry in which the Group operates does not cause significant pollution.

The Group's environmental protection policy includes the 3R principle, namely Reduce, Reuse and Recycle, as well as the effective use of materials and energy.

The Group actively responds to employees' opinions on environmental issues, and recognises and rewards those employees who have made continuous improvement or contribution to environmental protection, thereby raising the awareness and sense of responsibility of employees and stakeholders towards the surrounding environment.

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

(4) Environmental Sustainability *(Continued)*

Emission Reduction Policy

I. *Reduction of Exhaust Gas Emissions*

Environmentally-friendly materials were used when the Group renovates its office buildings, and indoor air quality testing was performed before commissioning of the office. Office operation would commence only when the air quality test results fulfilled the specified standards. In addition, spray-painting and shot-blasting facilities represent the main sources of exhaust gas in the operation process. For mitigating the pollution from the exhaust gas, spray-painting and shot-blasting facilities are equipped with system for ventilation, dust-removal, poison-removal and filtration. Moreover, exhaust emissions from the operation are tested on a regular basis. In the year, there was 3 new sets of equipment for control of exhaust gas emission, representing an increase of 75% in the number of equipment as compared with 2017.

II. *Reduction of Greenhouse Gas (GHG) Emissions*

Meanwhile, the Group recognises that the emission of GHG is one of the main causes of the current global warming, and energy consumption is key source of GHG. In order to mitigate the situation of global warming, the Group has adopted various policies and measures to control the consumption of energy, thereby reducing GHG emissions:

1. Prioritise the use of equipment and products of low energy consumption and high efficiency;

2. Consider the use of renewable energy, whenever appropriate;

3. Avoid unnecessary business trips to reduce carbon emission generated by transportation;

4. Prioritise the engagement 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.

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

(4) Environmental Sustainability *(Continued)*

Emission Reduction Policy *(Continued)*

II. Reduction of Greenhouse Gas (GHG) Emissions (Continued)

Through achievement of the aforesaid measures, the following table sets out the emission volume from the main GHG emission sources of the Group's operating sites in Qingdao covered by this Report during the year:

GHG Emission Sources	Consumption in 2018	GHG Emission Volume (tonnes carbon dioxide equivalent)
Diesel consumption (litres)	12,960	34.19
Gasoline consumption (litres)	27,113	60.13
Natural gas consumption (cubic metres)	10,005	21.93
Acetylene consumption (kg)	478	1.62
Propane consumption (kg)	1,544	4.63
Consumption of Fire extinguishers of carbon dioxide type (kg)	12	0.01
Power consumption of manufacturing facilities (kWh)	2,762,089	2,762.09
Total GHG emissions		2,884.60
Production volume (tonnes)		1,722.30
GHG Emission Intensity		1.67 (tonnes carbon dioxide equivalent/ tonnes)

III. Reduction of Wastewater Discharge

The processes and technology adopted in the Group's operations do not involve significant water consumption nor discharge of wastewater. Water is reused in exhaust gas treatment system in spray-painting process. Therefore, the Group's discharge of wastewater mainly involves daily office operations. In view of this, water conservation signs are put up in washrooms, pantries, canteens and dormitories to raise employees' awareness of resource conservation for reducing sewage generation.

IV. Reduction of Solid Wastes

The Group has maintained a high degree of management to reduce leakage of various oil products, thereby reducing generation of the related wastes. Lean production was adopted to change paints of low consumption in small packages for reducing the amount of hazardous wastes such as waste paint residues and paint containers used. In addition, the Group also advanced the technology for reducing the generation of hazardous wastes, such as the adoption of centrifugal casting process to fully prevent the release of asbestos wastes.

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

(4) Environmental Sustainability *(Continued)*

Emission Reduction Policy *(Continued)*

IV. Reduction of Solid Wastes (Continued)

The operating sites covered in this report generated a total of 48.45 tonnes of non-hazardous waste during the year of 2018, the types and distributions of these wastes were set out in the following table. Currently, the main identified hazardous wastes included: waste paint residues, scrap paint containers, waste mineral oils and activated carbon. The cumulative volume of all such wastes reached 8.05 tonnes, in which 3.80 tonnes of waste paint residues were collected from the Group's water curtain system and then passed to qualified agencies for handling.

Type of Waste	Total volume in 2018 (tonnes)	Emission Intensity per tonne of production unit
Hazardous wastes	8.05	< 0.010
Scrap steel	20.80	0.012
Scrap paper cartons	1.16	< 0.010
Scrap wooden boxes	0.65	< 0.010
Domestic wastes	25.84	0.015

Handling of Hazardous Wastes

The Group develops the plan for hazardous waste management on an annual basis, and establishes waste quantity targets for all relevant departments. Regular assessment is conducted and appropriate control measures are implemented for waste reduction where necessary. To cope with relevant management efforts, the Group arranges the classification of hazardous wastes, put up signs of hazardous wastes in the storage area, and engages the qualified subcontractors for proper handling.

Reuse of Wastes

The Group keeps strengthening quality control to reduce wastes that resulted from non-conforming products, and is striving to extract steel materials from wastes for "non-production" usage. Through this approach, a total of 5 tonnes of steel materials was reused throughout the year. In addition, scrap iron chippings generated during the processing stage was also reused by the Group for casting production, and amounted to a total of 30.59 tonnes for reuse in casting throughout the year.

Recycle of Wastes

For effective handling of recyclable wastes, the Group requires employees to classify relevant wastes and affix them with appropriate labels, which facilitates collection and periodic delivery to the qualified subcontractors for recycling and disposal. One of the examples was the handling of scrap product packaging cartons, the Group follows the abovementioned principle to engage qualified agencies for collecting and recycling of such paper wastes.

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

(4) Environmental Sustainability *(Continued)*

Effective Use of Resources

The Group consumes resources mainly through material procurement, product manufacturing and office operations, and has formulated the respective policies for managing effective use of resources and reducing wastage:

Green Procurement Policy: Environmental safety assessments shall be conducted before procurement of chemicals. Toxic and hazardous products shall be substituted by products that are non-toxic or of low-toxicity;

Green Manufacturing Policy: The manufacturing process mainly involves consumption of energy, use of raw materials and use of water for exhaust gas treatment. In view of this, the Group has formulated corresponding policies to address issues in these three aspects:

(i) Newly purchased equipment shall meet the national energy consumption level, and purchase of high energy consumption equipment listed in the national phase-out catalogue is prohibited;

(ii) Technological processes shall be optimised for improving utilisation of steel plates and reducing the amount of scrap steel materials. In 2018, the Group further improved the utilisation rate of steel plates and extruded profiles as follows:

Utilisation rate	Steel plates	Extruded profiles
2018	86.5%	92.5%
2017	83.0%	90.0%
Annual comparison	**↑ 3.5%**	**↑ 2.5%**

In addition, for the use of materials, the Group is striving to recycling of scrap product packaging cartons. This approach achieves reduction in both waste generation and consumption of paper resources.

(iii) In the spray-painting process of the Group's factories, the exhaust gas treatment system currently in use is designed to absorb exhaust gas through water recycling, thereby reducing the use of fresh water supply. This saved 56 cubic metres of fresh water throughout the year.

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

(4) Environmental Sustainability *(Continued)*

Effective Use of Resources *(Continued)*

Green Office Policy: Reduction in use of office resources includes: (i) using double-sided printing of paper instead of single-sided printing, and priority to consider paperless office operation; (ii) using water-saving devices as much as possible amongst office facilities, such as high efficient flushing toilets and automatic sensor switch faucets, and reminding employees to save water in daily operations; (iii) improving interior design to make full use of natural lighting, such as the use of transparent tiles, and maximising the use of energy-saving devices including LED lights, adoption of acoustic automatic control and solar power supply for public lighting. The current office buildings adopted LED lights during construction, thus has saved power supply of 1,881 kWh per month. In addition, the road lights at the factories powered by solar panels has saved 52,200 kWh per month.

During the reporting period in the year, major resources consumed by the Group were listed as follows. Electricity remained as the main resource consumed.

Resources	Consumption in 2018	Intensity of Consumption per tonne of production unit
Municipal Electricity (kWh)	2,762,089	1,603.72
Natural gas (cubic metres)	10,005	5.81
Fresh Water (cubic metres)	16,802	9.76
Packaging materials (tonnes)	134.65	0.08

Mitigation of Significant Impacts to Environment and Natural Resources

Green operating processes

In addition to the aforesaid policies and measures for reduction of emissions and effective use of resources, all products from the Group have achieved the strict certification by Classification Societies for fulfilment of the environmental protection requirements for offshore products. Moreover, TSC-OE has established and obtained certification of the ISO14001 Environmental Management System, and has formulated effective procedures to assure minimising environmental risks in its operations.

Environmental protection training to employees

To cope with implementation of the environmental policies and measures, the Group has formulated training programme to employees for continued enhancement of their environmental awareness and competence in the implementation of relevant measures. In the year, the number of employees participated in the environmental protection trainings reached 188 persons with a total of 282 training hours, this figure is about 23% higher than that achieved in previous year which was 230 training hours. In addition, the Group offered 95 employees with appropriate trainings on collection and storage of hazardous waste for mitigation of the environmental risks imposed by the relevant operations.

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

(4) Environmental Sustainability *(Continued)*

Effective Use of Resources *(Continued)*

Promotion of environmental protection along the supply chain

Suppliers are important partners with the Group. The Group intends to enhance the environmental awareness of its suppliers by taking advantage of its influence in the supply chain. Consequently, environmental performance has also become one of the evaluation criteria during the supplier selection and approval process, thereby enhancing suppliers' awareness of environmental protection and reducing carbon emissions to the environment.

During the reporting period, the Group did not identify any operating site with any legal violation or complaint relating to environment.

(5) Business Ethics

Product management

The Group has established and implemented the ISO 9001 Quality Management System, and has formulated appropriate monitoring procedures to address corresponding potential product quality risks. All products are required to pass through relevant quality inspection, whereby their design, manufacturing process, installation and testing shall all conform to relevant standards, specifications and technical requirements, as well as satisfy relevant design parameters. In addition, all products are subject to rigorous certification and safety verification by Classification Societies.

The product quality assurance process of the Group is controlled through the following four aspects:

(1) Inspection of Materials

All raw materials must undergo incoming inspection based on their drawings, standards, specifications and technical agreements. Only materials passing the inspection are allowed for storage.
Raw materials, that are going to be used in products requiring classification, are subject to certification by Classification Societies, and they are allowed for storage and use only after approval.

(2) Manufacturing Process

Verification and testing are conducted during the manufacturing process. Semi-finished products can only proceed to the next stage after pass result attained.
Manufacturing process for products requiring classification must undergo certification by Classification Societies, and can only proceed to next stage after approval.

(3) Inspection of Finished Products

Finished products are subject to final inspection and comprehensive FAT testing.
Products requiring classification must undergo certification by Classification Societies and are only allowed for delivery after approval report has been issued.

