JUTAL

巨濤海洋石油服務有限公司

Jutal Offshore Oil Services Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3303)

ANNUAL REPORT
2008

CONTENTS

CORPORATION INFORMATION

SHARE INFORMATION

Listing place	:	Main Board of The Stock Exchange of Hong Kong Limited
Stock code	:	3303
Listing date	:	21 September 2006
Stock name	:	Jutal Oil Ser
Issued shares	:	498,000,000 ordinary shares
Website	:	http://www.jutal.com

BOARD OF DIRECTORS

Executive directors

Mr. Wang Lishan *(Chairman)*
Mr. Jiang Dong
Mr. Cao Yunsheng *(CEO)*
Mr. Chen Guocai

Independent non-executive directors

Mr. Su Yang
Mr. Lan Rong
Mr. Xiang Qiang
Mr. Wang Yu

AUDIT COMMITTEE

Mr. Su Yang *(Chairman)*
Mr. Lan Rong
Mr. Xiang Qiang
Mr. Wang Yu

REMUNERATION COMMITTEE

Mr. Xiang Qiang *(Chairman)*
Mr. Su Yang
Mr. Lan Rong
Mr. Wang Yu

NOMINATION COMMITTEE

Mr. Wang Yu *(Chairman)*
Mr. Lan Rong
Mr. Su Yang
Dr. Xiang Qiang

AUTHORISED REPRESENTATIVE, COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Luk Chi Tong

REGISTERED OFFICE

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P.O. Box 2681,
Grand Cayman,
KY1-1111,
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 13, 19/F, Peninsula Tower,
No. 538 Castle Peak Road,
Cheung Sha Wan,
Kowloon, Hong Kong

HEADQUARTERS IN THE PRC

10th Floor, Chiwan Petroleum Building,
Shekou, Nanshan District,
Shenzhen, The PRC 518068
Tel: (86 755) 2669-4111
Fax: (86 755) 2669-4666

CORPORATION INFORMATION

LEGAL ADVISORS

As to Hong Kong law:
Gallant Y.T. Ho & Co.
5th Floor, Jardine House,
1 Connaught Place, Hong Kong

As to PRC law:
Commerce & Finance Law Offices
27C, Shenzhen Te Qu Bao Ye Building,
6008 Shennan Road, Futian District,
Shenzhen, The PRC

As to Cayman Islands law:
Conyers Dill & Pearman
Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman,
KY1-1111, Cayman Islands

AUDITOR

RSM Nelson Wheeler
Certified Public Accountants
29th Floor,
Caroline Centre, Lee Gardens Two,
28 Yun Ping Road,
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Butterfield Fund Services (Cayman) Limited
68 Fort Street, P.O. Box 705,
George Town, Grand Cayman,
Cayman Islands, British West Indies

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
26th Floor,
Tesbury Centre,
28 Queen's Road East,
Wanchai, Hong Kong

FINANCE PR ADVISER

Porda International (Finance) PR Co., Ltd.
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Wanchai, Hong Kong

INVESTOR ENQUIRY

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Jutal Offshore Oil Services Limited
10th Floor, Chiwan Petroleum Building
Shekou, Nanshan District
Shenzhen, The PRC 518068

