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CMIC Ocean En-Tech Holding Co., Ltd.
華商國際海洋能源科技控股有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 206)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

- Revenue amounted to approximately US$70.2 million for the year ended 31 December 2019, representing an increase of 19.4% as compared with 2018;
- Gross profit amounted to approximately US$24.0 million for the year ended 31 December 2019, representing an increase of 139.2% as compared with 2018;
- Gross profit margin increased from 17.1% for 2018 to 34.2% for 2019, representing an increase of 17.1 percentage points as compared with 2018;
- Profit attributable to equity shareholders of the Company amounted to approximately US$9.7 million for the year ended 31 December 2019, while loss attributable to equity shareholders of the Company amounted to approximately US$41.4 million for 2018; and
- The Board does not recommend the payment of a dividend for 2019.

ANNUAL RESULTS

The board of the directors (the "**Board**") announces the consolidated results of CMIC Ocean En-Tech Holding Co., Ltd. (the "**Company**" or "**CMIC**") and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2019 (the "**Year**") together with the comparative figures for the year ended 31 December 2018 as follows using United States dollars as presentation currency:

Consolidated Statement of Profit or Loss
For the year ended 31 December 2019

	Note	**2019** **US$'000**	2018 *US$'000*
Revenue	*3*	**70,246**	58,839
Cost of sales		**(46,210)**	(48,792)
Gross profit		**24,036**	10,047
Other revenue and net income	*4*	**3,916**	934
Reversal of provision for customer claims	*5(c)*	**3,030**	–
Gain on settlement of trade payables by issue of new shares	*5(c)*	**3,281**	–
Selling and distribution expenses		**(4,981)**	(5,635)
General and administrative expenses		**(23,960)**	(27,693)
Other operating expenses		**(1,239)**	(4,164)
Reversal of impairment losses/(impairment losses) on trade debtors and bill receivables, lease receivables and contract assets	*5(c)*	**4,177**	(2,445)
Profit/(loss) from operations		**8,260**	(28,956)
Finance costs	*5(a)*	**(1,727)**	(2,450)
Share of profits of associates		**36**	1
Share of profit of joint venture		**3,728**	–
Profit/(loss) before taxation	*5*	**10,297**	(31,405)
Income tax	*6*	**(979)**	(10,381)
Profit/(loss) for the year		**9,318**	(41,786)
Attributable to:			
Equity shareholders of the Company		**9,701**	(41,358)
Non-controlling interests		**(383)**	(428)
Profit/(loss) for the year		**9,318**	(41,786)
Earnings/(loss) per share	*8*		
Basic and diluted		**US0.35 cent**	US(2.98) cents

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	2019	2018
	US$'000	*US$'000*
Profit/(loss) for the year	**9,318**	(41,786)
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)	**(676)**	(453)
– Share of other comprehensive income of joint venture (with nil tax effect)	**(4,214)**	–
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)	**479**	(2,708)
Other comprehensive income for the year	**(4,411)**	(3,161)
Total comprehensive income for the year	**4,907**	(44,947)
Attributable to:		
Equity shareholders of the Company	**5,294**	(44,514)
Non-controlling interests	**(387)**	(433)
Total comprehensive income for the year	**4,907**	(44,947)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated.

Consolidated Statement of Financial Position

At 31 December 2019

	Note	2019 US$'000	2018 US$'000
Non-current assets			
Property, plant and equipment		**42,989**	40,620
Investment properties		**3,265**	3,503
Interest in leasehold land held for own use under operating leases		**–**	4,030
Intangible assets		**307**	382
Interest in associates		**307**	274
Interest in joint venture	*9*	**42,514**	–
Other financial assets		**326**	1,002
Prepayments	*11*	**60**	485
Lease receivables		**6,044**	–
Deferred tax assets		**1,775**	2,478
		97,587	52,774
Current assets			
Inventories	*10*	**149,028**	145,944
Trade and other receivables	*11*	**64,824**	56,276
Contract assets		**1,268**	2,012
Amount due from a related company		**101**	101
Lease receivables		**3,561**	–
Tax recoverable		**826**	132
Pledged bank deposits		**1,051**	802
Cash and cash equivalents		**35,021**	19,805
		255,680	225,072
Non-current assets classified as held for sale	*12*	**2,911**	2,936
		258,591	228,008
Current liabilities			
Trade and other payables	*13*	**189,417**	201,316
Contract liabilities		**29,034**	29,444
Bank loans		**5,023**	10,277
Lease liabilities		**1,124**	18
Tax payable		**4,191**	4,128
		228,789	245,183

	Note	2019 US$'000	2018 US$'000
Net current assets/(liabilities)		**29,802**	(17,175)
Total assets less current liabilities		**127,389**	35,599
Non-current liabilities			
Bank loans		**4,161**	7,092
Lease liabilities		**2,814**	63
Deferred tax liabilities		**–**	46
		6,975	7,201
NET ASSETS		**120,414**	28,398
CAPITAL AND RESERVES			
Share capital		**39,191**	18,854
Reserves		**81,865**	9,799
Total equity attributable to equity shareholders of the Company		**121,056**	28,653
Non-controlling interests		**(642)**	(255)
TOTAL EQUITY		**120,414**	28,398

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated.

Note:

1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The annual results set out in the announcement are extracted from the Group's consolidated financial statements, which 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. The consolidated 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**").

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.

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

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.

2 CHANGES IN ACCOUNTING POLICIES

(a) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have 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.

HKFRS 16*, Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases − incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16.