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

(5) Business Ethics *(Continued)*

Product management *(Continued)*

(4) Nonconforming Product Control

Whenever nonconformities are identified during the quality verification process, the nonconforming product is analysed and processed, and they would be segregated from 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 are encrypted for protection from leakage. Where appropriate, the Group will apply for patents to seek protection from the relevant authorities. The relevant patents obtained by the Group in the year are listed as follows:

Name of product/technology patent	Registration authority
A type of emergency overload protection system and its working method	State Intellectual Property Office of the People's Republic of China
A type of automatic overload protection system and its working method	State Intellectual Property Office of the People's Republic of China
A type of derrick pipe jointer and its operation method	State Intellectual Property Office of the People's Republic of China

Despite the implementation of robust quality management, the Group still attaches importance to customer feedback and 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 the sales and project management team will reply to customers with relevant solution and the implementation status thereof. During the reporting period, the Group did not identify any legal violation or complaint case relating to product responsibility. In the same period, no product was recalled for safety and health reasons. In addition, the Group was awarded from various institutions in the year for recognition of the Group's product quality and technological achievements:

Name of Product Award	Issuing Authority
Rotary (heavy) crane for marine engineering	Qingdao Economic and Information Technology Committee (青島市經濟和信息化委員會)
P32 Rotary (heavy) crane for marine engineering	Qingdao Enterprise Investment and Technology Consulting Centre(青島市企業投資與技術資詢中心)

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

(5) Business Ethics *(Continued)*

Anti-corruption Measures

Being a responsible enterprise, the Group has always maintained "zero tolerance" attitude towards critical violations of business ethics such as bribery, extortion, fraud and money laundering.

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 "Code of Business Conduct" to which all board members, managers, employees, agents and representatives must adhere; the Group announced and implemented the "Employee Handbook", which contained the requirements for prohibition of bribery, and has been signed and acknowledged by all employees;

2. The Audit Committee, the Remuneration Committee, the Supervisory Committee and the Nomination Committee have been established under the board of directors of the Group to be responsible 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 will be formulated to eliminate the root cause of the established cases;

4. In the employment contract, employees are required to disclose conflicts of interest, and no relevant reporting case was received throughout the year;

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 Code of Self-Discipline Integrity Conduct for China (including China MRO) Procurement Personnel";

7. The Group will appoint independent auditing agency to proceed auditing and reporting of listed company on an annual basis, and the content involving the internal control system will be disclosed separately. Subsidiaries will appoint the local auditing agencies to proceed individual auditing and reporting as well as 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 relating to corruption.

Community Contribution and Engagement

Being an outstanding corporate citizen in the community, the Group intends to connect with the community for sending best wishes and support to the disadvantaged and giving back to the community. Based on this social responsibility, the Group has been expecting to reach out to the community over the years, through volunteer service or participation in regional activities, and communication with local community organisations in form of meetings and other means for understanding their needs and satisfying demands in the regions to the best of the Group's capabilities.

KPMG

Independent auditor's report to the shareholders of
CMIC Ocean En-Tech Holding Co., Ltd.
(formerly known as TSC Group Holdings Limited)
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of CMIC Ocean En-Tech Holding Co., Ltd. (formerly known as TSC Group Holdings Limited) ("the Company") and its subsidiaries ("the Group") set out on pages 90 to 173, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018 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)(iii) 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 2018 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. 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.	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; • 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)*

Loss allowance for trade receivables

Refer to notes 17 and 30(a) 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 2018 totalled US$41.3 million after deduction of loss allowance of US$65.8 million. The Group's loss allowance is measured at an amount equal to the lifetime expected credit loss, which is estimated by taking into account the historical credit loss experience, ageing of the receivables and customer profile based on geographical location or business segment, adjusted for factors that are specific to the debtors and an assessment of both the current and forecasted economic conditions at the reporting date. Such assessment involves a significant degree of judgement. We identified the loss allowance for trade receivables as a key audit matter because the assessment of loss allowances is inherently subjective and requires significant management judgement, which increases the risk of error or potential management bias.	Our audit procedures to assess the loss allowance for 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 estimating the credit loss allowance; • obtaining an understanding on the key data and assumptions of the expected credit loss model adopted by the management, including the basis of the segmentation of the accounts receivable based on credit risk characteristics, the historical default data, and the assumptions involved in management's estimated loss rates; • 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; • assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; and • comparing cash receipts from debtors subsequent to the financial year end relating to trade receivable balances at 31 December 2018 with bank statements and relevant underlying documentation, on a sample basis.

KEY AUDIT MATTERS *(Continued)*

Assessing the net realisable value of inventories

Refer to note 16 to the consolidated financial statements and the accounting policies in note 1(l).

The Key Audit Matter	How the matter was addressed in our audit
The carrying value for inventories as at 31 December 2018 was US$145.9 million, which represented 52% of the Group's total assets. The inventories held at the year-end covered a wide range of capital equipment and spare parts and the demand for these in the future may be adversely affected by many factors including market demand, competitor activities, pricing and the introduction of substituting products and technologies. The Group's inventories are carried at the lower of cost and net realisable value. Determination of net realisable value involves key judgements and estimates made by management, in particular with regards to the estimation of selling prices and provisions for slow-moving and obsolete inventories. We identified the assessment of the net realisable value of inventories as a key audit matter because of the significance of inventories to the consolidated financial statements and because of the significant judgements made by management in assessing net realisable value, which increases the risk of error or potential management bias.	Our audit procedures to assess the net realisable value of inventories included the following: • assessing whether the inventory provision at the end of the reporting period was determined on a basis consistent with the Group's inventory provisioning policy including evaluating the accuracy of management's prior year estimation; • assessing, on a sample basis, the classification of individual items in the inventory ageing report by comparing the details in the inventory ageing report with underlying documentation, including purchase invoices and goods receipt notes; • assessing the appropriateness of the selling prices estimated by the management, on a sample basis, by comparing the estimated selling prices to the recent transaction prices and our knowledge of the Group's business; • engaging our internal valuation specialists to assist us in assessing management's estimation of net realisable value for those inventories which are based on external valuation and evaluating the valuation methodology adopted by the external valuer; • assessing the experience, competence and objectivity of the external valuer engaged by the Group; and • evaluating the reasonableness of the Group's inventory provision balance by comparing, on a sample basis, the carrying value of inventories with expected selling prices or net realisable value.

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.

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Guen Kin Shing.

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

28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018
(Expressed in United States dollars)

	Note	2018 $'000	2017 $'000
Revenue	3	**58,839**	76,552
Cost of sales		**(48,792)**	(67,331)
Gross profit		**10,047**	9,221
Other revenue and net income	4	**934**	2,411
Selling and distribution expenses		**(5,635)**	(6,902)
General and administrative expenses		**(27,693)**	(25,991)
Other operating expenses		**(4,164)**	(10,652)
Impairment losses on trade receivables and contract assets	5(c)	**(2,445)**	(3,461)
Impairment losses on gross amount due from customers for contract work	5(c)	**–**	(44,684)
Loss from operations		**(28,956)**	(80,058)
Finance costs	5(a)	**(2,450)**	(4,352)
Share of profits of associates		**1**	4
Loss before taxation	5	**(31,405)**	(84,406)
Income tax (expense)/credit	6(a)	**(10,381)**	987
Loss for the year		**(41,786)**	(83,419)
Attributable to:			
Equity shareholders of the Company		**(41,358)**	(82,790)
Non-controlling interests		**(428)**	(629)
Loss for the year		**(41,786)**	(83,419)
Loss per share	9		
Basic and diluted		**(2.98) cents**	(11.79) cents

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 1(c).

The notes on pages 97 to 173 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018
(Expressed in United States dollars)

	2018 $'000	2017 $'000
Loss for the year	**(41,786)**	(83,419)
Other comprehensive income for the year:		
Item that will not be reclassified to profit or loss:		
– Equity investments at FVOCI – net movement in fair value reserve (non-recycling) (with nil tax effect)	**(453)**	–
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)	**(2,708)**	657
Other comprehensive income for the year	**(3,161)**	657
Total comprehensive income for the year	**(44,947)**	(82,762)
Attributable to:		
Equity shareholders of the Company	**(44,514)**	(82,142)
Non-controlling interests	**(433)**	(620)
Total comprehensive income for the year	**(44,947)**	(82,762)

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 1(c).

The notes on pages 97 to 173 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018
(Expressed in United States dollars)

	Note	2018 $'000	2017 $'000
Non-current assets			
Property, plant and equipment	10	**40,620**	41,200
Investment properties	10	**3,503**	8,157
Interest in leasehold land held for own use under operating leases	11	**4,030**	7,552
Intangible assets	12	**382**	1,620
Interest in associates	14	**274**	288
Other financial assets	15	**1,002**	1,455
Prepayments	17	**485**	–
Deferred tax assets	25(b)	**2,478**	13,083
		52,774	73,355
Current assets			
Inventories	16	**145,944**	29,765
Trade and other receivables	17	**56,276**	55,964
Gross amount due from customers for contract work		**–**	133,085
Contract assets	22(a)	**2,012**	–
Amount due from a related company	18	**101**	101
Tax recoverable	25(a)	**132**	405
Pledged bank deposits		**802**	563
Cash and cash equivalents	19	**19,805**	15,287
		225,072	235,170
Non-current assets classified as held for sale	20	**2,936**	6,082
		228,008	241,252
Current liabilities			
Trade and other payables	21	**201,316**	234,207
Contract liabilities	22(b)	**29,444**	–
Bank loans and other borrowings	23	**10,277**	47,601
Obligations under finance leases	24	**18**	–
Tax payable	25(a)	**4,128**	4,811
		245,183	286,619
Net current liabilities		**(17,175)**	(45,367)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018
(Expressed in United States dollars)

	Note	2018 $'000	2017 $'000
Total assets less current liabilities		**35,599**	27,988
Non-current liabilities			
Bank loans and other borrowings	23	**7,092**	14,321
Obligations under finance leases	24	**63**	–
Deferred tax liabilities	25(b)	**46**	–
		7,201	14,321
NET ASSETS		**28,398**	13,667
CAPITAL AND RESERVES			
Share capital	29(b)	**18,854**	9,094
Reserves		**9,799**	4,395
Total equity attributable to equity shareholders of the Company		**28,653**	13,489
Non-controlling interests		**(255)**	178
TOTAL EQUITY		**28,398**	13,667

Approved and authorised for issue by the board of directors on 28 March 2019.

Wang Hongyuan
Director

Jiang Bing Hua
Director

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 1(c).