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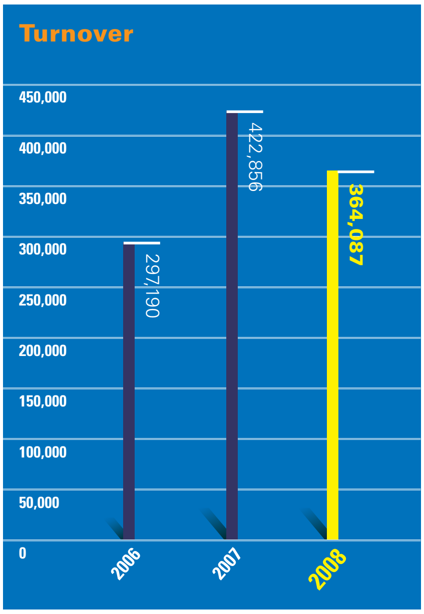
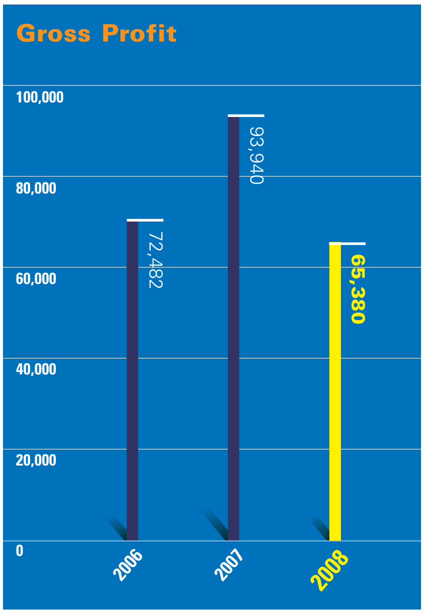
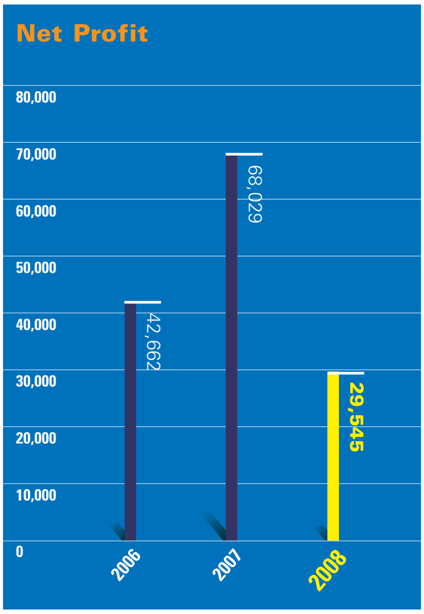
FINANCIAL HIGHLIGHTS

1. RESULTS *(RMB'000)*





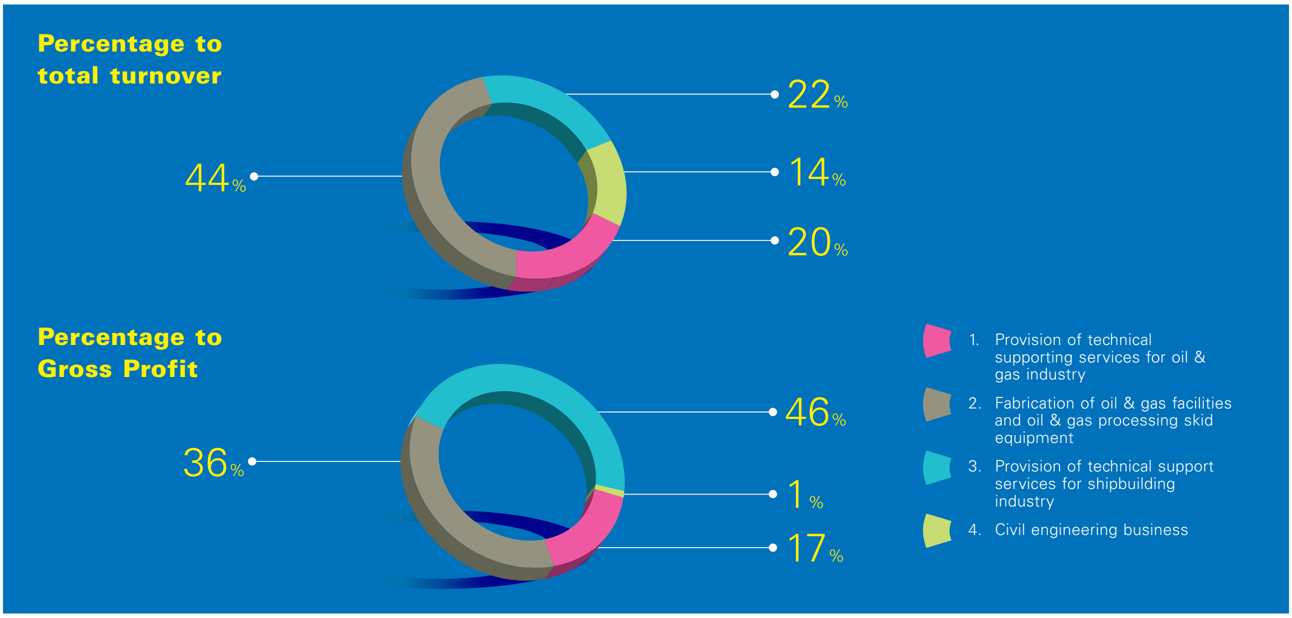


2. BASIC EARNINGS PER SHARE

Net profit attributable to the equity holders of the Company was RMB29,545,000 for the year and the basic earnings per share was RMB0.0593.