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to the operating lease commitments as at 31 December 2018 in respect of leases of properties.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.8%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	US$'000
Operating lease commitments at 31 December 2018	3,974
Less: commitments relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019 exempt from capitalisation	(45)
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	1,836
	5,765
Less: total future interest expenses	(822)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	4,943
Add: finance lease liabilities recognised as at 31 December 2018	81
Total lease liabilities recognised at 1 January 2019	5,024

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018	**Capitalisation of operating lease contracts**	**Carrying amount at 1 January 2019**
	US$'000	*US$'000*	*US$'000*
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	40,620	8,568	49,188
Interest in leasehold land held for own use under operating leases	4,030	(4,030)	–
Lease receivables (non-current)	–	285	285
Lease receivables (current)	–	120	120
Lease liabilities (current)	18	1,070	1,088
Lease liabilities (non-current)	63	3,873	3,936

c. Impact on the financial result and segment results of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

d. Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("**leasehold investment properties**"). The adoption of HKFRS 16 does not have a significant impact on the Group's consolidated financial statements as the Group previously elected to apply HKAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be carried at cost less accumulated depreciation and impairment losses.

e. Lessor accounting

In addition to leasing out the investment property referred to in paragraph d. above, the Group leases out a number of items of machinery as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. Upon the adoption of HKFRS 16, the Group has made adjustments at 1 January 2019 to the opening balances to recognise current portion of lease receivables and non-current portion of lease receivables of US$120,000 and US$285,000 respectively.

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.

Except for sales of capital equipment of US$9,431,000 (2018: US$Nil) through finance lease as a manufacturer lessor in 2019, which is recognised in accordance with HKFRS 16, *Leases*, all of the remaining revenue of US$60,815,000 (2018: US$58,839,000) for the year ended 31 December 2019 is recognised in accordance with HKFRS 15.

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2019	2018
	US$'000	*US$'000*
Sales of capital equipment	**39,296**	32,724
Sales of expendables and supplies	**28,873**	24,604
Engineering service fee income	**2,077**	1,511
	70,246	58,839

(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 and joint venture, 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, lease liabilities and provisions attributable to the activities of the individual segment, with the exception of bank loans, tax balances and other unallocated head office and corporate liabilities.

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

The measure used for reporting segment profit is "segment results" i.e. "adjusted earnings before finance costs and taxes" of individual segment. To arrive at segment results, the Group's earnings are further adjusted for finance costs and items not specifically attributed to individual segment, such as share of results of associates and joint venture, 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 2019 and 2018 is set out below.

	Capital equipment and packages		Oilfield expendables and supplies		Engineering services		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	US$'000	*US$'000*	***US$'000***	*US$'000*	***US$'000***	***US$'000***	***US$'000***	*US$'000*
Revenue from external customers	**39,296**	32,724	**28,873**	24,604	**2,077**	1,511	**70,246**	58,839
Inter-segment revenue	**428**	525	**2,011**	2,821	**851**	890	**3,290**	4,236
Reportable segment revenue	**39,724**	33,249	**30,884**	27,425	**2,928**	2,401	**73,536**	63,075
Reportable segment results	**8,233**	(15,106)	**2,574**	(10,216)	**(751)**	(1,313)	**10,056**	(26,635)
Depreciation and amortisation for the year	**3,563**	5,251	**1,755**	1,887	**12**	13	**5,330**	7,151
Impairment losses on property, plant and equipment	**–**	–	**–**	317	**–**	–	**–**	317
Reportable segment assets	**205,494**	187,674	**55,965**	60,727	**3,896**	5,799	**265,355**	254,200
Additions to property, plant and equipment during the year	**1,277**	2,078	**3**	1,102	**–**	–	**1,280**	3,180
Reportable segment liabilities	**(195,553)**	(196,826)	**(16,359)**	(30,352)	**(1,522)**	(1,125)	**(213,434)**	(228,303)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated.

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

	2019	2018
	US$'000	*US$'000*
Revenue		
Reportable segment revenue	**73,536**	63,075
Elimination of inter-segment revenue	**(3,290)**	(4,236)
Consolidated revenue *(note 3(a))*	**70,246**	58,839
Results		
Segment results	**10,056**	(26,635)
Finance costs	**(1,727)**	(2,450)
Share of profits of associates	**36**	1
Share of profit of joint venture	**3,728**	–
Unallocated head office and corporate income and expenses	**(1,796)**	(2,321)
Consolidated profit/(loss) before taxation	**10,297**	(31,405)
Assets		
Reportable segment assets	**265,355**	254,200
Interest in associates	**307**	274
Interest in joint venture	**42,514**	–
Other financial assets	**326**	1,002
Cash and cash equivalents	**35,021**	19,805
Pledged bank deposits	**1,051**	802
Deferred tax assets	**1,755**	2,478
Tax recoverable	**826**	132
Unallocated head office and corporate assets	**9,023**	2,089
Consolidated total assets	**356,178**	280,782
Liabilities		
Reportable segment liabilities	**(213,434)**	(228,303)
Bank loans	**(9,184)**	(17,369)
Tax payable	**(4,191)**	(4,128)
Deferred tax liabilities	**–**	(46)
Unallocated head office and corporate liabilities	**(8,955)**	(2,538)
Consolidated total liabilities	**(235,764)**	(252,384)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated.

(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, interest in joint venture, other financial asset and non-current portion of prepayments ("**specified non-current assets**"). The geographical location of customers is based on the location of the customers. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, investment properties and interest in leasehold land held for own use under operating leases, the location of the operation to which they are allocated, in the case of intangible assets, and the location of operations, in the case of interest in associates and joint venture, other financial assets and non-current portion of prepayments.

	Revenue from external customers		**Specified non-current assets**	
	2019	2018	**2019**	2018
	US$'000	*US$'000*	***US$'000***	*US$'000*
Hong Kong Special Administrative Region	**–**	–	**880**	1,148
Mainland China	**40,615**	29,118	**45,285**	45,299
North America	**9,562**	10,175	**1,044**	3,590
South America	**10,614**	11,003	**28**	32
Europe	**4,622**	5,307	**–**	200
Singapore	**559**	94	**2**	12
Indonesia	**554**	48	**–**	–
Middle East	**–**	–	**42,514**	–
Others	**3,720**	3,094	**15**	15
	70,246	58,839	**89,768**	50,296

4 OTHER REVENUE AND NET INCOME

	2019	2018
	US$'000	*US$'000*
Interest income	**1,186**	175
Finance income from lease receivables	**449**	–
Rental income	**1,004**	589
Net foreign exchange loss	**(1,287)**	(860)
Reversal of provision for estimated loss of incomplete construction contract	**1,602**	–
Others	**962**	1,030
	3,916	934

5 PROFIT/(LOSS) BEFORE TAXATION

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

	2019	2018
	US$'000	*US$'000*
(a) Finance costs		
Interest on bank loans	**1,509**	2,448
Interest on lease liabilities	**218**	2
	1,727	2,450

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated.