The notes on pages 97 to 173 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018
(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	Fair value reserve (non-recycling) $'000	Accumulated losses $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 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 (note)	9,094	127,805	2,161	(13,317)	3,775	(1,285)	5,482	627	8,295	–	(129,148)	13,489	178	13,667
Impact on initial application of HKFRS 15 (note 1(c)(ii))	–	–	–	–	–	–	–	–	–	–	(2,585)	(2,585)	–	(2,585)
Impact on initial application of HKFRS 9 (note 1(c)(i))	–	–	–	–	–	–	–	–	–	(3,207)	999	(2,208)	–	(2,208)
Adjusted balance at 1 January 2018	**9,094**	**127,805**	**2,161**	**(13,317)**	**3,775**	**(1,285)**	**5,482**	**627**	**8,295**	**(3,207)**	**(130,734)**	**8,696**	**178**	**8,874**
Changes in equity for 2018														
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(41,358)**	**(41,358)**	**(428)**	**(41,786)**
Other comprehensive income	**–**	**–**	**–**	**(2,703)**	**–**	**–**	**–**	**–**	**–**	**(453)**	**–**	**(3,156)**	**(5)**	**(3,161)**
Total comprehensive income	**–**	**–**	**–**	**(2,703)**	**–**	**–**	**–**	**–**	**–**	**(453)**	**(41,358)**	**(44,514)**	**(433)**	**(44,947)**
Issue of new shares	**9,749**	**54,549**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**64,298**	**–**	**64,298**
Shares issued under share option schemes	**11**	**93**	**–**	**–**	**(45)**	**–**	**–**	**–**	**–**	**–**	**–**	**59**	**–**	**59**
Equity-settled share-based transactions	**–**	**–**	**–**	**–**	**(3,730)**	**–**	**–**	**–**	**–**	**–**	**3,844**	**114**	**–**	**114**
Transferred to reserve funds	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**214**	**–**	**(214)**	**–**	**–**	**–**
Balance at 31 December 2018	**18,854**	**182,447**	**2,161**	**(16,020)**	**–**	**(1,285)**	**5,482**	**627**	**8,509**	**(3,660)**	**(168,462)**	**28,653**	**(255)**	**28,398**

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 1(c).

The notes on pages 97 to 173 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018
(Expressed in United States dollars)

	Note	2018 $'000	2017 $'000
Operating activities			
Loss before taxation		**(31,405)**	(84,406)
Adjustments for:			
Depreciation	5(c)	**6,153**	5,814
Impairment losses on trade receivables and contract assets	5(c)	**2,445**	3,461
Impairment losses on other financial assets	5(c)	**–**	772
Impairment losses on gross amount due from customers for contract work	5(c)	**–**	44,684
Impairment losses on property, plant and equipment	5(c)	**317**	3,251
Impairment losses on intangible assets	5(c)	**–**	448
Share of profits of associates		**(1)**	(4)
Write-off of trade receivables	5(c)	**–**	142
Write-down of inventories	16(b)	**3,153**	6,025
Amortisation of interest in leasehold land held for own use under operating leases	5(c)	**207**	208
Amortisation of intangible assets	5(c)	**1,210**	1,691
Loss on deregistration of subsidiaries	5(c)	**–**	786
Finance costs	5(a)	**2,450**	4,352
Interest income	4	**(175)**	(187)
Gain on disposal of property, plant and equipment	5(c)	**(56)**	(78)
Gain on disposal of non-current assets classified as held for sale	5(c)	**(13)**	–
Equity-settled share-based payment expenses	5(b)	**114**	335
Foreign exchange gain		**(273)**	(2,029)
Operating loss before changes in working capital		**(15,874)**	(14,735)
Decrease in inventories		**4,562**	4,763
(Increase)/decrease in trade and other receivables		**(1,690)**	18,664
Increase in contract assets		**(172)**	–
Decrease in gross amount due from customers for contract work		**–**	21,417
Decrease in trade and other payables		**(2,743)**	(27,849)
Decrease in contract liabilities		**(545)**	–
Cash (used in)/generated from operations		**(16,462)**	2,260
Income tax refunded/(paid)		**122**	(2,447)
Net cash used in operating activities		**(16,340)**	(187)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018
(Expressed in United States dollars)

	Note	2018 $'000	2017 $'000
Investing activities			
Payment for purchase of property, plant and equipment		(3,683)	(3,176)
Interest received		175	187
(Increase)/decrease in pledged bank deposits		(279)	961
Proceeds from disposal of property, plant and equipment		345	309
Proceeds from disposal of non-current assets classified as held for sale		6,095	–
Payment for investment in an associate		–	(93)
Net cash generated from/(used in) investing activities		2,653	(1,812)
Financing activities			
Proceeds from issue of new shares		64,298	–
Interest paid		(2,041)	(3,432)
Proceeds from new bank loans		5,606	20,243
Repayment of bank loans and other borrowings		(49,486)	(9,610)
Capital element and interest element of finance lease rentals paid		(15)	–
Proceeds from issue of new shares under share option schemes		59	–
Net cash generated from financing activities		18,421	7,201
Net increase in cash and cash equivalents		4,734	5,202
Cash and cash equivalents at 1 January		15,287	9,952
Effect of foreign exchange rate changes		(216)	133
Cash and cash equivalents at 31 December	19	19,805	15,287

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 1(c).

The notes on pages 97 to 173 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 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 ("GBP"). In view of operations of the Group in various foreign countries, 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 investments in equity securities which are stated at their fair values 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 2018, the Group had net current liabilities of $17,175,000 (2017: $45,367,000). Notwithstanding the net current liabilities of the Group at 31 December 2018, the Group's consolidated financial statements for the year ended 31 December 2018 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 rights issue with net proceeds amounting to HK$657,290,000 (equivalent to $83,805,000) in February 2019 (see note 34).

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's consolidated financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22. *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

(i) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on accumulated losses and reserves and the related tax impact at 1 January 2018.

	$'000
Accumulated losses	
Transferred to fair value reserve (non-recycling) relating to financial assets now measured at FVOCI	3,207
Recognition of additional expected credit losses on financial assets measured at amortised cost	(2,514)
Related tax	306
Net decrease in accumulated losses at 1 January 2018	999
Fair value reserve (non-recycling)	
Transferred from accumulated losses relating to equity securities now measured at FVOCI to fair value reserve (non-recycling) at 1 January 2018	(3,207)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(i) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation* (Continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(1) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 $'000	Reclassification $'000	Remeasurement $'000	HKFRS 9 carrying amount at 1 January 2018 $'000
Financial assets carried at amortised cost				
Trade and other receivables (note (a))	55,964	5,628	(2,514)	59,078
Financial assets measured at FVOCI (non-recyclable)				
Equity securities (note (b))	–	1,455	–	1,455
Financial assets classified as available-for-sale under HKAS 39 (note (b))	1,455	(1,455)	–	–

Note:

(a) Gross amount due from customers for contract work of $5,628,000 were reclassified to trade and other receivables at 1 January 2018 as a result of the initial application of HKFRS 15 (see note 1(c)(ii)).

(b) Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated its investment in Persta Resources Inc. at FVOCI (non-recycling), as the investment is held for strategic purposes.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(i) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation* (Continued)

(1) Classification of financial assets and financial liabilities (Continued)

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in notes 1(f), (k), (n) and (q).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(2) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables); and

– contract assets as defined in HKFRS 15 (see note 1(m)).

Further details on the Group's accounting policy for accounting for credit losses, see notes 1(k).

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	$'000
Loss allowance at 31 December 2017 under HKAS 39	68,577
Additional credit losses recognised at 1 January 2018 on trade receivables	2,514
Loss allowance at 1 January 2018 under HKFRS 9	71,091

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(i) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation* *(Continued)*

(3) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in accumulated losses and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

  – the designation of an investment in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

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

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

The following table summarises the impact of transition to HKFRS 15 on accumulated losses and the related tax impact at 1 January 2018:

	$'000
Accumulated losses	
Later revenue and profit recognition for construction contracts previously recognised under HKAS 11	2,623
Related tax	(38)
Net increase in accumulated losses at 1 January 2018	2,585

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(a) Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. 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;

C. 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 is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 results in a change in the profile of revenue recognition for certain construction contracts. These construction contracts the Group enters into involve the design, manufacturing, installation and commissioning of rig products and capital equipment for customers. Some of these contracts do not fall into any of the 3 situations mentioned above and, in particular, the underlying rig products and capital equipment produced may have an alternative use to the Group, and/or Group does not have an enforceable right to payment that at least compensates the work done to date including a reasonable profit margin if the customers were to cancel the contract before the contract was fully completed. Accordingly, upon the adoption of HKFRS 15, revenue from some construction contracts which was previously recognised over time under HKAS 11 is only recognised at a single point in time when the control of the underlying products and equipment is transferred to the customers (which is generally upon the transfer of legal title and the customers' acceptance of the products/equipment).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

(a) Timing of revenue recognition (Continued)

As a result of the adoption of HKFRS 15, the Group has made adjustments to opening balances at 1 January 2018 which increased accumulated losses by $2,585,000, increased inventories by $124,757,000, increased contract liabilities by $1,774,000, and decreased tax payable by $38,000.

(b) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 1(u)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances relating to construction in progress were recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and were presented in the consolidated 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 were presented as "Trade debtors and bills receivables" under "Trade and other receivables". Amounts received before the related work is performed are included in "Other payables and accrued charges" under "Trade and other payables".

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

a. "Gross amounts due from customers for contract work" amounting to $7,479,000, are now included under contract assets and trade and other receivables of $1,851,000 and $5,628,000 respectively; and

b. "Other payables and accrued charges" amounting to $28,491,000 is now included under contract liabilities.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

(c) Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply in 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in amounts with HKFRS 15 (A) $'000	Hypothetical amounts under HKASs 18 and 11 (B) $'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B) $'000
Line items in the consolidated statement of profit or loss for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Revenue	58,839	53,887	4,952
Cost of sales	(48,792)	(45,635)	(3,157)
Gross profits	10,047	8,252	1,795
Impairment losses on trade receivables and contract assets	(2,445)	(2,427)	(18)
Loss from operations	(28,956)	(30,733)	1,777
Loss before taxation	(31,405)	(33,182)	1,777
Loss for the year	(41,786)	(43,563)	1,777
Loss attributable to equity shareholders of the Company	(41,358)	(43,135)	1,777
Loss per share			
Basic and diluted	(2.98 cents)	(3.11 cents)	0.13 cents
Line items in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Total comprehensive income for the year	(44,947)	(46,724)	1,777
Total comprehensive income attributable to the equity shareholders of the Company	(44,514)	(46,291)	1,777

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

(c) Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018 (Continued)

	Amounts reported in amounts with HKFRS 15 (A) $'000	Hypothetical amounts under HKASs 18 and 11 (B) $'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B) $'000
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Inventories	145,944	24,517	121,427
Contract assets	2,012	–	2,012
Gross amount due from customers for contract work	–	126,028	(126,028)
Trade and other receivables	56,276	53,617	2,659
Total current assets	228,008	227,938	70
Trade and other payables	201,316	229,844	(28,528)
Contract liabilities	29,444	–	29,444
Tax payable	4,128	4,166	(38)
Total current liabilities	245,183	244,305	878
Net current liabilities	(17,175)	(16,367)	(808)
Total assets less current liabilities	35,599	36,407	(808)
Net assets	28,398	29,206	(808)
Reserves	9,799	10,607	(808)
Total equity attributable to equity shareholders of the Company	28,653	29,461	(808)
Total equity	28,398	29,206	(808)
Line items in the reconciliation of loss before taxation to cash used in operations for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Loss before taxation	(31,405)	(33,182)	1,777
Impairment losses on trade receivables and contract assets	2,445	2,427	18
Decrease in inventories	4,562	1,232	3,330
Increase in trade and other receivables	(1,690)	(4,659)	2,969
Increase in contract assets	(172)	–	(172)
Decrease in gross amount due from customers for contract work	–	7,064	(7,064)
Decrease in trade and other payables	(2,743)	(2,430)	(313)
Decrease in contract liabilities	(545)	–	(545)

The significant differences arise as a result of the changes in accounting policies described above.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Subsidiaries and non-controlling interests

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

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

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 15. These investments are subsequently accounted for as follows, depending on their classification.

