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TSC Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 206)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

HIGHLIGHTS

- During 2016, the Group undertook significant transformation and restructuring measures which have required recognition of substantial write downs of the Group's assets and provisions made on certain receivables. These measures will improve the Group's assets and liabilities structure and business prospects in future years. The management believes that the Group has gone through the most difficult adjustment cycle and that 2017 will be a good start for the Group to be in a better position for further development.
- As at 31 December 2016, the goodwill arising on the acquisition of Global Marine Energy ("GME") in the year 2008 amounting to US\$19.6 million was written off in view of the transformation of business emphasis away from the E&P sector. Although the value to the acquisition of GME continues to contribute to future sales of products related to the acquisition and the acquisition does provide expertise necessary for the planned transformation, the write down was considered necessary to reflect the deterioration of the offshore drilling segment;
- Revenue amounted to approximately US\$142.5 million for the year ended 31 December 2016, representing a decrease of 26.9% as compared with 2015;
- Gross profit amounted to approximately US\$37.8 million for the year ended 31 December 2016, representing a decrease of 30.5% as compared with 2015;
- Gross profit margin decreased slightly from 27.9% for 2015 to 26.5% for 2016;
- Loss attributable to equity shareholders of the Company amounted to approximately US\$110.5 million for the year ended 31 December 2016, after provisions and impairment losses for trade and other receivables, gross amount due from customers for contract work, inventories and goodwill totalling US\$115.6 million, while the profit attributable to equity shareholders for the year ended 31 December 2015 was US\$2.1 million; and
- Excluding the write down of inventories and goodwill and impairment losses on assets, the Group achieved an operating profit from operations of US\$11.6 million for the year representing an increase of 23.4% from US\$9.4 million in the previous year.

ANNUAL RESULTS

The board of the directors (the “Board”) announces the consolidated results of TSC Group Holdings Limited (the “Company” or “TSC”) and its subsidiaries (collectively the “Group”) for the year ended 31 December 2016 (the “Year”) together with the comparative figures for the year ended 31 December 2015 as follows using United States dollars as presentation currency:

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

	<i>Note</i>	2016 \$'000	2015 \$'000
Revenue	3	142,531	194,899
Cost of sales		<u>(104,745)</u>	<u>(140,543)</u>
Gross profit		37,786	54,356
Other revenue and net income	4	5,685	3,842
Selling and distribution expenses		(5,170)	(12,554)
General and administrative expenses		(33,409)	(33,089)
Other operating expenses		(5,440)	(4,034)
Impairment losses on goodwill		(19,621)	–
Impairment losses on doubtful debts		(56,864)	(1,941)
Impairment losses on gross amount due from customers for contract work		<u>(29,916)</u>	<u>–</u>
(Loss)/profit from operations		(106,949)	6,580
Finance costs	5(a)	<u>(4,363)</u>	<u>(4,545)</u>
(Loss)/profit before taxation	5	(111,312)	2,035
Income tax	6(a)	<u>(264)</u>	<u>(738)</u>
(Loss)/profit for the year		<u>(111,576)</u>	<u>1,297</u>
Attributable to:			
Equity shareholders of the Company		(110,450)	2,097
Non-controlling interests		<u>(1,126)</u>	<u>(800)</u>
(Loss)/profit for the year		<u>(111,576)</u>	<u>1,297</u>
(Loss)/earnings per share	8		
Basic		<u>(15.73) cents</u>	<u>0.30 cent</u>
Diluted		<u>(15.73) cents</u>	<u>0.30 cent</u>

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	2016 \$'000	2015 \$'000
(Loss)/profit for the year	(111,576)	1,297
Other comprehensive income for the year:		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
– Exchange differences on translation of financial statements of subsidiaries and associate (with nil tax effect)	<u>(11,007)</u>	<u>(6,771)</u>
Total comprehensive income for the year	<u>(122,583)</u>	<u>(5,474)</u>
Attributable to:		
Equity shareholders of the Company	(121,400)	(4,544)
Non-controlling interests	<u>(1,183)</u>	<u>(930)</u>
Total comprehensive income for the year	<u>(122,583)</u>	<u>(5,474)</u>