		2019	2018
		US$'000	*US$'000*
(b)	**Staff costs** (ii)		
	Contributions to defined contribution retirement plans	**2,807**	3,564
	Equity-settled share-based payment expenses	**–**	114
	Salaries, wages and other benefits	**18,610**	17,106
		21,417	20,784
(c)	**Other items**		
	Depreciation charge (ii)		
	– owned property, plant and equipment (i)	**2,484**	3,071
	– right-of-use assets (i)	**3,462**	3,082
		5,946	6,153
	Cost of inventories(ii)		
	– Carrying amount of inventories sold	**45,161**	44,796
	– Write-down of inventories	**181**	3,153
		45,342	47,949
	Total minimum lease payments for leases previously classified as operating leases under HKAS 17(i)(ii)	**–**	2,069
	Expenses relating to short-term leases and other leases with remaining lease team ending on or before 31 December 2019(i)	**830**	–
	Amortisation of interest in leasehold land held for own use under operating leases(i)(ii)	**–**	207
	Amortisation of intangible assets	**380**	1,210
	(Reversal of impairment losses)/impairment losses on trade debtors and bills receivables, lease receivables and contract assets	**(4,177)**	2,445
	Impairment losses on property, plant and equipment	**–**	317
	Research and development costs	**3,228**	4,883
	Net foreign exchange loss	**1,287**	860
	Loss/(gain) on disposal of property, plant and equipment	**523**	(56)
	Gain on disposal of non-current assets classified as held for sale	**–**	(13)
	Auditors' remuneration		
	– audit services	**530**	530
	– other services	**6**	209
	Reversal of provision for customer claims(iii)	**(3,030)**	–
	Reversal of provision for estimated loss of incomplete construction contract(iv)	**(1,602)**	1,602
	Gain on settlement of trade payables by issue of new shares(v)	**(3,281)**	–

(i) The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment are also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2.

(ii) Cost of inventories includes US$4,988,000 (2018: US$6,859,000) 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.

(iii) During the year ended 31 December 2017, a customer of the Group expressed concerns to the Group for certain products sold with unsatisfactory quality. Management assessed the possible outcome of claims and considered that a provision for customer claims of US$3,030,000 was necessary and charged to “Other operating expenses” for 2017. Having considered the latest communication with the customer and lapse of time, management considered that, as at 31 December 2019, the provision for customer claims is no longer necessary. The over-provision of US$3,030,000 was credited to profit or loss and included in “Other revenue and net income” for the year ended 31 December 2019.

(iv) During the year ended 31 December 2018, provision for estimated loss of incomplete construction contract of US$1,602,000 was charged to profit or loss and included in “Other operating expenses”. Management reassessed the expected outcome of the contract as at 31 December 2019 and considered that the provision for estimated loss is no longer necessary. Consequently, reversal of provision for estimated loss of US$1,602,000 was credited to profit or loss and included in “Other revenue and net income” for the year ended 31 December 2019.

(v) Pursuant to the deed of settlement dated 29 October 2019 entered into by the Company and certain of its creditors, the Company agreed to settle the trade payables to the creditors of US$8,767,000 by issuing 122,726,709 ordinary shares of the Company to the creditors’ nominee at an agreed price of HK$0.56 per share. Upon the issuance of 122,726,709 shares to the creditors’ nominee on 21 November 2019, the trade payables of US$8,767,000 were settled. The share consideration paid is measured at the quoted market price of the Company on the share issuance date, at an amount of approximately US$5,486,000 rather than the stated consideration of US$8,767,000. Therefore, a gain of US$3,281,000 was credited to profit or loss for the year ended 31 December 2019.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2019	2018
	US$'000	*US$'000*
Current tax		
Provision for the year		
– The People's Republic of China (the "**PRC**") enterprise income tax	**253**	171
– Overseas corporation income tax	**289**	103
	542	274
Over-provision in respect of prior years	**(211)**	(721)
	331	(447)
Deferred tax		
Origination of temporary differences	**648**	10,828
	979	10,381

No provision for Hong Kong Profits Tax has been made in the consolidated 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 years ended 31 December 2019 and 2018.

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% (2018: 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 2019 (2018: US$Nil).

8 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of US$9,701,000 (2018: loss of US$41,358,000) and the weighted average number of 2,802,656,000 (2018: 1,386,131,000) ordinary shares in issue during the year excluding ordinary shares purchased by the Group, calculated as follows:

Weighted average number of ordinary shares

	2019	2018
	'000	*'000*
Issued ordinary shares at 1 January	**1,473,156**	707,120
Effect of purchase of shares held for share award scheme	**(20,216)**	(5,095)
Effect of issue of new shares	**1,349,716**	683,426
Effect of share options exercised	**–**	680
Weighted average number of ordinary shares at 31 December	**2,802,656**	1,386,131

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share equals to basic earnings/(loss) per share for the years ended 31 December 2019 and 2018 because there were no potential ordinary shares outstanding.

9 INTEREST IN JOINT VENTURE

	2019	2018
	US$'000	*US$'000*
Share of net assets	**42,514**	–
Amount due to joint venture (included in trade and other payables)	**(6,000)**	–

				Proportion of ownership interest		
Name of joint venture	**Form of business structure**	**Place of incorporation and business**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by a subsidiary**	**Principal activity**
Wealthy Marvel Enterprises Limited	Incorporated	The British Virgin Islands	$100,000,000	50%	50%	Leasing and trading of jack-up drilling rigs

Wealthy Marvel Enterprises Limited ("**WME**") became a 50% owned joint venture of the Group in January 2019.

WME is jointly controlled by the Group and the Company's controlling shareholder. It is an unlisted corporate entity whose quoted market price is not available.

The amount due to joint venture is unsecured, interest free and repayable on demand.