(A) Policy applicable from 1 January 2018

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retain profits/accumulated losses. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 1(u)(iii).

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments which did not fall into any of the above category were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investment was recognised in profit or loss in accordance with the policies set out in note 1(u)(iii) or impaired (see note 1 (k)(i) – policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

(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)(ii).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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)(ii)):

– 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.

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

– Freehold land is not depreciated.

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 the 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)(ii)). 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)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

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

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

Both the period and method of amortisation are reviewed annually.

(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) Assets acquired under finance leases *(Continued)*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(k)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) 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) Credit losses and impairment of assets

(i) Credit losses from financial instrument and contract assets

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables) and;

– contract assets as defined in HKFRS 15 (see note 1(m)),

Equity securities designated at FVOCI (non-recycling) are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof; or

– variable-rate financial assets: current effective interest rate.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instrument and contract assets *(Continued)*

(A) Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs *(Continued)*

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– Lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instrument and contract assets *(Continued)*

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk *(Continued)*

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any changed in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 1(u)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instrument and contract assets *(Continued)*

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables and available-for-sale investments). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was 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, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were 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 decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instrument and contract assets *(Continued)*

(B) Policy applicable prior to 1 January 2018 (Continued)

- When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Credit losses and impairment of assets *(Continued)*

(ii) Impairment of other non-current 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 properties;

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

– intangible assets;

– interest in associates;

– leased 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).

– *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 to reduce the carrying amount of the assets in the cash-generating 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)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

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

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

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

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

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

(m) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 1(u)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(k)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 1(n)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 1(u)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(n)).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 1(u)).

Policy prior to 1 January 2018

In the comparative period, contract balances were recorded for construction contracts at the net amount of costs incurred plus recognised profit less recognised losses and progress billings. These net balances were presented 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, respectively on a contract-by-contract basis. Progress billings not yet paid by the customer were included under "Trade debtors and bills receivables". Amounts received before the related work was performed were presented as "Other payables and accrued charges" under "Trade and other payables". These balances have been reclassified on 1 January 2018 as stated in note 1(c)(ii).

(n) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 1(m)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(k)(i)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(w)).

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(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. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(k)(i).

(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.

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 accumulated losses).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Employee benefits *(Continued)*

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

Shares held for share award scheme

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

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

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 accumulated losses 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 accumulated losses 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.

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Income tax *(Continued)*

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

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

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

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

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

  – the same taxable entity; or

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

(t) Provisions and contingent liabilities

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of capital equipment and packages and engineering services fee income

Policy applicable from 1 January 2018

– Sales of goods

Revenue is recognised when the customer obtains control over the products which is generally the point in time when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

– Made-to-order construction contracts

Revenue arising from made-to-order construction contracts are recognised progressively over time, with a corresponding contract asset (see note 1(m)), if the Group's performance does not create an asset with an alternative use to the Group and the Group has the right to be paid for work done to date in case of customer cancellation before the order was fully completed. Progress is measured using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. The contract asset (either partially or in full) is reclassified to receivables when the entitlement to payment for that amount has become unconditional (see note 1(n)).

Otherwise, revenue is recognised at a point in time when the customers obtains control over the products, which generally is when the customer takes possession of and accepts the products.

– Engineering services fee income

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Revenue and other income *(Continued)*

(i) Sale of capital equipment and packages and engineering services fee income *(Continued)*

Policy applicable prior 1 January 2018

There is no significant changes in the accounting policy for the recognition of engineering services income. The policies in respect of sale of goods and make-to-order construction contracts applicable prior 1 January 2018 were as follows:

– Sales of goods

Revenue was recognised when the customer had accepted the goods and the related risks and rewards of ownership. Revenue excluded value added taxes or sales taxes and was after deduction of any trade discounts.

– Made-to-order construction contracts

When the outcome of a construction contract could be estimated reliably, regardless whether the Group had the right to be paid for work done to date if the customer were to cancel the contract before the order was fully completed, revenue from a fixed price contract was 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 could not be estimated reliably, revenue was recognised only to the extent of contract costs incurred that it was probable would be recoverable.

As a result of the change in above accounting policies, adjustments have been made to opening balances as at 1 January 2018 (see note 1(c)(ii)).

(ii) 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.

(iii) Dividends

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

(iv) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 1(k)(i)).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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 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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Non-current assets held for sale *(Continued)*

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, 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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Segment reporting

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

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Notes 28 and 30 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 intangible assets. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment, investment properties and 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 receivables

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs, which are estimated in accordance with the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. The estimation of ECLs requires the use of judgement and estimates, where the expectation is different from the original estimates, such difference will impact carrying value of trade receivables and doubtful debt expenses in the period in which such estimate has been changed.

In the comparative period, the Group recognised impairment losses on doubtful debts based on an assessment of the recoverability of trade receivables. Impairments were applied to trade receivables where events or changes in circumstances indicated that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation was different from the original estimates, such difference would impact carrying value of receivables and doubtful debts expenses in the period in which such estimate had been changed.

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 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) Made-to-order construction contracts

As explained in the accounting policy notes 1(c) and (u)(i), revenue in respect of made-to-order construction contracts is recognised over time or at a point in time depending on a number of considerations including whether the Group's performance creates an asset with an alternative use to the Group and whether the Group has a right to payment for performance completed to date in case of customer cancellation. Making such determination involves judgement about the nature of the assets created, enforceability of contract terms, and level of margin that is regarded as sufficiently reasonable given the circumstances of a particular contract.

In addition, revenue and profit recognition is dependent on estimating the total outcome of the contract, as well as the work done to date. Based on the Group's recent experience and the nature of the activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. Based on the latest information available in respect of the market environment, the Group prepares budgets for contracts individually and the budget, which is used in the Group's financial reporting, is reviewed regularly. Onerous contracts are provided for when identified. 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, manufacturing, installation and commissioning of capital equipment and packages on land and offshore rigs; sales of oilfield expendables and supplies and the provision of engineering services.

(i) Disaggregation of revenue

All of the revenue for the year ended 31 December 2018 is recognised in accordance with HKFRS 15. Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2018 $'000	2017 $'000
Capital equipment and packages		
– Sales of capital equipment	32,724	25,637
– Rig turnkey solutions	–	903
	32,724	26,540
Sales of expendables and supplies	24,604	45,135
Engineering service fee income	1,511	4,877
	58,839	76,552

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 1(c)(ii)).

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in note 3(b)(iii).

The Group's customer base includes no customers (2017: three customers) with whom transactions have exceeded 10% of the Group's revenue. 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
Customer A[1]	15,058
Customer B[2]	9,417
Customer C[2]	8,334

[1] Revenue from sales of capital equipment and packages.

[2] Revenue from sales of oilfield expendables and supplies.

Details of concentrations of credit risk arising from these customers are set out in note 30(a).

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(a) Revenue *(Continued)*

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2018, the aggregated amount of the transaction price related to the remaining performance obligations under the Group's existing contracts is $236,007,000. This amount represents revenue expected to be recognised in the future from pre-completion sales contracts for made-to-order construction contracts entered into by the customers with the Group. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur within the next 12 to 24 months.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contacts for capital equipment and expendables and supplies such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of capital equipment and expendables and supplies that had an original expected duration of one year or less.

(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.

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.

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

(i) Segment results, assets and liabilities *(Continued)*

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 2018 and 2017 is set out below.

	Capital equipment and packages		Oilfield expendables and supplies		Engineering services		Total	
	2018 $'000	2017 $'000	**2018 $'000**	2017 $'000	**2018 $'000**	2017 $'000	**2018 $'000**	2017 $'000
Revenue from external customers	**32,724**	26,540	**24,604**	45,135	**1,511**	4,877	**58,839**	76,552
Inter-segment revenue	**525**	1,514	**2,821**	1,723	**890**	325	**4,236**	3,562
Reportable segment revenue	**33,249**	28,054	**27,425**	46,858	**2,401**	5,202	**63,075**	80,114
Reportable segment results	**(15,106)**	(65,909)	**(10,216)**	(12,966)	**(1,313)**	(3,666)	**(26,635)**	(82,541)
Depreciation and amortisation for the year	**5,251**	4,477	**1,887**	1,968	**13**	682	**7,151**	7,127
Impairment of								
– property, plant and equipment	**–**	–	**317**	2,222	**–**	1,029	**317**	3,251
– intangible assets	**–**	–	**–**	–	**–**	448	**–**	448
Reportable segment assets	**187,674**	211,431	**60,727**	63,587	**5,799**	6,793	**254,200**	281,811
Additions to property, plant and equipment during the year	**2,078**	155	**1,102**	3,021	**–**	–	**3,180**	3,176
Reportable segment liabilities	**(196,826)**	(195,903)	**(30,352)**	(36,433)	**(1,125)**	(1,246)	**(228,303)**	(233,582)

Note: the Group has initially applied HKFRS 15 using the cumulative method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 1(c)(ii)).

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

(ii) Reconciliation of reportable segment revenue, results, assets and liabilities

	2018 $'000	2017 $'000
Revenue		
Reportable segment revenue	**63,075**	80,114
Elimination of inter-segment revenue	**(4,236)**	(3,562)
Consolidated revenue (note 3(a))	**58,839**	76,552
Results		
Segment results	**(26,635)**	(82,541)
Finance costs	**(2,450)**	(4,352)
Share of profits of associates	**1**	4
Unallocated head office and corporate income and expenses	**(2,321)**	2,483
Consolidated loss before taxation	**(31,405)**	(84,406)
Assets		
Reportable segment assets	**254,200**	281,811
Interest in associates	**274**	288
Other financial assets	**1,002**	1,455
Cash and cash equivalents	**19,805**	15,287
Pledged bank deposits	**802**	563
Deferred tax assets	**2,478**	13,083
Tax recoverable	**132**	405
Unallocated head office and corporate assets	**2,089**	1,715
Consolidated total assets	**280,782**	314,607
Liabilities		
Reportable segment liabilities	**(228,303)**	(233,582)
Bank loans and other borrowings	**(17,369)**	(61,922)
Tax payable	**(4,128)**	(4,811)
Deferred tax liabilities	**(46)**	–
Unallocated head office and corporate liabilities	**(2,538)**	(625)
Consolidated total liabilities	**(252,384)**	(300,940)

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, intangible assets, interest in associates, other financial assets and non-current portion of prepayments ("specified non-current assets"). The geographical location of customers is based on the location of the customers. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, investment properties 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, other financial assets and non-current portion of prepayments.