Consolidated Statement of Financial Position

At 31 December 2016

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

	2016	2015
<i>Note</i>	\$'000	\$'000
Net current assets	51,408	141,857
Total assets less current liabilities	137,465	257,448
Non-current liabilities		
Bank loans and other borrowings	41,260	38,185
Deferred tax liabilities	131	268
	41,391	38,453
NET ASSETS	96,074	218,995
CAPITAL AND RESERVES		
Share capital	9,094	9,094
Reserves	86,202	207,530
Total equity attributable to equity shareholders of the Company	95,296	216,624
Non-controlling interests	778	2,371
TOTAL EQUITY	96,074	218,995

Note:

1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2016 comprise the Group and the Group's interest in associate.

The functional currency of the Company is Hong Kong dollars. Subsidiaries of the Company have their functional currencies in Renminbi ("RMB"), United States dollars and Pound Sterling. In view of expanded foreign operations, the directors of the Company consider United States dollars, being an internationally well-recognised currency, can provide more meaningful information to the Company's investors and meet the needs of the Group's global customers. Therefore, the directors choose United States dollars as the presentation currency of the financial statements.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

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

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

2 STATEMENT OF COMPLIANCE AND CHANGES IN ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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").

Changes in accounting policies

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

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

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the design, manufacture, installation and commissioning of capital equipment and packages on land and offshore rigs and oilfield expendables and supplies and the provision of engineering services.

Revenue represents the invoiced value of goods supplied to customers, revenue from construction contracts and revenue from engineering services. The amount of each significant category of revenue recognised during the year is as follows:

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

The Group's customer base is diversified and includes two customers (2015: two customers) with whom transactions have exceeded 10% of the Group's revenues. In 2016, revenues from sales of capital equipment and packages and oilfield expendables and suppliers to these customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately \$33 million and \$32 million respectively (2015: \$53 million and \$23 million respectively).

(b) Segment reporting

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

- Capital equipment and packages: the design, manufacturing, installation and commissioning of capital equipment and packages on land and offshore rigs and plug and abandonment equipment
- Oilfield expendables and supplies: the manufacturing and trading of oilfield expendables and supplies
- Engineering services: the provision of engineering services

(i) Segment results, assets and liabilities

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

Segment assets include all tangible assets, goodwill, intangible assets and current assets with the exception of interest in associate, other financial assets, cash at bank and in hand, pledged bank deposits, tax balances and other unallocated head office and corporate assets. Segment liabilities include trade and other payables and provisions attributable to the activities of the individual segment, with the exception of bank loans and other borrowings, tax balances and other unallocated head office and corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "segment results" i.e. "adjusted earnings before finance costs and taxes" of individual segment. To arrive at segment results, the Group's earnings are further adjusted for finance costs and items not specifically attributed to individual segment, such as 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 2016 and 2015 is set out below.

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

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

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

(iii) *Geographic information*

The following table sets out information about the geographical locations of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, investment properties, property under development, interest in leasehold land held for own use under operating leases, goodwill, other intangible assets, interest in associate, other financial 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, property under development and interest in leasehold land held for own use under operating leases, the location of the operation to which they are allocated, in the case of goodwill and intangible assets, and the location of operations, in the case of interest in associate, other financial assets and non-current portion of prepayments.