10 INVENTORIES

	2019	2018
	US$'000	*US$'000*
Raw materials	**4,678**	3,285
Work in progress	**126,598**	125,387
Finished goods	**17,752**	17,272
	149,028	145,944

11 TRADE AND OTHER RECEIVABLES

	2019	2018
	US$'000	*US$'000*
Trade debtors and bills receivables	**103,986**	107,099
Less: loss allowance	**(61,032)**	(65,795)
	42,954	41,304
Other receivables, prepayments and deposits	**15,517**	15,457
Notes receivables carried at amortised cost	**6,413**	–
	64,884	56,761
Less: Non-current portion of prepayments	**(60)**	(485)
	64,824	56,276

Except for the prepayments of US$60,000 (2018: US$485,000) as at 31 December 2019, all of the other receivables, prepayments and deposits are expected to be recovered or recognised as expense within one year.

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:

	2019	2018
	US$'000	*US$'000*
Current	**15,093**	12,779
Less than 1 month past due	**4,889**	2,313
More than 1 month but within 3 months past due	**3,085**	4,704
More than 3 months but within 12 months past due	**7,700**	5,100
More than 12 months past due	**12,187**	16,408
Amounts past due	**27,861**	28,525
	42,954	41,304

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.

12 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

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 was 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 US$3,072,000) had been classified as non-current assets classified as held for sale during the prior 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. These assets remained undisposed as at 31 December 2019 and the balance has been re-translated to US$2,911,000 (2018: US$2,936,000) as at 31 December 2019.

13 TRADE AND OTHER PAYABLES

	2019	2018
	US$'000	*US$'000*
Trade creditors and bills payables	**175,093**	188,833
Other payables and accrued charges	**8,324**	12,483
Amount due to joint venture *(note 9)*	**6,000**	–
	189,417	201,316

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

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

	2019	2018
	US$'000	*US$'000*
Within 1 month	**160,767**	163,591
More than 1 month but within 3 months	**3,745**	3,900
More than 3 months but within 12 months	**4,742**	5,194
More than 12 months but within 24 months	**2,615**	3,308
More than 24 months	**3,224**	12,840
	175,093	188,833

14 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(a).

MANAGEMENT DISCUSSION AND ANALYSIS

CMIC IS AN OPERATOR DELIVERING THE INTEGRATED CHAIN VALUE OF OFFSHORE ENERGY TECHNOLOGY

OVERVIEW

The year 2019 was a crucial and special year for CMIC. Based on the development of high-end equipment manufacturing, operation and maintenance and supply chain services for oil and gas and offshore engineering, the Company accelerated the expansion of offshore asset management business. Facing the severe market environment, the Company achieved good performance, mainly in the following three aspects. First, the Company completed the rights issue in February 2019 which successfully raised approximately HK$657 million and introduced new strategic shareholders, laying a solid foundation for the Company to develop new businesses, further proceed with strategic transformation and seek for long-term development. Second, the Company proactively expanded the offshore asset management business. In March, two units of CJ46 jack-up rigs were leased through the joint venture WME to serve Abu Dhabi National Oil Company. The Company entered into an agreement with Shelf Drilling Ltd. ("**SHELF**") for sales of two units of CJ46 jack-up rigs. The two sold rigs were delivered in early May 2019. In addition, the Company, together with its partner CP Latina, was granted with the drilling service contract by Pemex Perforacion y Servicios ("**PEMEX**"), the national oil company of Mexico, pursuant to which the Company shall provide PEMEX with two units of JU2000E jack-up rigs which were delivered in September 2019. At present, CMIC's offshore asset management business has begun to take shape and provided the Company with stable cash flow. Third, in terms of oil and gas and offshore engineering equipment, operation and maintenance, and supply chain business, the Company seized the opportunities in the hot spot drilling markets in Mexico and western China by increasing marketing efforts, expanding its businesses including power control equipment, high-power high-pressure mud pumps, modification of drilling rigs and supply of drilling accessories, and developing financial lease and sales business for professional equipment, and achieved gratifying results.

In 2019, under the leadership of the Company's core management team, the Company turned losses into profits and achieved revenue of US$70.2 million throughout the year, representing a year-on-year increase of 19.4%, and net profit attributable to the parent company for the year of US$9.7 million.

FINANCIAL REVIEW

	2019	2018	Change	
	US$'000	*US$'000*	*US$'000*	*%*
Revenue	**70,246**	58,839	11,407	19.4
Gross Profit	**24,036**	10,047	13,989	139.2
Gross Profit Margin	**34.2%**	17.1%		
Profit/(loss) from operations	**8,260**	(28,956)	37,216	128.5
Net profit/(loss) attributable to Equity Shareholders	**9,701**	(41,358)	51,059	123.5
Net profit/(loss) Margin	**13.8%**	(70.3%)		
Earnings/(loss) per Share (Basic and diluted)	**US$0.35 cent**	(US$2.98 cents)	US$3.33 cents	111.7

Revenue

The Group's revenue increased from US$58.8 million in 2018 to US$70.2 million in 2019. The increment of such revenue was mainly due to the increase in orders as a result of significant increase in upstream capital expenditure from land drilling rigs in China.

Segment Information by Business Segments

	2019		2018		Increase/(decrease)	
	US$'000	***%***	*US$'000*	*%*	*US$'000*	*%*
Capital Equipment and Packages	**39,296**	**55.9**	32,724	55.6	6,572	20.1
Oilfield Expendables and Supplies	**28,873**	**41.1**	24,604	41.8	4,269	17.4
Engineering Services	**2,077**	**3.0**	1,511	2.6	566	37.5
Total revenue	**70,246**	**100.0**	58,839	100.0	11,407	19.4

Capital Equipment and Packages

Revenue recognised in Capital Equipment and Packages projects increased by 20.1% from US$32.7 million in 2018 to US$39.3 million in 2019. The addition of drilling related equipment of US$6.6 million was mainly driven by the pick-up of land rigs market and increase in orders in the PRC.

Oilfield Expendables and Supplies

The increase of 17.4% from US$24.6 million in 2018 to US$28.9 million in 2019 for Oilfield Expendables and Supplies was due to the increase in orders of oilfield expendables and supplies from the markets in the PRC and Mexico with the increase in drilling operations in both countries.

Engineering Services

Engineering Services revenue increased from US$1.5 million in 2018 to US$2.1 million in 2019 mainly due to the increase in management fee for lease of offshore rigs.