	Revenue from external customers		Specified non-current assets	
	2018 $'000	2017 $'000	**2018 $'000**	2017 $'000
Hong Kong Special Administrative Region	**–**	–	**1,148**	228
Mainland China	**29,118**	10,456	**45,299**	53,643
North America	**10,175**	23,282	**3,590**	5,147
South America	**11,003**	30,667	**32**	39
Europe	**5,307**	3,759	**200**	1,171
Singapore	**94**	984	**12**	26
Indonesia	**48**	958	**–**	–
Others	**3,094**	6,446	**15**	18
	58,839	76,552	**50,296**	60,272

4 OTHER REVENUE AND NET INCOME

	2018 $'000	2017 $'000
Interest income	**175**	187
Rental income	**589**	379
Net foreign exchange loss	**(860)**	(107)
Others	**1,030**	1,952
	934	2,411

5 LOSS BEFORE TAXATION

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

		2018 $'000	2017 $'000
(a)	**Finance costs**		
	Interest on bank loans and other borrowings	2,448	4,352
	Finance charges on obligations under finance leases	2	–
		2,450	4,352
(b)	**Staff costs#**		
	Contributions to defined contribution retirement plans	3,564	3,051
	Equity-settled share-based payment expenses	114	335
	Salaries, wages and other benefits	17,106	19,899
		20,784	23,285
(c)	**Other items**		
	Amortisation of interest in leasehold land held for own use under operating leases# (note 11)	207	208
	Amortisation of intangible assets (note 12)	1,210	1,691
	Depreciation#		
	– property, plant and equipment (note 10)	5,732	5,302
	– investment properties (note 10)	421	512
	Impairment losses on trade receivables and contract assets (note 30(a))	2,445	3,461
	Impairment losses on other financial assets	–	772
	Impairment losses on property, plant and equipment (note 10)	317	3,251
	Impairment losses on intangible assets (note 12)	–	448
	Impairment losses on gross amount due from customers for contract work	–	44,684
	Write-off of trade receivables	–	142
	Research and development costs	4,883	4,417
	Net foreign exchange loss	860	107
	Gain on disposal of property, plant and equipment	(56)	(78)
	Gain on disposal of non-current assets classified as held for sale	(13)	–
	Loss on deregistration of subsidiaries	–	786
	Auditors' remuneration		
	– audit services	530	453
	– other services	209	27
	Minimum lease payments under operating leases in respect of land and buildings	2,069	2,164
	Cost of inventories# (note 16(b))	47,949	64,037

Cost of inventories includes $6,859,000 (2017: $8,423,000) relating to staff costs, depreciation and amortisation expenses which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2018 $'000	2017 $'000
Current tax		
Provision for the year		
– The People's Republic of China (the "PRC") enterprise income tax	171	63
– Overseas corporation income tax	103	204
	274	267
Over-provision in respect of prior years	(721)	(2,387)
	(447)	(2,120)
Withholding tax		
PRC withholding tax	–	592
Deferred tax		
Origination of temporary differences (note 25(b))	10,828	541
	10,381	(987)

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no assessable profits subject to Hong Kong Profits Tax for the current and prior years.

No provision for the United States corporate income tax has been made as the Group has no taxable profits subject to the United States corporate income tax for the year ended 31 December 2018. Taxation for the United States corporate income tax for the year ended 31 December 2017 was calculated at 34% of the estimated taxable income for the prior 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% (2017: 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 expense/(credit) and accounting loss at applicable tax rates:

	2018 $'000	2017 $'000
Loss before taxation	(31,405)	(84,406)
Notional tax on loss before taxation, calculated at the rates applicable to losses/profits in the jurisdictions concerned	(6,166)	(15,456)
Tax effect of non-deductible expenses	3,119	1,871
Tax effect of non-taxable income	(101)	(602)
Tax effect of profits entitled to tax reductions in the PRC	(732)	(453)
Tax effect of unused tax losses not recognised	3,610	4,302
Effect on deferred tax balances resulting from a change in tax rate	–	1,467
Tax effect of other temporary differences not recognised	191	9,679
Tax effect of utilisation of unused tax losses not recognised in prior years	(259)	–
Reversal of deferred tax assets recognised in prior years	11,440	–
Over-provision in prior years	(721)	(2,387)
Withholding tax	–	592
Actual tax expense/(credit)	10,381	(987)

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 has been 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 in 2017.

In addition, one of the Group's subsidiaries in the PRC was not continued to be 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 in 2017.

During the year ended 31 December 2018, the Group assessed and considered that it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities where deferred tax assets have been recognised in prior years for their cumulative unused tax losses. Consequently, deferred tax assets of $11,440,000 has been reversed and charged to profit or loss in 2018.

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	
	2018 $'000	2017 $'000	**2018 $'000**	2017 $'000	**2018 $'000**	2017 $'000	**2018 $'000**	2017 $'000
Executive directors:								
Mr Wang Hongyuan (appointed on 9 February 2018)	–	–	–	–	–	–	–	–
Mr Zhang Menggui (note (i))	–	–	337	337	3	13	340	350
Mr Jiang Bing Hua	–	–	311	298	3	17	314	315
Mr Wang Yong (note (ii), resigned on 9 February 2018)	–	–	27	258	1	68	28	326
Mr Yang Guohui (appointed on 9 February 2018 and resigned on 1 April 2018)	–	–	–	–	–	–	–	–
Independent non-executive directors:								
Mr Bian Junjiang (resigned on 25 May 2017)	–	6	–	–	–	–	–	6
Mr Chan Ngai Sang, Kenny	22	31	–	–	–	–	22	31
Mr Zou Zhendong (appointed on 18 May 2018)	10	–	–	–	–	–	10	–
Mr Chen Weidong (appointed on 5 June 2018)	9	–	–	–	–	–	9	–
Mr Guan Zhichuan (resigned on 18 May 2018)	4	15	–	–	–	–	4	15
Dr Lu Xiaoming (appointed on 22 June 2017 and resigned on 18 May 2018)	6	8	–	–	–	–	6	8
Mr Robert William Fogal Jr. (resigned on 22 June 2017)	–	12	–	–	–	–	–	12
Non-executive directors:								
Mr Jiang Longsheng (resigned on 9 February 2018)	4	15	–	–	–	–	4	15
Mr Brian Chang (resigned on 9 February 2018)	2	15	–	–	–	–	2	15
Mr Wang Jianzhong	15	15	–	–	–	–	15	15
Ms Li Rong (appointed on 9 February 2018 and resigned on 7 December 2018)	–	–	–	–	–	–	–	–
Mr Lou Dongyang (appointed on 1 April 2018)	–	–	–	–	–	–	–	–
	72	117	675	893	7	98	754	1,108

Notes:

(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.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (excluding a former executive director who resigned from the position on 9 February 2018) (2017: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (including the former executive director) (2017: two) individuals are as follows:

	2018 $'000	2017 $'000
Salaries and other emoluments	**710**	356
Retirement scheme contributions	**40**	38
	750	394

The emoluments of the three (2017: two) individuals with the highest emoluments are within the following bands:

	2018 Number of individuals	2017 Number of individuals
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**3**	1

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 $41,358,000 (2017: loss of $82,790,000) and the weighted average number of 1,386,131,000 (2017: 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

	2018 $'000	2017 $'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)
Effect of issue of new shares	**683,426**	–
Effect of share options exercised	**680**	–
Weighted average number of ordinary shares at 31 December	**1,386,131**	702,025

(b) Diluted loss per share

Diluted loss per share equals to basic loss per share for the years ended 31 December 2018 and 2017 because the potential ordinary shares outstanding were anti-dilutive.

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 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 assets classified as held for sale (note 20)	(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
At 1 January 2018	**32,439**	**12,020**	**22,099**	**1,468**	**2,020**	**70,046**	**9,530**	**79,576**
Exchange adjustments	**(1,908)**	**(384)**	**(1,037)**	**(15)**	**(76)**	**(3,420)**	**(290)**	**(3,710)**
Additions	**704**	**494**	**2,057**	**418**	**106**	**3,779**	**–**	**3,779**
Transferred from investment properties	**4,485**	**–**	**–**	**–**	**–**	**4,485**	**(4,485)**	**–**
Disposals	**(54)**	**(931)**	**(1,223)**	**–**	**(50)**	**(2,258)**	**–**	**(2,258)**
At 31 December 2018	**35,666**	**11,199**	**21,896**	**1,871**	**2,000**	**72,632**	**4,755**	**77,387**
Accumulated depreciation and impairment losses:								
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 assets classified as held for sale (note 20)	(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
At 1 January 2018	**8,136**	**7,509**	**11,311**	**350**	**1,540**	**28,846**	**1,373**	**30,219**
Exchange adjustments	**(552)**	**(327)**	**(451)**	**–**	**(58)**	**(1,388)**	**(68)**	**(1,456)**
Charge for the year	**2,653**	**1,760**	**1,089**	**79**	**151**	**5,732**	**421**	**6,153**
Impairment losses	**–**	**317**	**–**	**–**	**–**	**317**	**–**	**317**
Transferred from investment properties	**474**	**–**	**–**	**–**	**–**	**474**	**(474)**	**–**
Written back on disposals	**(42)**	**(666)**	**(1,208)**	**(3)**	**(50)**	**(1,969)**	**–**	**(1,969)**
At 31 December 2018	**10,669**	**8,593**	**10,741**	**426**	**1,583**	**32,012**	**1,252**	**33,264**
Net book value:								
At 31 December 2018	**24,997**	**2,606**	**11,155**	**1,445**	**417**	**40,620**	**3,503**	**44,123**
At 31 December 2017	24,303	4,511	10,788	1,118	480	41,200	8,157	49,357

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 2018, the certificate has not yet been issued.

(ii) 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 20. 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. The premise was disposed of during the year ended 31 December 2018.

(iii) 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.

The recoverable amounts of these assets were determined based on value-in-use calculations. These calculations used cash flow projections based on the financial budgets approved by management covering a five-year period. Management assumed there would not be significant growth for the business of CGUs to which these assets belong.

(iv) During the year ended 31 December 2018, the use of a premise of the Group has been changed from leasing out for rental income to owner-occupation. The premise with carrying amount of $4,011,000 was transferred from investment properties to property, plant and equipment at the date of the end of leasing out for rental income.

(v) During the year ended 31 December 2018, the Group assessed that the carrying amounts of certain idle equipment under the operating segment of oilfield expendables and supplies may not be recoverable. As a result, an impairment loss of $317,000 was recognised to reduce the carrying amount of these equipment to their recoverable amount of $1,367,000.

The estimates of recoverable amount were based on these equipment's fair value less cost of disposal, using market approach, with reference to the recent transactions of comparable assets and adjusted for the estimated cost of disposal. The fair value on which the recoverable amount is based on is categorised as a Level 3 measurement.

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

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

	2018 **$'000**	2017 $'000
Outside Hong Kong		
– medium-term leases	**28,500**	32,460

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

(c) Fair value measurement of investment properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's investment properties (recognised at cost less accumulated depreciation and impairment losses) disclosed 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

		Fair value measurements as at 31 December 2018 categorised into		
	Fair value at 31 December 2018 $'000	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**
Recurring fair value measurement				
Investment properties:				
– Mainland China	**5,260**	**–**	**–**	**5,260**

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

During the years ended 31 December 2018 and 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.

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

	Valuation techniques	Unobservable input	Range
Investment properties			
Commercial			
– Mainland China	Market approach	Transaction price per square metre	$3.329/m^2$ to $3.764/m^2$

The fair value of commercial investment properties located in the Mainland China is determined using market approach by reference to transaction prices of comparable properties on a price per square metre basis. The fair value measurement is positively correlated to the transaction price per square metre.