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

4 OTHER REVENUE AND NET INCOME

	2016	2015
	\$'000	\$'000
Interest income	371	186
Rental income	251	–
Net foreign exchange gain	2,470	2,279
Others	2,593	1,377
	<u>5,685</u>	<u>3,842</u>

5 (LOSS)/PROFIT BEFORE TAXATION

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

	2016 \$'000	2015 \$'000
(a) Finance costs		
Interest on bank loans and other borrowings	4,785	5,425
Less: Interest expense capitalised into property under development*	(422)	(880)
	<u>4,363</u>	<u>4,545</u>
(b) Staff costs[#]		
Contributions to defined contribution retirement plans	3,965	4,536
Equity-settled share-based payment expenses	72	323
Salaries, wages and other benefits	26,290	38,870
	<u>30,327</u>	<u>43,729</u>
(c) Other items		
Amortisation of interest in leasehold land held for own use under operating leases [#]	211	226
Amortisation of intangible assets	2,294	2,632
Depreciation [#]		
– property, plant and equipment	5,628	5,161
– investment properties	347	–
Impairment losses on doubtful debts	56,864	1,941
Impairment losses on other financial assets	2,435	–
Impairment losses on goodwill	19,621	–
Impairment losses on gross amount due from customers for contract work	29,916	–
Write-off of trade debtors	16	44
Research and development costs	5,662	4,328
Net foreign exchange gain	(2,470)	(2,279)
Loss on disposal of property, plant and equipment	520	476
Auditors' remuneration	442	436
Minimum lease payments under operating leases in respect of land and buildings	2,689	4,071
Cost of inventories [#]	<u>103,437</u>	<u>137,663</u>

[#] Cost of inventories includes \$15,462,000 (2015: \$26,253,000) relating to staff costs, depreciation and amortisation expenses which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

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

The provision for Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year. Taxation for subsidiaries in other jurisdictions is charged at the appropriate current rates of taxation ruling in relevant jurisdictions. During the year, certain PRC subsidiaries are subject to tax at a reduced rate of 15% (2015: 15%) under the relevant PRC tax rules and regulations.

7 DIVIDEND

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

8 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

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

Weighted average number of ordinary shares

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

(b) Diluted (loss)/earnings per share

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

Weighted average number of ordinary shares (diluted)

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

9 TRADE AND OTHER RECEIVABLES

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

(a) Ageing analysis

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

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

The credit terms offered by the Group to its customers differ with each product/service. The credit terms offered to customers of oilfield expendables and supplies and engineering services are normally 30 to 90 days. The credit terms offered to customers of capital equipment and packages are negotiated on a case-by-case basis. Deposits ranging from 10% to 30% of the contract sum are usually required. The balance of 60% to 85% would be payable in 1 to 2 months after delivery and acceptance of products. The remaining 5% to 10% of the contract sum represents the retention money and is payable within up to 18 months after delivery of the products or 1 year after completion of the onsite testing, whichever is earlier.

Included in “Trade and other receivables” of the Group are trade debtors and bills receivable of \$123,958,000 (2015: \$99,176,000) of which \$2,566,000 (2015: \$3,582,000) are due from subsidiaries of a substantial shareholder of the Group.

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly.

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

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

At 31 December 2016, the Group's trade debtors of \$68,916,000 (2015: \$8,161,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of \$62,057,000 (2015: \$7,590,000) were recognised. The Group does not hold any collateral over these balances.

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

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

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

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

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

10 TRADE AND OTHER PAYABLES

	2016 \$'000	2015 \$'000
Trade creditors and bills payable	217,800	217,978
Other payables and accrued charges	39,103	60,252
Gross amount due to customers for contract work	<u>2,564</u>	<u>–</u>
	<u>259,467</u>	<u>278,230</u>

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

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

11 COMPARATIVE FIGURES

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

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

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

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

The Oil & Gas Field Service BG comprises the manufacture and sales of oilfield Maintenance, Repair and Operations (“MRO”) expendables and spare parts, and the provision of a comprehensive range of engineering and maintenance services for our products as well as equipment manufactured by other suppliers.