Segment Information by Geographical Regions

	2019		2018		Increase/(decrease)	
	US$'000	***%***	*US$'000*	*%*	*US$'000*	*%*
Mainland China	**40,615**	**57.8**	29,118	49.5	11,497	39.5
North America	**9,562**	**13.6**	10,175	17.2	(613)	(6.0)
South America	**10,614**	**15.1**	11,003	18.7	(389)	(3.5)
Europe	**4,622**	**6.6**	5,307	9.0	(685)	(12.9)
Singapore	**559**	**0.8**	94	0.2	465	494.7
Indonesia	**554**	**0.8**	48	0.1	506	1,054.2
Others	**3,720**	**5.3**	3,094	5.3	626	20.2
Total revenue	**70,246**	**100.0**	58,839	100.0	11,407	19.4

Gross Profit and Gross Profit Margin

The Gross Profit of US$24.0 million for the year of 2019 increased by 139.2% from US$10.0 million in the previous year. Gross Profit Margin increased from 17.1% in 2018 to 34.2% in 2019. The increase was mainly due to high profit margin contribution from the increase in sales of oilfield expendables and land rigs supporting equipment in America and PRC.

Other Revenue and Net Income

The increase in Other Revenue and Net Income from US$0.9 million in 2018 to US$3.9 million in 2019 was mainly due to interest income of deposits and finance income from lease receivables. In 2019, the unutilised proceeds from rights issues were deposited into the licensed banks in Hong Kong as the main interest-bearing deposits, resulting in an increase in the total interest income of the Company.

Selling and Distribution Expenses

Selling and Distribution Expenses decreased by US$0.6 million from US$5.6 million in 2018 to US$5.0 million in 2019. Selling and Distribution Expenses mainly comprised of sales staff salaries, commissions, marketing expenses including travel costs and other sales and promotional expenditure. The decrease of Selling and Distribution Expenses was due to the decrease in selling expenditures under cost control in 2019.

General and Administrative Expenses

General and Administrative Expenses decreased from US$27.7 million in 2018 to US$24.0 million in 2019. The decrease was mainly due to decrease in research and development cost and professional fee.

Other Operating Expenses

The decrease in Other Operating Expenses from US$4.2 million in 2018 to US$1.2 million in 2019 was mainly due to decrease in amortisation of intangible assets as well as one-off cost provision, which incurred in the last year, in 2019.

Finance Costs

Finance Costs, primarily interest on bank loans and other borrowings and interest on lease liabilities, amounted to approximately US$1.7 million in 2019. The Group repaid bank loans in order to reduce interest cost in 2019.

Group's Liquidity and Capital Resources

As at 31 December 2019, the Group carried tangible assets of approximately US$49.2 million (2018: US$51.1 million) being property, plant and equipment, investment properties, interest in leasehold land held for own use under operating leases and non-current assets classified as held for sale.

As at 31 December 2019, the Group's intangible assets was approximately US$0.3 million (2018: US$0.4 million). The reduction in intangible assets was due to amortisation charge for the year. As at 31 December 2019, the Group's interest in associates was approximately US$0.3 million (2018: US$0.3 million), interest in joint venture was approximately US$42.5 million (2018: US$Nil) and deferred tax assets was approximately US$1.8 million (2018: US$2.5 million).

As at 31 December 2019, the Group's current assets amounted to approximately US$258.6 million (2018: US$228.0 million). Current assets mainly comprised of inventories of approximately US$149.0 million (2018: US$145.9 million), trade and other receivables of approximately US$64.8 million (2018: US$56.3 million), contract assets of approximately US$1.3 million (2018: US$2.0 million) and lease receivables (current) of approximately US$3.6 million (2018: US$Nil).

As at 31 December 2019, amount due from a related company amounted to approximately US$0.1 million (2018: US$0.1 million), pledged bank deposits amounted to approximately US$1.1 million (2018: US$0.8 million) and cash and cash equivalents amounted to approximately US$35.0 million (2018: US$19.8 million).

As at 31 December 2019, current liabilities amounted to approximately US$228.8 million (2018: US$245.2 million), mainly comprised of trade and other payables of approximately US$189.5 million (2018: US$201.3 million), bank loans of approximately US$5.0 million (2018: US$10.3 million), and current tax payable of approximately US$4.2 million (2018: US$4.1 million). The decrease in short-term bank loans was mainly due to the repayment of the bank loans. Contract liabilities amounted to US$29.0 million (2018: US$29.4 million) and lease liabilities amounted to US$1.1 million (2018: US$0.1 million).

As at 31 December 2019, the Group had non-current liabilities of approximately US$7.0 million (2018: US$7.2 million), which comprised of bank loans of approximately US$4.2 million (2018: US$7.1 million), lease liabilities of approximately US$2.8 million (2018: US$0.1 million) and deferred tax liabilities of US$Nil (2018: US$0.1 million). The Group monitors capital with reference to its debt position. The Group's strategy is to maintain the gearing ratio, being the Group's total liabilities to total assets, under 100%. The gearing ratio as at 31 December 2019 was 66.2% (2018: 89.9%).

Capital Structure

At 31 December 2019, there were 3,069,039,117 shares issued and the Company carried a share capital of approximately US$39,190,732. On 4 February 2019, the Company increased 1,473,156,024 issued shares by way of Rights Issue. On 29 October 2019, the Company entered into the Deed of Settlement with the creditors, pursuant to which the Company issued 122,726,709 settlement shares.

Charges on Assets

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

(i) Land and Buildings and plant and machinery with aggregate net book value of US$18.9 million (2018: 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$19.7 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$5.3 million (2018: US$10.8 million) as at 31 December 2019.

(iii) Corporate guarantees given by the Company to the extent of banking facilities outstanding of US$2.2 million (2018: US$3.6 million) as at 31 December 2019.

Certain bank loans of the Group are subject to the fulfilment of covenants relating to statement of financial position ratios of certain subsidiaries, as are commonly found in lending arrangements with financial institutions. The drawn down loan balances would become payable on demand if the covenants are breached. The Group regularly monitors its compliance with these covenants. As at 31 December 2019, none of the covenants relating to the Group's bank loans had been breached.