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 held under finance leases

The Group leases motor vehicles under finance leases expiring in 5 years. Except for this arrangement, at the end of the lease term the Group has the option to purchase the motor vehicles at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

During the year, additions to motor vehicles financed by new finance leases were $96,000 (2017: $Nil). At the end of the reporting period, the net book value of motor vehicles held under finance leases was $88,000 (2017: $Nil).

(e) Assets leased out under operating leases

The Group leases out investment properties and plant and machinery under operating leases. The leases typically run for an initial period of 3 to 10 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:

	2018 $'000	2017 $'000
Within 1 year	**502**	429
After 1 year but within 5 years	**1,220**	644
After 5 years	**1,192**	–
	2,914	1,073

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

	2018 $'000	2017 $'000
Cost:		
At 1 January	9,102	8,600
Exchange adjustments	(317)	502
Transferred to non-current assets classified as held for sale	(3,440)	–
At 31 December	5,345	9,102
Accumulated amortisation:		
At 1 January	1,550	1,261
Exchange adjustments	(74)	81
Charge for the year	207	208
Transferred to non-current assets classified as held for sale	(368)	–
At 31 December	1,315	1,550
Net book value:		
At 31 December	4,030	7,552

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.

12 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 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
At 1 January 2018	**7,141**	**9,640**	**4,706**	**2,621**	**912**	**660**	**365**	**26,045**
Exchange adjustments	**(329)**	**(534)**	**(58)**	**(135)**	**(39)**	**–**	**–**	**(1,095)**
At 31 December 2018	**6,812**	**9,106**	**4,648**	**2,486**	**873**	**660**	**365**	**24,950**
Accumulated amortisation and impairment losses:								
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 (note 10(a)(iii))	–	–	–	–	–	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
At 1 January 2018	**6,943**	**8,556**	**4,706**	**2,439**	**756**	**660**	**365**	**24,425**
Exchange adjustments	**(329)**	**(521)**	**(58)**	**(131)**	**(28)**	**–**	**–**	**(1,067)**
Charge for the year	**170**	**873**	**–**	**127**	**40**	**–**	**–**	**1,210**
At 31 December 2018	**6,784**	**8,908**	**4,648**	**2,435**	**768**	**660**	**365**	**24,568**
Net book value:								
At 31 December 2018	28	198	–	51	105	–	–	382
At 31 December 2017	198	1,084	–	182	156	–	–	1,620

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

(Expressed in United States dollars unless otherwise indicated)

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.

			Proportion of ownership interest		
Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Group's effective interest	Held by a subsidiary	Principal activity
Emer International Limited	Hong Kong	2,000,000 shares	100%	100%	Investment holding, trading of rig equipment and provision of rig turnkey solutions
TSC Oil and Gas Services 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	RMB50,000,000	100%	100%	Manufacturing and trading of rig electrical control system
TSC Manufacturing and Supply, LLC ("TSC M&S")	United States of America ("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	$46,999,970	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
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 0.025 GBP each	100%	100%	Investment holding
TSC Engineering Limited	United Kingdom	GBP1	100%	100%	Design and manufacturing of mechanical handling equipment, trading of oilfield expendables and supplies and provision of engineering services

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: Group's effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activity
TSC Offshore Pte. Limited	Singapore	2 shares of 1 Singapore Dollar (SG$) 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 manufacturing of rig equipment
TSC Offshore Limiteda	Brazil	Brazil Real 1,800,000	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

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.

	2018 $'000	2017 $'000
NCI percentage	**21%**	21%
Current assets	**6,564**	7,322
Non-current assets	**540**	582
Current liabilities	**(4,515)**	(4,507)
Net assets	**2,589**	3,397
Carrying amount of NCI	**544**	713
Revenue	**991**	3,140
Loss for the year	**(789)**	(2,490)
Total comprehensive income	**(808)**	(2,443)
Loss allocated to NCI	**(166)**	(523)
Dividend paid to NCI	**–**	–
Cash flows from operating activities	**215**	(100)
Cash flows from investing activities	**3**	15
Cash flows from financing activities	**(42)**	(79)

14 INTEREST IN ASSOCIATES

	2018 $'000	2017 $'000
Share of net assets	**274**	288

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

Name of associate	Form of business structure	Place of establishment 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 2018 are $1,000 (2017: $4,000) and loss of $16,000 (2017: $13,000), respectively.

15 OTHER FINANCIAL ASSETS

	Note	31 December 2018 $'000	1 January 2018 $'000	31 December 2017 $'000
Equity securities designated at FVOCI (non-recycling)				
Equity securities listed in Hong Kong	(i),(ii)	**1,002**	1,455	–
Available-for-sale financial assets				
Equity securities listed in Hong Kong	(ii)	–	–	1,455

Note:

(i) The listed equity securities are shares in Persta Resources Inc., a company incorporated in Canada and engaged in petroleum and natural gas production. The Group designated this investment as financial asset at FVOCI (non-recycling), as the investment is held for strategic purposes. No dividends were received on this investment during the year (2017: $Nil).

(ii) Available-for-sale financial assets were reclassified to equity securities designated at FVOCI (non-recycling) upon the initial application of HKFRS 9 at 1 January 2018 (see note 1(c)(i)).

15 OTHER FINANCIAL ASSETS *(Continued)*

Fair value measurement of equity securities

Fair value hierarchy

	Fair value at 31 December 2018 $'000	Fair value measurements as at 31 December 2018 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurement				
Equity securities designated at FVOCI (non-recycling):				
– Listed in Hong Kong	**1,002**	**1,002**	**–**	**–**

	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 2018, 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.

16 INVENTORIES

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

	31 December 2018 $'000	1 January 2018 $'000	31 December 2017 $'000
Raw materials	**3,285**	2,475	2,475
Work in progress	**125,387**	135,313	10,556
Finished goods	**17,272**	16,734	16,734
	145,944	154,522	29,765

Note: Upon the adoption of HKFRS 15, opening adjustments were made as at 1 January 2018 to certain made-to-order construction contracts. This has resulted in an increase in inventories as at that date (see note 1(c)(ii)).

16 INVENTORIES *(Continued)*

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

	2018 $'000	2017 $'000
Carrying amount of inventories sold	**44,796**	58,012
Write-down of inventories	**3,153**	6,025
	47,949	64,037

17 TRADE AND OTHER RECEIVABLES

	31 December 2018 $'000	1 January 2018 $'000	31 December 2017 $'000
Trade debtors and bills receivables	**107,099**	114,331	108,703
Less: loss allowance	**(65,795)**	(71,091)	(68,577)
	41,304	43,240	40,126
Other receivables, prepayments and deposits	**15,457**	15,838	15,838
	56,761	59,078	55,964
Less: Non-current portion of prepayments	**(485)**	–	–
	56,276	59,078	55,964

Note: Upon the adoption of HKFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on trade debtors and bills receivables (see note 1(c)(i)) and reclassification from "Gross amount due from customers for contract work" (see note 1(c)(ii)).

Except for the prepayments of $485,000 as at 31 December 2018, all of the other receivables, prepayments and deposits are expected to be recovered or recognised as expense within one year.

All of the trade debtors and bills receivables are receivables from contracts with customers within the scope of HKFRS 15.

Except for prepayments and deposits of $10,469,000, $11,647,000 and $11,647,000 as at 31 December 2018, 1 January 2018 and 31 December 2017 respectively, all of the trade and other receivables are classified as financial assets measured at amortised cost.

17 TRADE AND OTHER RECEIVABLES *(Continued)*

Ageing analysis

Included in trade and other receivables are trade debtors and bills receivables (net of loss allowance) with the following ageing analysis as of the end of the reporting period:

	2018 $'000	2017 $'000
Current	**12,779**	5,657
Less than 1 month past due	**2,313**	3,356
1 to 3 months past due	**4,704**	5,477
More than 3 months but within 12 months past due	**5,100**	17,315
More than 12 months past due	**16,408**	8,321
Amounts past due	**28,525**	34,469
	41,304	40,126

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.

18 AMOUNT DUE FROM A RELATED COMPANY

	2018 $'000	2017 $'000
Katy International Inc.:		
Balance at 1 January and 31 December	**101**	101
Maximum balance outstanding during the year	**101**	101

The amount due from Katy International Inc., which is classified as financial assets measured at amortised cost, 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..

19 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2018 $'000	2017 $'000
Cash at bank and on hand	**19,805**	15,287

19 CASH AND CASH EQUIVALENTS *(Continued)*

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	2018 Total bank and other borrowings $'000	2017 Total bank and other borrowings $'000
At 1 January	**61,922**	49,317
Changes from financing cash flows		
Proceeds from new bank loans	**5,606**	20,243
Repayment of bank loans and other borrowings	**(49,486)**	(9,610)
Interest paid	**(2,041)**	(3,432)
	(45,921)	7,201
Other change		
Finance costs	**2,450**	4,352
Exchange adjustments	**(1,082)**	1,052
At 31 December	**17,369**	61,922

20 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

(i) 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.

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 disposal had been completed during the year ended 31 December 2018.

(ii) During the year ended 31 December 2018, the Group committed to a plan to sell certain interest in leasehold land held for own use under operating leases in Qingdao, the PRC, within the capital equipment and packages and oilfield expendables and supplies segments. In the opinion of the directors, the disposal of these assets is expected to be completed within twelve months from the end of the reporting period.

As a result, the assets with aggregate carrying amount of RMB20,282,000 (equivalent to $3,072,000) have been classified as non-current assets classified as held for sale during the year. No impairment losses have been recognised prior to this classification as the carrying amount of these assets was lower than the respective fair value less cost to sell. The balance has been re-translated to $2,936,000 in accordance with the accounting polices set out in note 1(v) as at 31 December 2018.

21 TRADE AND OTHER PAYABLES

	31 December 2018 $'000	1 January 2018 $'000	31 December 2017 $'000
Trade creditors and bills payables	**188,833**	196,286	196,286
Other payables and accrued charges	**12,483**	9,430	37,921
	201,316	205,716	234,207

Note: As a result of the adoption of HKFRS 15, advances received are included in contract liabilities and disclosed in note 22 (see note 1(c)(ii)).

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

Except for other payables and accrued charges of $28,491,000 at 31 December 2017, all of the trade and other payables are classified as financial liabilities measured at amortised cost.

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

	2018 $'000	2017 $'000
Within 1 month	**163,591**	174,982
More than 1 month but within 3 months	**3,900**	2,153
More than 3 months but within 12 months	**5,194**	9,891
More than 12 months but within 24 months	**3,308**	8,597
More than 24 months	**12,840**	663
	188,833	196,286

22 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	Note	31 December 2018 $'000	1 January 2018 $'000	31 December 2017 $'000
Contract assets				
Made-to-order construction contracts				
– Arising from performance under made-to-order construction contracts	(i)	**2,012**	1,851	–

Note:

(i) Upon the adoption of HKFRS 15, opening adjustments were made as at 1 January 2018 to certain made-to-order construction contracts. This has resulted in an increase in contract assets and a decrease in "Gross amount due from customers for contract work" as at that date (see note 1(c)(ii)).

Typical payment terms which impact on the amount of contract assets recognised are disclosed in note 17.

All contract assets are expected to be recovered within one year.