Alliance Offshore Drilling Pte. Ltd. (“AOD”), incorporated and based in Singapore, is a wholly-owned subsidiary of the Group. Its primary business is to implement the alliance strategy with our partners, Zentech Incorporated and CSSC Huangpu Wenchong Shipbuilding Company Ltd. to build, sell and lease certain types of jack-up rigs. Our first 400 ft jack-up rig, R-550D, is in its final testing phase and estimated to be delivered in 2017. AOD’s objective is to leverage resources and partnerships to seek and create new markets. In line with this strategy, a subsidiary, OIM Pte Ltd (“OIM”) was incorporated in Singapore with 95% shares held by the Group. Its primary business is to meet the growing demand for cost effective and practical solutions for P&A and Decommissioning operations. This subsidiary will extend our market access and core competencies to include non-drilling sector solutions.

FINANCIAL REVIEW

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

Revenue

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

The substantial net loss attributable to equity shareholders in 2016 was mainly due to the substantial write downs of assets and provision for receivables as a result of the challenging business environment of the oil and gas industry. As at 31 December 2016, goodwill of US\$19.6 million arising on previous acquisition of an overseas subsidiary in the capital equipment and packages business was fully impaired in light of the transformation of business emphasis away from E&P sector, which resulted in a drop in expected cash flows to be generated from this business as compared to that forecast as at 31 December 2015. The challenging environment also raised concerns over recoverability of certain trade receivables and gross amount due from customers for contract work, resulting in provision of US\$56.9 million and US\$29.9 million during 2016 respectively. The recoverability of these balances is to a certain extent tied with the pace of recovery of the industry.

Excluding the write down of inventories and goodwill and impairment losses on assets, the Group achieved an operating profit from operations of US\$11.6 million for the year. This is an increase of 23.4% over the profit from operations of US\$9.4 million in the previous year.

Segment Information by Business Segments

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

Capital Equipment and Packages

Revenue recognised based on progress achieved on Capital Equipment and Packages projects decreased by 37.7% in 2016 compared to 2015. The decrease of US\$46.0 million came mainly from the downturn in Oil and Gas industry, which resulted in less drilling activities as well as the shrinking demand on rig-turnkey package in 2016.

Oilfield Expendables and Supplies

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

Engineering Services

Engineering Services revenue decreased significantly from US\$14.3 million in 2015 to US\$5.6 million in 2016. It was mainly due to reduced offshore drilling activities and reduced global demand for offshore engineering services. In view of the market condition, we have scaled down operations in Brazil and the United States during the low oil price market environment.

Segment Information by Geographical Regions

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

Gross Profit and Gross Profit Margin

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

Other Revenue

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

General and Administrative Expenses

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

Selling and Distribution Expenses

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

Other Operating Expenses

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

Finance Costs

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

Group's Liquidity and Capital Resources

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

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

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

The decrease in trade and other receivables was mainly due to recognition of impairment loss on doubtful debts of US\$56.9 million during 2016 in view of uncertain recovery of certain debtors.

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

As at 31 December 2016, the Group had non-current liabilities of approximately US\$41.4 million (2015: US\$38.5 million), comprising bank loans and other borrowings of approximately US\$41.3 million (2015: US\$38.2 million) and deferred tax liabilities of approximately US\$0.1 million (2015: US\$0.3 million). The Group monitors capital with reference to its debt position. The Group's strategy is to maintain the gearing ratio, being the Group's total liabilities to total assets, under 100%. The gearing ratio as at 31 December 2016 was 77% (2015: 62%).

Significant Investments and Disposals

There were no other significant investments or disposal during the year.

Capital Structure

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

Charges on Assets

To secure the loans from banks, the Group agreed to charge certain assets to banks. Details are set out as follows:

- (i) Interest in leasehold land held for own use under operating leases, buildings, inventories, trade receivables and plant and machinery with aggregate net book value of US\$50.2 million (2015: US\$38.2 million).

- (ii) Corporate guarantees given by Qingdao TSC Offshore Equipment Co. Ltd, TSC-HHCT (Xian) Control Technologies Limited, Zhengzhou TSC Offshore Equipment Co. Ltd., TSC Offshore China Limited and TSC Oil and Gas Services Ltd. to the extent of banking facilities outstanding of US\$2.1 million (2015: US\$16.3 million) as at 31 December 2016.
- (iii) Corporate guarantee given by the Company to the extent of banking facilities outstanding of US\$0.7 million (2015: US\$2.0 million) as at 31 December 2016.
- (iv) Guarantees given by the directors of the Company (the “Director”) to the extent of banking facilities outstanding of US\$0.3 million (2015: US\$0.4 million) as at 31 December 2016. No guarantee fee was received by the director during the Year.