Bank loans of US$3,619,000 outstanding as at 31 December 2018 which the Group did not meet certain covenants had been fully settled during the year ended 31 December 2019.

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 2019 and 31 December 2018, 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.

Staff Employees and Remuneration Policy

As at 31 December 2019, the Group had approximately 458 full-time staff in the United States, the United Kingdom, Brazil, Mexico, 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.

USE OF PROCEEDS

The net proceeds from the subscription of shares amounted to approximately HK$505.07 million. Such proceeds have been used for the intended uses as set out in the circular of the Company dated 19 January 2018 and the clarification announcement of the Company dated 29 March 2018 in relation to subscription of shares under specific mandate. As at 31 December 2019, there were no remaining unutilised net proceeds from the subscription of shares.

As at 31 December 2019, the use of net proceeds from the subscription is as follows:

	Amount for intended use *(HK$ million)*	Utilised amount *(HK$ million)*	Unutilised amount *(HK$ million)*
Expansion of the Group's existing business and/or potential acquisition and repayment of debts	**237.56**	**237.56**	**–**
Repayment of the unsecured notes issued by the Group	**217.00**	**217.00**	**–**
General working capital of the Group	**50.51**	**50.51**	**–**
Total	**505.07**	**505.07**	**–**

The net proceeds from the rights issue amounted to HK$657.3 million. Such proceeds have been used for the intended uses as set out in the circular of the Company dated 11 January 2019. The unutilised proceeds have been deposited into the licensed banks in Hong Kong as interest-bearing deposits.

As at 31 December 2019, the use of net proceeds from the rights issue is as follows:

	Amount for intended use *(HK$ million)*	Utilised amount *(HK$ million)*	Unutilised amount *(HK$ million)*
Subscription of shares of joint venture or other investments	**460.1**	**320.5**	**139.6**
Repayment of debts of the Group	**131.5**	**126.0**	**5.5**
General working capital of the Group	**65.7**	**63.0**	**2.7**
Total	**657.3**	**509.5**	**147.8**

STRATEGY AND PROSPECTS

Market Review

In 2019, the global economy contained many uncertainties, and the world economic situation was bewildering. Despite signs of temporary pacification of the Sino-U.S. economic and trade frictions, it is difficult to reach a package solution in the short term. It is expected that negotiations may still be repeated, and further upgrades will not be ruled out and will spread to the fields of science and technology, finance, law and politics. Affected by the global economy, the downward pressure on China's economy has increased. The manufacturing industry has entered a critical period of "climbing". The overall market slump and unstable orders may last for a period of time.

For the energy market, in 2019, the international oil price rose first and then declined, and experienced a sharp shock. The price of Brent crude oil increased from US$54 at the beginning of the year to US$68 at the end of the year, an overall increase of approximately 26%. However, due to the impact of the COVID-19 epidemic and the increase in crude oil production in Russia and Saudi Arabia, in early 2020, the prices of WTI crude oil and Brent crude oil fell rapidly by approximately 54% in three months. The current price of crude oil is close to its lowest level in 20 years. There will be huge pressure on the growth of shale oil in the future, and there will a significant trend of industry consolidation and elimination. The Organisation for Economic Co-operation and Development cut the forecast of 2020 global economic growth from 2.9% to 2.4%. If the global spread of the COVID-19 cannot be effectively controlled in the first quarter of 2020, the slowdown in global economic growth will further inhibit the increase in crude oil demand, and the overall recovery of the offshore engineering industry may face more twists and turns. The global natural gas supply and demand will continue to be loose, prices will remain low, and the game between the supply and demand sides and between traditional and emerging countries will continue to intensify. China is proactively pursuing the transformation of its energy structure and is vigorously promoting the use of clean energy. There is a large demand in the clean energy market dominated by LNG, hydrogen energy, photovoltaic and offshore wind power. The development potential and investment direction of such clean energy will remain the focus of our future business transformation.

From the perspective of global supply and demand of offshore assets, offshore rigs are still oversupplied. In the short term, construction orders for new rigs remain in serious shortage. The global offshore engineering equipment has experienced two construction peaks since the 1960s. The second global construction peak was the process of the transition of offshore engineering equipment manufacturing to China, which objectively also created a good opportunity for China's offshore asset management companies to integrate assets. At present, China's shipyards have built an inventory of more than 50 units of offshore assets, most of which are jack-up rigs, accounting for 70% of China's inventory of offshore assets. If these stagnant offshore assets can be obtained at an appropriate market price, it will be a rare historical opportunity for companies committed to offshore asset integration and operation management.

In the past few years, the upstream capital expenditure of the oil and gas industry continued to decrease, and the current capital expenditure shows an obvious growth trend. According to the analysis of RYSTAD ENERGY, the total expenditure on global offshore oil services in 2019 increased by 6% over the previous year to US$208 billion, which is expected to increase by 14% in 2020. CNOOC announced that it will invest US$13.8 billion at the upstream in 2020 to drill more than 200 exploration wells. According to the analysis of CLARKSONS, the utilisation of floating rigs and jack-up rigs will continue to rise in 2020 and 2021. In February 2020, the utilisation rate of global MODU (floating drilling rig) reached 75%, an increase of 8% from 2019. The utilisation rate is expected to reach 80% by the end of 2020 and 84% by the end of 2021. In February 2020, the utilisation rate of jack-up rigs reached 77%, an increase of 8% compared to 2019. The utilisation rate of the jack-up rigs is expected to reach 82% by the end of 2020 and 86% by the end of 2021. The daily rate of jack-up rigs is rising. As of the end of January 2020, the daily rate of high-spec jack-up rigs had increased by 19% compared to 2019. In some regions, such as China, the North Sea, the Middle East, Brazil, and Mexico, offshore drilling and development activities have become increasingly active.

Strategy and Prospects

The offshore engineering market gradually picked up in 2019. Looking forward to 2020, we will continue to adhere to the concept of "Offshore as the base, Energy as the accelerator, Technology as the incubator, Capital as the value driver and Globalisation as the foundation", striving to build the strategic positioning of building a brand as the "world-class operator delivering the integrated chain value of offshore energy technology". The focus of implementation and advancement will be placed on the following aspects:

In terms of strategic business collaboration, in 2020, the Company will continue to strengthen the collaborative development with strategic shareholders and business partners including the Fund, CIMC Group, Minsheng Trust, Jinghong, SHELF, etc. to seek for business development opportunities for integration of industry and finance, rig asset investment, lease and sales, equipment sales and project financing to achieve collaboration and extension on the industrial chain.