22 CONTRACT ASSETS AND CONTRACT LIABILITIES *(Continued)*

(b) Contract liabilities

	Note	31 December 2018 $'000	1 January 2018 $'000	31 December 2017 $'000
Contract liabilities				
Billings in advance of performance	(ii)	**29,444**	30,265	–

Note:

(i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

(ii) Upon the adoption of HKFRS 15, these amounts were reclassified from "Trade and other payables" (note 21) to contract liabilities (see note 1(c)(ii)).

Typical payment terms which impact on the amount of contract liabilities recognised are disclosed in note 17.

The amount of revenue recognised in the year ended 31 December 2018 that was included in the contract liability balance at 1 January 2018 was $3,021,000.

The amount of billings in advance of performance expected to be recognised as income after more than one year is $24,349,000.

23 BANK LOANS AND OTHER BORROWINGS

At 31 December 2018, the bank loans and other borrowings were repayable as follows:

	2018 $'000	2017 $'000
Within 1 year or on demand	**10,277**	47,601
After 1 year but within 2 years	**4,776**	4,992
After 2 years but within 5 years	**2,316**	5,969
After 5 years	**–**	3,360
	7,092	14,321
	17,369	61,922

At 31 December 2018, the bank loans and other borrowings were secured as follows:

	2018 $'000	2017 $'000
Unsecured notes	**–**	27,480
Bank loans		
– secured	**13,606**	23,653
– unsecured	**3,763**	10,789
	17,369	61,922

23 BANK LOANS AND OTHER BORROWINGS *(Continued)*

(a) The bank loans carried interest at rates ranging from 4.57 % to 5.46 % per annum (2017: 3.75% to 7.50% per annum) and were secured/guaranteed by:

(i) Interest in leasehold land held for own use under operating leases, buildings and plant and machinery with aggregate net book value of $19,694,000 (2017: 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).

(ii) Corporate guarantees given by ZZOE and TSC (Qingdao) to the extent of banking facilities outstanding of $3,764,000. (2017: given by TSCOE, ZZOE, TSC (Qingdao) and TSC MS Holdings Inc to the extent of banking facilities outstanding of $10,789,000) as at 31 December 2018.

(iii) Corporate guarantees given by the Company to the extent of banking facilities outstanding of $3,619,000 (2017: $4,172,000) as at 31 December 2018.

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 30(b). As at 31 December 2018, the Group did not meet certain covenants of a bank loan of $3,619,000 (2017: $4,172,000), 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 beared interest at 5% per annum and were repayable on a quarterly basis in arrears. The effective interest rates of the unsecured notes were 8.6% and 8.5% per annum respectively. The unsecured notes had been fully repaid during the year ended 31 December 2018.

24 OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2018, the Group had obligations under finance leases repayable as follows:

	2018	
	Present value of the minimum lease payments $'000	Total minimum lease payments $'000
Within 1 year	18	22
After 1 year but within 2 years	19	22
After 2 years but within 5 years	44	47
	63	69
	81	91
Less: total future interest expenses		(10)
Present value of lease obligations		81

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	31 December 2018 $'000	1 January 2018 $'000	31 December 2017 $'000
Provision for the year	274	267	267
Provisional income tax paid	(150)	(749)	(749)
	124	(482)	(482)
Balance of income tax provision relating to prior years	3,872	4,850	4,888
	3,996	4,368	4,406

Note: Upon the initial application of HKFRS 15, the Group has made adjustments to opening balance of tax payable at 1 January 2018 due to the change in timing of revenue recognition for certain contracts. (see note 1(c)(ii)).

	2018 $'000	2017 $'000
Reconciliation to the consolidated statement of financial position:		
Tax recoverable	(132)	(405)
Tax payable	4,128	4,811
	3,996	4,406

25 INCOME TAX IN THE CONSOLIDATED 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 (less than)/ in excess of related depreciation $'000	Impairment losses on trade receivables $'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 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)
Impact on initial application of HKFRS 9	–	(306)	–	–	–	–	(306)
At 1 January 2018	**270**	**(3,250)**	**(3,430)**	**259**	**(6,823)**	**(415)**	**(13,389)**
Exchange adjustments	**–**	**70**	**57**	**(2)**	**2**	**2**	**129**
(Credited)/charged to profit or loss (note 6(a))	**(270)**	**2,023**	**2,514**	**(211)**	**6,821**	**(49)**	**10,828**
At 31 December 2018	**–**	**(1,157)**	**(859)**	**46**	**–**	**(462)**	**(2,432)**

Note: Upon the initial application of HKFRS 9, the Group has recognised deferred tax assets on the additional credit losses recognised under the ECL model (see note 1(c)(i)).

	2018 $'000	2017 $'000
Reconciliation to the consolidated statement of financial position:		
Net deferred tax assets recognised in the statement of financial position	**(2,478)**	(13,083)
Net deferred tax liabilities recognised in the statement of financial position	**46**	–
	(2,432)	(13,083)

At 31 December 2018, the Group had temporary differences arising from undistributed profits of subsidiaries of $42,386,000 (2017: $27,378,000). 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 $229,399,000 (2017: $174,243,000) 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 subsidiaries in the PRC and the United States of $47,681,000 (2017: $20,549,000) which will expire within five to twenty years, the tax losses do not expire under current tax legislation.

26 EMPLOYEE RETIREMENT BENEFITS

As stipulated by the labour regulations of the PRC, the Group participates in various defined contribution retirement plans organised by the municipal and provincial governments for its employees in the PRC. The Group is required to make contributions to the retirement plans at rates ranging from 20% to 25% of the eligible employees' salaries.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

The Group also operates defined contribution retirement benefits schemes for all qualifying employees in jurisdictions other than the PRC and Hong Kong with contributions to the schemes at 3% – 10% of the gross salaries.

The Group has no other obligation for the payment of the employees' retirement and other post-retirement benefits other than the contributions described above.

27 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.

27 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 Listing Rules.

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 2018 and 2017. 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.

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.

27 SHARE AWARD SCHEME *(Continued)*

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

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.

28 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").

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

Share Option Scheme *(Continued)*

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

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

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

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

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

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.

Pursuant to the written resolutions passed by the board of directors on 15 March 2018, all of the outstanding share options had been cancelled during the year ended 31 December 2018.

(Expressed in United States dollars unless otherwise indicated)

28 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	5,360,000	Note	10 years
– on 15 January 2008	1,000,000	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	7,788,000	Note	10 years
– on 1 September 2010	3,135,000	Note	10 years
– on 4 September 2012	7,325,000	Note	10 years
– on 30 August 2013	4,930,000	Note	10 years
– on 2 September 2014	2,250,000	Note	10 years
– on 24 December 2014	600,000	Note	10 years
Total share options	39,650,000		

Note: Prior to the cancellation of all of the outstanding share options during the year ended 31 December 2018, the vesting period of the options was 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.

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

	2018 Weighted average exercise price	**2018** Number of options	2017 Weighted average exercise price	2017 Number of options
Outstanding at the beginning of the year	**HK$2.06**	**28,058,000**	HK$2.54	36,820,000
Exercised during the year	**HK$0.54**	**(850,000)**	N/A	–
Forfeited during the year	**HK$5.23**	**(1,000,000)**	HK$4.16	(8,762,000)
Cancelled during the year	**HK$1.99**	**(26,208,000)**	N/A	–
Outstanding at the end of the year	**N/A**	**–**	HK$2.06	28,058,000
Exercisable at the end of the year	**N/A**	**–**	HK$1.93	25,218,000

The options outstanding at 31 December 2018 had a weighted average remaining contractual life of 4.39 years and their exercise prices are set out in note 29(b)(ii).

(Expressed in United States dollars unless otherwise indicated)

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

Share Option Scheme *(Continued)*

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted was measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted was measured based on the Binomial Model. The contractual life of the share option was used as an input into this model. Expectation of early exercise were incorporated into the Binomial Model.

Grant date	24 December 2014	2 September 2014	30 August 2013	4 September 2012	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	$0.07	$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$1.20	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$1.27	HK$2.06	HK$0.54	HK$2.32	HK$5.23	HK$5.60	HK$2.43
Expected volatility	68%	69%	72%	76%	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
Expected dividends	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%	1.93%	2.36%	1.245%	3.38%	2.8%	3.45%	4.24%

The expected volatility was 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 were 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 had 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.

29 CAPITAL AND RESERVES

(a) Movements in components of equity

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

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 2017	9,094	127,805	1,159	5,336	(12,359)	131,035
Changes in equity for 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 and 1 January 2018	**9,094**	**127,805**	**250**	**3,775**	**(12,824)**	**128,100**
Changes in equity for 2018:						
Total comprehensive income for the year	**–**	**–**	**(308)**	**–**	**(147,455)**	**(147,763)**
Issue of new shares	**9,749**	**54,549**	**–**	**–**	**–**	**64,298**
Shares issued under share option schemes	**11**	**93**	**–**	**(45)**	**–**	**59**
Equity-settled share-based transactions	**–**	**–**	**–**	**(3,730)**	**3,844**	**114**
Balance at 31 December 2018	**18,854**	**182,447**	**(58)**	**–**	**(156,435)**	**44,808**

29 CAPITAL AND RESERVES *(Continued)*

(b) Share capital

(i) Authorised and issued share capital

	2018 No. of shares '000	2018 Amount $'000	2017 No. of shares '000	2017 Amount $'000
Authorised:				
Ordinary share of HK$0.1 each	**10,000,000**	**128,730**	2,000,000	25,746
Ordinary shares, issued and fully paid:				
At 1 January	**707,120**	**9,094**	707,120	9,094
Issue of new shares	**765,186**	**9,749**	–	–
Shares issued under share option scheme	**850**	**11**	–	–
At 31 December	**1,473,156**	**18,854**	707,120	9,094

On 9 February 2018, the Group allotted 765,186,000 new shares to the nominee of China Merchants & Great Wall Ocean Strategy & Technology Fund, Prime Force Investment Corporation, with net proceeds amounting to HK$504,739,000 (equivalent to $64,298,000).

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.

In February 2019, the Group allotted 1,473,156,204 shares with net proceeds amounting to HK$657,290,000 (equivalent to US$83,805,000). See note 34 for further details.

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

Exercise period	Exercise price	2018 Number	2017 Number
15 July 2008 to 14 January 2018	HK$5.23	–	1,000,000
12 February 2009 to 11 August 2018	HK$2.32	–	1,700,000
29 June 2009 to 28 December 2018	HK$0.54	–	1,730,000
18 March 2010 to 17 September 2019	HK$2.06	–	7,288,000
1 March 2011 to 31 August 2020	HK$1.27	–	2,320,000
4 March 2013 to 3 September 2017	HK$1.02	–	7,065,000
28 February 2014 to 29 August 2018	HK$2.90	–	4,105,000
2 March 2015 to 1 September 2019	HK$4.16	–	2,250,000
24 June 2015 to 23 December 2019	HK$2.11	–	600,000
		–	28,058,000

Prior to the cancellation of all outstanding share options during the year ended 31 December 2018, each option entitled the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 28 to the financial statements.

29 CAPITAL AND RESERVES *(Continued)*

(c) Nature and purpose of reserves

(i) Share premium

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

(ii) Merger reserve

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

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries. The reserve is dealt with in accordance with the accounting policies set out in note 1(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 27.