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

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

Foreign Currency Exchange Exposures

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The Group has foreign exchange exposure resulting from most of the Group’s subsidiaries in the PRC carrying out production locally with Renminbi while approximately 50% of the Group’s revenue was denominated in United States dollars. As at 31 December 2016, no related hedges were made by the Group.

In order to mitigate that foreign exchange exposure, we may utilise foreign currency forward contracts to better match the currency of our revenues and associated costs in the future. However, we do not use foreign currency forward contracts for trading or speculative purposes. The Group will actively explore ways to hedge or reduce currency exchange risk in future.

Non-Exempt Continuing Connected Transactions

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

On 10 April 2015, the Company and CIMC Raffles entered into a new master agreement (the “New Master Agreement”) to renew certain continuing connected transactions. Pursuant to the New Master Agreement, the Group shall provide certain equipment under a number of turnkey projects to CIMC Raffles. The New Master Agreement is valid for a period starting from 5 June 2015 and ending on 31 December 2017.

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

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

The Supply of Drilling Packages and Electrical Power Packages

Category of transaction	Continuing Connected Transactions
Transaction Date	10 April 2015
Transaction with	CIMC Raffles
Purpose of Transaction	The New Master Agreement with CIMC Raffles by which the Group can provide the Equipment and the Turnkey Project(s) to CIMC Raffles for three years ending 31 December 2017.
Contract Values and Other Details	The annual caps under the New Master Agreement for three years ending 31 December 2017 are approximately US\$100 million (equivalent to approximately HK\$780 million) each year.
Detailed announcement and shareholder approval	Details of the transaction were announced on 10 April 2015 which was published on the websites of the Stock Exchange and the Company. The New Master Agreement was approved by independent shareholders at extraordinary general meeting on 5 June 2015.

During the Year, the Group transacted contracts with CIMC Raffles under the continuing connected transactions mandate approved by the Company's independent shareholders at extraordinary general meeting held on 5 June 2015. The abovementioned contracts cover the supply of drilling packages, electrical power packages and a jacking system with a total contract value of approximately US\$2.2 million, which is within the cap of US\$100 million for the year ended 31 December 2016 approved by the independent shareholders of the Company. The actual sales amount of the continuing connected transactions between the Group and CIMC Raffles was approximately US\$1.8 million for the year ended 31 December 2016 (2015: US\$14.0 million).

Staff Employees and Remuneration Policy

As at 31 December 2016, the Group had approximately 747 full-time staff in the U.S.A., the United Kingdom ("UK"), Brazil, United Arab Emirates, Russia, Singapore, Hong Kong and the PRC. The Group's remuneration policy is basically determined by the performance of individual employees and the market conditions. The Group also provides other benefits to its employees, including medical schemes, pension contributions and share option schemes.

FUTURE PLANS FOR MATERIAL INVESTMENTS, CAPITAL ASSETS AND CAPITAL COMMITMENT

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

Our Qingdao facility with approximately 382,000 square feet (35,500 square meters) was officially put into use in the first half of 2016. The facility was constructed as the first phase on 24.7 acres (10.08 hectares) of industrial land and will be used for manufacturing of various products. Total cost of land and building, and plant and equipment was approximately US\$32.3 million and was funded partly by our working capital and partly by long-term bank loans.

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

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

The Group is also in the process of implementing a cost reduction and reorganisation plan to improve operational and financial efficiency.