In respect of offshore asset management business, good results had been achieved in 2019. In 2020, the Company will continue to seek opportunities to integrate high-quality offshore assets and for integration with upstream and downstream enterprises through sharing of and cooperation with internal and external strategic resources, to obtain more synergy benefits from the extension of industrial chain to the upstream and downstream while seeking for potential asset appreciation in the future. On the other hand, we attach great importance to and develop the light asset management business model. At present, the Company manages a total of six units of jack-up rigs and it has improved the offshore asset management system with a high-quality global offshore asset management team. In the future, in the international market, in addition to managing its own assets, it will seek for other offshore assets in the global market and carry out professional management of offshore assets.

For high-end offshore engineering and oil and gas equipment business, in 2020, on the basis of high-end equipment manufacturing, the Company will proactively explore transition from the traditional drilling accessories supply business to provision of supply chain and operation and maintenance services to global oil and gas and offshore engineering customers; the development in concert with offshore asset management business will provide customers with efficient and long-term equipment maintenance and spare parts; the Company will proactively try new business models, such as a new sales model that combines core equipment including drilling equipment, power control equipment, lifting equipment and cranes with financial leasing.

As to key regional markets, the Company will continue to focus on oil and gas and offshore engineering hotspots in 2020, such as Mexico, the North Sea, the Middle East, West Africa, Brazil, North America and China. Mexico is currently a hotspot area for global offshore engineering and has a strong demand for drilling rigs. Last year, the Company was successfully granted the contract from PEMEX, the national oil company of Mexico, for lease of two units of jack-up rigs. The Group will use this opportunity to tap deeper into the resources in the Mexican market and leverage on the resource advantages accumulated over many years of development to drive the sustainable development of business orders of offshore asset management and equipment. As the Chinese government attaches greater importance to energy security, it has stepped up its investment in oil and gas upstream, in particular more investment in and acceleration of oil and gas exploration and development in the western region, to proactively increase reserves and production. The Company will adopt a variety of flexible sales and service models to fully meet customer needs, help customers increase production capacity and achieve improved performance.

In 2020, the Company will continue to strengthen and standardise the management process, further implement measures to improve quality and efficiency to further control costs and reduce expenses, and formulate an incentive system in line with the short, medium, and long-term development of the Company to arouse the enthusiasm of directors, management, employees and strategic stakeholders to the greatest extent.

PLANS FOR FUTURE MATERIAL INVESTMENTS, ASSETS AND CAPITAL INTEGRATION

The Group strategically positioned itself as “a world-class operator delivering the integrated chain value of offshore energy technology”. The Group will seek potential resource integration and investment opportunities around the marine, energy and technology industry chain. The Group will place its investment focus on the following potential opportunities: opportunities for investment in high-tech technology and intelligent manufacturing fields that are synergistic with the Group’s original high-end equipment manufacturing; it will leverage on the capital financing advantages of the Fund and listing as well as asset lease and sales to seek potential opportunities to expand offshore asset management business projects and for integration of upstream and downstream enterprises; the Group will proactively explore investment, integration and acquisition opportunities in fields of clean energy including LNG, artificial intelligence, big data, and Internet of Things.

In assessing 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. The Group will gradually improve its financial performance by expanding its business direction and creating a new profit model, so as to provide a firm basis for future growth expansion.

RESIGNATION AND APPOINTMENT OF THE CHAIRMAN AND CEO

- Mr. Wang Hongyuan resigned as the chairman of the Board and CEO of the Company with effect from 19 February 2020.

- Mr. Lou Dongyang was appointed as the chairman of the Board with effect from 19 February 2020.

- Mr. Cong Yongjian was appointed as the CEO of the Company with effect from 19 February 2020.

RESIGNATION AND APPOINTMENT OF EXECUTIVE DIRECTORS

- Mr. Wang Hongyuan resigned as an executive Director of the Company due to other commitments with effect from 19 February 2020.

- Mr. Cong Yongjian was appointed as an executive Director of the Board of the Company with effect from 19 February 2020.

APPOINTMENT OF NON-EXECUTIVE DIRECTORS

- Ms. Fu Rui has been appointed as a non-executive Director with effect from 1 June 2019.

- Mr. Qian Zewei has been appointed as a non-executive Director with effect from 1 October 2019.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR

- Mr. Sun Dongchang has been appointed as an independent non-executive Director with effect from 12 November 2019.

CHANGE OF BOARD COMMITTEES MEMBERS

- On 19 February 2020, Mr. Wang Hongyuan resigned as the chairman of the Nomination Committee and a member of the Remuneration Committee.

- On 19 February 2020, Mr. Lou Dongyang was appointed as the chairman of the Nomination Committee and a member of the Remuneration Committee.

CHANGE OF COMPANY SECRETARY

On 1 July 2019, Ms. Cheung Wai Sze, Candy ceased to serve as the company secretary of the Company and was replaced by Ms. Koo Ching Fan.

CHANGE OF AUTHORISED REPRESENTATIVE

On 1 July 2019, Ms. Cheung Wai Sze, Candy ceased to be the authorised representative to accept service of process and notices on the Company's behalf in Hong Kong and was replaced by Mr. Zhao Yinan.

SHARE AWARD PLAN

The Company adopted a share award plan ("**Share Award Plan 1**") on 16 January 2015 (the "**Adoption Date**"). The Share Award Plan 1 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 1 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 1 shall not exceed 3% of the issued Shares (i.e. 21,147,456 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 1, 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 1 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 1. The Share Award Plan 1 will be effective for a period until 15 January 2025 unless terminated at the discretion of the Board at an earlier date.

During the year ended 31 December 2019, the trustee purchased 16,052,456 Shares on the Stock Exchange pursuant to the Share Award Plan 1 at a total consideration of approximately HK$6,376,530. At the end of the responding period, there are 21,147,456 shares held by the trustee. The purchase of the shares under the Share Award Plan 1 has completed and no grant was made (representing 0.7% of the issued share capital of the Company).