(ix) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net charge in the fair value of equity investments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see note 1(f)).

29 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 2018, as computed in accordance with the Companies Law (Revised) of the Cayman Islands amounted to $26,012,000 (2017: $114,981,000).

(e) Dividend

The directors do not recommend the payment of a dividend for the year ended 31 December 2018 (2017: $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 2018 and 2017.

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 2018 was 90% (2017: 96%).

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 any externally imposed capital requirements.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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 and contract assets. Management has a credit policy in place and the exposure to this credit risk is monitored on an ongoing basis.

The credit risk on cash at bank and pledged bank deposits is limited as the counterparties are banks with sound credit standing.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

Trade receivables and contract assets

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, 1% (2017: nil) and 30% (2017: 8%) of the total trade debtors and bills receivables and contract assets was due from the Group's largest customer and the five largest customers respectively.

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.

The Group measures loss allowances for trade debtors at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience indicates different loss patterns for different customer geographical segments, the loss allowance based on past due status is further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2018:

	Expected loss rate %	Gross carrying amount $'000	Loss allowance $'000
Trade debtors and bills receivables:			
Current (not past due)	0.49% – 4.21%	13,100	(321)
Less than 1 months past due	6.98% – 10.01%	2,537	(224)
1 to 3 months past due	6.98% – 10.01%	5,151	(447)
More than 3 months but within 12 months past due	6.98% – 10.01%	6,153	(1,053)
More than 12 months but within 24 months past due	13.95% – 100%	19,117	(11,426)
More than 24 months past due	27.45% – 100%	61,041	(52,324)
		107,099	(65,795)
Contract assets	2.33%	2,030	(18)
		109,129	(65,813)

Expected loss rates are based on actual loss experience over the past 4 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 1(k)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of $81,962,000 was determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 $'000
Neither past due nor impaired	5,065
Less than 1 month days past due	2,937
1 to 3 months days past due	4,285
More than 3 months but within 12 months past due	10,010
More than 12 months past due	4,444
	26,741

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Movement in the loss allowance account in respect of trade debtors and bills receivables and contract assets during the year is as follows:

	2018			2017
	Trade debtors and bills receivables $'000	**Contract assets $'000**	**Total $'000**	Trade debtors and bills receivables $'000
Balance at 31 December 2017 under HKAS 39	**68,577**	**–**	**68,577**	62,057
Impact on initial application of HKFRS 9 (note 1(c)(i))	**2,514**	**–**	**2,514**	–
Adjusted balance at 1 January	**71,091**	**–**	**71,091**	62,057
Exchange adjustments	**(3,071)**	**–**	**(3,071)**	3,059
Impairment losses recognised during the year	**2,427**	**18**	**2,445**	3,461
Amounts written off during the year	**(4,652)**	**–**	**(4,652)**	–
Balance at 31 December	**65,795**	**18**	**65,813**	68,577

There were no significant changes in the gross carrying amounts of trade debtors and bills receivables and contract assets, accordingly, the loss allowance did not change significantly during the year ended 31 December 2018.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

(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.

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:

	2018 Contractual undiscounted cash outflow						2017 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	201,316	–	–	–	201,316	201,316	234,207	–	–	–	234,207	234,207
Bank loans	10,837	5,177	2,318	–	18,332	17,369	21,223	5,898	6,540	3,844	37,505	34,442
Unsecured notes	–	–	–	–	–	–	28,201	–	–	–	28,201	27,480
Obligations under finance leases	22	22	47	–	91	81	–	–	–	–	–	–
	212,175	5,199	2,365	–	219,739	218,766	283,631	5,898	6,540	3,844	299,913	296,129

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(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 and obligations under finance leases. 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.

	2018 Effective interest rate	2018 $'000	2017 Effective interest rate	2017 $'000
Fixed rate borrowings:				
Bank loans	4.57%	3,619	3.75% – 7.50%	10,584
Unsecured notes	N/A	–	8.5% – 8.6%	27,480
Obligations under finance leases	5.89%	81	N/A	–
		3,700		38,064
Variable rate (deposits)/borrowings:				
Bank loans	5.39% – 5.46%	13,750	4.50% – 5.39%	23,858
Less: Pledged bank deposits	1.3%	(802)	0.80% – 1.46%	(563)
Cash and cash equivalents	0.1% – 0.8%	(19,805)	0.05% – 0.75%	(15,287)
		(6,857)		8,008
Total net (deposits)/borrowings		(3,157)		46,072

(ii) Sensitivity analysis

At 31 December 2018, it is estimated that a general increase of one percentage point in interest rates, with all other variables held constant, would have decreased the Group's loss before taxation by approximately $69,000 (2017: increased the Group's loss before taxation by approximately $80,000). 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 taxation 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 taxation 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 2017.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

(d) Currency risk

(i) Forecast transactions

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which they relate. Most of the Group's subsidiaries in the PRC carried out production locally with RMB as functional currency while over 50% of the Group's revenue was denominated in United States dollars. At 31 December 2018 and 2017, no related hedges were made by the Group.

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

(ii) Exposure to currency risk

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

	Exposure to United States dollars (expressed in United States dollars)	
	2018	2017
	$'000	$'000
Trade and other receivables	**7,251**	7,246
Cash and cash equivalents	**11,323**	557
Trade and other payables	**(186)**	(10)
Net exposure arising from recognised assets and liabilities	**18,388**	7,793

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

(Continued)

(d) Currency risk *(Continued)*

(iii) Sensitivity analysis

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

	2018 Increase/ (decrease) in foreign exchange rates	**2018** Effect on loss before tax $'000	2017 Increase/ (decrease) in foreign exchange rates	2017 Effect on loss before tax $'000
United States dollars	**5%**	**(919)**	5%	(390)
	(5)%	**919**	(5)%	390

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 taxation 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 2017.

(e) Estimation of fair values

The carrying amounts of the Group's financial instruments carried at amortised cost were not materially different from their fair values as at 31 December 2018 and 2017.

31 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2018 not provided for in the financial statements were as follows:

	2018 **$'000**	2017 $'000
Contracted for	–	6,875

31 COMMITMENTS *(Continued)*

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 $'000	2017 $'000
Within 1 year	**1,281**	829
After 1 year but within 5 years	**2,693**	2,682
	3,974	3,511

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.

32 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Key management personnel remuneration

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

	2018 $'000	2017 $'000
Salaries and other emoluments	**2,201**	1,644
Retirement scheme contributions	**73**	168
	2,274	1,812

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:

	2018 $'000	2017 $'000
Sales of capital equipment and packages	**–**	945

In the opinion of the Company's directors, the above transactions were carried out on normal commercial terms and in the ordinary course of business.

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

The related party transactions in respect of note 32(b) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The amounts of connected transactions and continuing connected transactions during the year ended 31 December 2017 were $88,000 and $857,000 respectively. The disclosures of continuing connected transactions required by Chapter 14A of the Listing Rules are provided in section "Related Party Transactions" of the Report of the Directors and details of the connected transactions were announced on 16 July 2007 and included in the circular dated 7 August 2007.

33 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2018 $'000	2017 $'000
Non-current assets			
Property, plant and equipment		**428**	–
Investments in subsidiaries		**–***	–*
Amounts due from subsidiaries		**35,892**	157,001
Prepayments		**424**	–
		36,744	157,001
Current assets			
Other receivables, prepayments and deposits		**756**	36
Cash and cash equivalents		**10,064**	174
		10,820	210
Current liabilities			
Other payables and accrued charges		**2,090**	610
Amounts due to subsidiaries		**666**	1,021
Other borrowings		**–**	27,480
		2,756	29,111
Net current assets/(liabilities)		**8,064**	(28,901)
NET ASSETS		**44,808**	128,100
CAPITAL AND RESERVES	29(a)		
Share capital		**18,854**	9,094
Reserves		**25,954**	119,006
TOTAL EQUITY		**44,808**	128,100

* The balance represents amount less than $1,000.

34 NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

In February 2019, the Group allotted 1,473,156,204 shares at a price of HK$0.45 each, in connection with the rights issue on the basis of one rights share for every one existing share held on the record date, with net proceeds amounting to HK$657,290,000 (equivalent to $83,805,000).

In addition, Alliance Offshore Group Limited ("AOG"), a wholly-owned subsidiary of the Company, completed the subscription of 50,000,000 new shares issued by Wealthy Marvel Enterprises Limited ("Wealthy Marvel") on 20 February 2019 pursuant to the Subscription and Joint Venture Agreement entered into between AOG, China Merchants & Great Wall Ocean Strategy & Technology Fund (the controlling shareholder of the Company) and Wealthy Marvel, representing 50% of the enlarged issued share capital after the completion of the subscription. Wealthy Marvel is principally engaged in the leasing of jack-up drilling rigs. The Group would account for Wealthy Marvel as a joint venture accordingly.

35 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2018, 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. None of them produce financial statements available for public use.

(Expressed in United States dollars unless otherwise indicated)

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018 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 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

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 HKFRS 16 which may have an impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard 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 standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that interim financial report.

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 lessee.

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 property, 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 consolidated statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore 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. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 31(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amounted to $3,974,000 for properties, a portion of which is payable between 1 and 5 years after the reporting date.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be significant. However, the expected changes in accounting policies as described above could have a material impact on the Group's consolidated financial statement from 2019 onwards.

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

Non-executive Directors

Mr. Wang Jianzhong
Mr. Lou Dongyang

Independent Non-executive Directors

Mr. Chan Ngai Sang, Kenny
Mr. Zou Zhendong
Mr. Chen Weidong

COMPLIANCE OFFICER

Mr. Zhang Menggui, Morgan

CHIEF FINANCIAL OFFICER

Mr. Xie Shaohua

COMPANY SECRETARY

Ms. Cheung Wai Sze, Candy

AUTHORISED REPRESENTATIVES

Mr. Zhang Menggui, Morgan
Mr. Jiang Bing Hua

AUDIT COMMITTEE

Mr. Chan Ngai Sang, Kenny *(Chairman)*
Mr. Zou Zhendong
Mr. Chen Weidong

REMUNERATION COMMITTEE

Mr. Zou Zhendong *(Chairman)*
Mr. Wang Hongyuan
Mr. Jiang Bing Hua
Mr. Chan Ngai Sang, Kenny
Mr. Chen Weidong

NOMINATION COMMITTEE

Mr. Wang Hongyuan *(Chairman)*
Mr. Zhang Menggui, Morgan
Mr. Chan Ngai Sang, Kenny
Mr. Zou Zhendong
Mr. Chen Weidong

COMPLIANCE COMMITTEE

Mr. Lou Dongyang *(Chairman)*
Mr. Chan Ngai Sang, Kenny
Mr. Chen Weidong
Ms. Cheung Wai Sze, Candy

REGISTERED OFFICE

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One Harbourfront
18 Tak Fung Street
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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
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Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

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Level 22, Hopewell Centre
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Hong Kong

PLACE OF LISTING AND DATE OF LISTING

The Stock Exchange of Hong Kong Limited
28 November 2005

PUBLIC AND INVESTOR RELATIONS

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TOTAL NUMBER OF ISSUED SHARES

1,473,156,204 shares as at 31 December 2018

AUDITORS

KPMG

WEBSITE

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STOCK CODE

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