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

During the Year, the Group completed the spinoff of OGS Business Group under TSC Oil and Gas Services Group Holdings Ltd. (“TSC OGS Group”) (formerly known as “TSC (Qingdao) Manufacture Co., Ltd”). Quotation of its shares on the National Equities Exchange and Quotation System (“NEEQ”, also known as the “New Third Board”) was approved and quotation of TSC OGS Group commenced on 19 July 2016 under the stock code of 837290. The successful listing of TSC Oil & Gas Services will not only provide a viable financing channel and broader capital markets environment for TSC Group, but would also inject new power into China’s oil & gas equipment services industry.

SHARE AWARD PLAN

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

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

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

SHARE AWARD INCENTIVE SCHEME

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

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

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

STRATEGY, PROSPECTS AND ORDER BOOK

Market Review

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

Strategy and Prospects

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

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

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

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

Prospects

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

Order Book

As at 31 December 2016, the Group as a whole carried an order backlog of approximately US\$105.3 million for capital equipment and packages, expendables and services. Subsequent to 31 December 2016, the Group had secured further new orders amounting to US\$8.0 million up to the date of this announcement.

Subsequent Events

Save as disclosed in the announcement, no subsequent event occurred after 31 December 2016 which may have significant effects on the assets and liabilities of future operations of the Group.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 22 May 2017 to Thursday, 25 May 2017, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the entitlement to attend and vote at the forthcoming annual general meeting of the Company, all transfer documents accompanied by the relevant share certificates, must be duly completed and lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 19 May 2017.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards of dealings as set out in the Model Code for Securities Transactions by the Directors of Listed Issuers (the "Model Code") as set forth in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standards of dealings as set out in the Model Code by the Directors throughout the year ended 31 December 2016.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director had a direct and indirect material interest, subsisted at the end of the year or at any time during the year ended 31 December 2016.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

Save as disclosed below, the Company has complied with the code provisions of the CG Code for the year ended 31 December 2016 as set out in Appendix 14 to Listing Rules at that time except for the deviation from CG Code A.6.7 where one executive Director (who was subsequently redesignated as a non-executive Director), three independent non-executive Directors and three non-executive Directors were absent from the last annual general meeting of the Company held on 27 May 2016, as they were away from Hong Kong due to other important engagements at the time of this meeting. The Board considered that sufficient measures had been taken for the absent Directors to understand the views of shareholders.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the CG Code. To ensure on-going compliance with the CG Code, the audit committee’s terms of reference takes into account the Board’s responsibility for reviewing the adequacy of staffing of the financial reporting functions and the oversight role of the audit committee. The audit committee comprises a minimum of three members with a majority of independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny (being the chairman), Mr. Bian Junjiang and Mr. Guan Zhichuan, all of them are independent non-executive Directors; and at least one member has the appropriate professional qualifications or accounting or related financial management expertise which in compliance with Rule 3.10(2) of the Listing Rules. The Company considers these Directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Throughout the Year, the audit committee held three meetings in considering and reviewing the interim and annual results of the Group, and discussing the audit plan and strategy complied with the applicable accounting standards and requirements and that adequate disclosure has been made. The audit committee also met the external auditor twice without the presence of the executive Directors to the described audit plan and scoping and the identified significant risks and other areas of focus to be addressed by external auditor.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2016. The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny, Mr. Bian Junjiang and Mr. Guan Zhichuan.

The financial figures in respect of Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditors.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement is published on the websites of the Company (<http://www.t-s-c.com>) and the Stock Exchange (www.hkexnews.hk). An annual report of the Company for the year ended 31 December 2016 containing all information required by the Listing Rules will be dispatched to shareholders of the Company and made available on the abovementioned websites in due course.

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

Hong Kong, 30 March 2017

As of the date of this announcement, the Board comprises 1 executive Director, namely Mr. Jiang Bing Hua; 4 non-executive Directors, namely Mr. Zhang Menggui, Mr. Jiang Longsheng, Mr. Brian Chang and Mr. Wang Jianzhong; and 4 independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny, Mr. Bian Junjiang, Mr. Guan Zhichuan and Mr. Robert William Fogal Jr.