The Company adopted a new share award plan ("**Share Award Plan 2**") on 31 October 2019 (the "**Adoption Date**"). The Share Award Plan 2 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 2 is to recognise the contributions of officers, Directors and any other connected persons or consultants of the Group (the "**Eligible Persons**") 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 2 shall not exceed 3% of the issued Shares (i.e. 92,071,174 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 2, 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 2 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 2 will be effective for a period until 30 October 2029 unless terminated at the discretion of the Board at an earlier date.

During the year ended 31 December 2019, the trustee purchased 15,852,544 Shares on the Stock Exchange pursuant to the Share Award Plan 2 at a total consideration of approximately HK$5,495,184 and no grant was made (representing 0.5% of the issued share capital of the Company).

Subsequent to 31 December 2019, pursuant to the terms of the rules and trust deed of the Share Award Plan 2, the trustee of the Share Award Plan 2 purchased 4,110,000 Shares on the Stock Exchange at a total consideration of HK$1,148,857. As at the date of this announcement, the trustee held a total 19,962,544 Shares (representing 0.7% of the issued share capital of the Company) under the Share Award Plan 2.

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 2019. As at 31 December 2019, the total number of shares that may be granted under the Share Award Incentive Scheme is 21,213,606 Shares, representing 0.7% of the issued share capital of the Company.

DISCLOSEABLE TRANSACTION – SUBSCRIPTION OF NOTES

On 9 December 2019, the Company entered into the subscription agreement in respect of the subscription, pursuant to which the Company has conditionally agreed to subscribe for or procure the subscription by its nominee(s) of, and China Tonghai International Financial Limited (the issuer) has conditionally agreed to issue to the Company or its nominee(s), the notes in the principal amount of HK$50,000,000 for a term of six months with an interest rate of 5.3% per annum payable on the maturity date and the extended maturity date (if applicable).

DISCLOSEABLE TRANSACTION – DEED OF SETTLEMENT AND PROPOSED ISSUE OF SETTLEMENT SHARES UNDER GENERAL MANDATE

On 29 October 2019, the Company entered into the deed of settlement with JH Oilfield Equipment & Technology LLC ("**JH Oilfield**") and Heilongjiang Jinghong Petroleum Equipment Manufacture Limited ("**Jinghong**") (the creditors), pursuant to which the Company has agreed to settle the debts by issuing 122,726,709 settlement shares at the issue price of HK$0.56 per settlement share to Mr. Zhang Baoyou (the nominee of the creditors). The settlement shares are to be issued under the general mandate.

Information of the Nominee

The nominee, Mr. Zhang Baoyou, is the chairman of Jinghong who holds 59.62% of the equity interest in Jinghong.

Information of JH Oilfield

JH Oilfield is a limited liability company incorporated under the laws of the U.S. Its ultimate beneficial controllers are Xu Hong and Li Liangxiong. JH Oilfield is principally engaged in the sales and service of top drive and petroleum equipment.

Information of Jinghong

Jinghong is a company established under the laws of the PRC with limited liability. Zhang Baoyou, Zhang Baoguo and Zhang Chunrong are the ultimate beneficial controllers of Jinghong. It is engaged in the manufacturing, leasing, overhauling, technical consultation, technical service, mechanical processing, rubber product processing, general equipment, electrical machinery, steel, hardware products wholesale, retail and import and export of oil drilling industry.

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 for the year ended 31 December 2019. 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 2019.

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 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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 2019 as set out in Appendix 14 to Listing Rules, save for the deviations which are explained below:

Code Provision 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.

During the year, Mr. Wang Hongyuan took up the posts of executive chairman and chief executive officer of the Company. This deviated from code provision A.2.1 of the CG 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, was of the view that Mr. Wang was the single most suitable person for the positions of the executive chairman and chief executive officer of the Group. After the resignation of Mr. Wang and the appointment of Mr. Lou Dongyang as the chairman of the Board with effect from 19 February 2020, the Company has complied with the code provision A.2.1.

Rule 3.10A of the Listing Rules

For the period from 1 October to 11 November 2019, after the appointment of Mr. Qian Zewei, the Company failed to fulfill the requirement under Rule 3.10A of the Listing Rules that the number of independent non-executive directors must represent at least one-third of the board. Upon the appointment of Mr. Sun Dongchang as an independent non-executive Director of the Company on 12 November 2019, the Board is comprised of three executive Directors, four non-executive Directors and four independent non-executive Directors. Therefore, the Company has complied with the requirement under Rule 3.10A of the Listing Rules.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2019. The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny, Mr. Zou Zhendong and Mr. Chen Weidong. The financial figures in respect of Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 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 2019, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities, except that the trustee of the Share Award Plan, pursuant to the terms of the rules and trust deed of the Share Award Plans 1 and 2, purchased on the Stock Exchange a total number of 31,905,000 Shares at a total consideration of about HK$11,871,715.

Subsequent to 31 December 2019, pursuant to the terms of the rules and trust deed of the Share Award Plan 2, the trustee of the Share Award Plan 2 purchased 4,110,000 Shares on the Stock Exchange at a total consideration of HK$1,148,857. As at the date of this announcement, the trustee held a total 41,110,000 shares (representing 1.3% of the issued share capital of the Company) under the Share Award Plans 1 and 2.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement is published on the websites of the Company (http://www.cmicholding.com) and the Stock Exchange (http://www.hkexnews.hk). An annual report of the Company for the year ended 31 December 2019 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
CMIC Ocean En-Tech Holding Co., Ltd.
Lou Dongyang
Chairman

Hong Kong, 27 March 2020

As of the date of this announcement, the Board comprises 3 executive Directors, namely Mr. Cong Yongjian, Mr. Jiang Bing Hua and Mr. Zhang Menggui, Morgan; 4 non-executive Directors, namely Mr. Lou Dongyang, Mr. Wang Jianzhong, Ms. Fu Rui and Mr. Qian Zewei; and 4 independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny, Mr. Zou Zhendong, Mr. Chen Weidong and Mr. Sun Dongchang.