3. DIVIDEND

The directors do not recommend the payment of final dividend for the year ended 31 December 2008.



CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of Jutal Offshore Oil Services Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008 to the shareholders.

Wang Lishan
Chairman

BUSINESS REVIEW

The global financial crisis brought turmoil and uncertainty in 2008. Unavoidably, our business has been affected to some extent under such circumstance. Compared with that of previous year, our overall performance, especially in respect of fabrication business has greatly declined. However we still scored a growth in respect of the shipbuilding technical support services and obtained preliminary results on the expansion of client base and new businesses.

ESTABLISHMENT OF A NEW SUBSIDIARY

At the end of September 2008, Shenzhen Jutal Machinery Equipment Co., Ltd (Shenzhen Jutal"), a wholly-owned subsidiary of the Company, and Hefei Hongzhou Shipping Engineering Co., Ltd. ("Hongzhou Shipping") established a new company named Tianjin Jutal Marine Services Limited ("Jutal Marine"). Jutal Marine planned to acquire the "Hong Li 900", a full revolving hoisting vessel owned by Hongzhou Shipping, for the purpose of developing the marine engineering services such as offshore installation.

The establishment of Jutal Marine marked another advance in the offshore oil & gas service business. We realized a change from conventional work force and technical services to resource oriented services. The exploration and exploitation of offshore oil and gas will be the focus of the work plan for energy in China, and will bring strong demand of offshore projects and services. The business of Jutal Marine is expected to generate a stable cash flow.

PROVISION OF TECHNICAL SUPPORT SERVICES FOR OIL & GAS INDUSTRY

The business of providing oil & gas technical support services maintained steady. While maintaining and solidifying our existing client base, we prospected new clients and provided multiple services such as fabrication, installation, renovation, reparation and offshore engineering. We have strengthened the training for operators in this year to improve their professional skills and enable them to be familiar with regulations and rules for various platforms, thus improving the productivity and capacity, reducing subcontracting and labour costs, enhancing competitiveness and optimizing our organizational structure. In 2008, we realized better results in the offshore oil & gas services business in Tianjin Bohai Sea area in North China. We have also established new service mode focusing on design service, thereby improving our overall quality and performance. As our conventional and essential business, the offshore oil & gas services business will be developed with comprehensive and detailed safety management, quick response, excellent services, first-class quality and top ranking. Services as our target for daily services, meanwhile we will exert great efforts to develop project designs to improve our repairing techniques, enhance overall offshore renovation capacity, develop related business according to the South-to-North integration planning, and to explore opportunely to overseas market.

FABRICATION OF OIL & GAS FACILITIES AND OIL & GAS PROCESSING EQUIPMENT

Because of the changes in the global market, some key- followed-up projects were cancelled or delayed in this year, thus affecting the annual performance of our fabrication business.

In 2008, the oil & gas processing equipment fabrication department finished its transition of business and personnel from Shenzhen to Zhuhai, and carried out subsequent construction, equipment commissioning and acceptance and production preparation in the Zhuhai fabrication site, which enabled the overall development of the business. We will make further efforts in respect of market development, cost management and efficiency.

The Group acquired 30% of the equity interest of Penglai Jutal Offshore Engineering Heavy Industries Co., Ltd. ("Penglai Jutal") at the end of 2007, and injected an additional capital of USD4.8 million in the first half of 2008 in proportion to its equity interest in Penglai Jutal for the subsequent constructions in Penglai Jutal.

Based on domestic offshore project market, Penglai Jutal continuously extended its market globally, persisted in technical and management innovation, low-cost and high-efficiency development, and strove to build itself into a professional energy service company with first-class management and stronger international competitiveness and influences. Domestically, the projects contracted by Penglai Jutal such as Ledong project (total jacket weight: 11,236T), Wenchang project, Bozhong Project, etc. were completed one after another, and over 20 jacket projects such as Bonan and Bozhong (Phase II) Project, Suizhong Project, Jinxian Project, have commenced. Penglai Jutal successfully completed construction of a single point mooring system for the Blue Water company in the Netherlands, signed a long-term cooperation agreement with Amclyde, obtained nine floating crane projects, and commenced the FPSO module project for Norway Aker company and the manufacturing project of lower part facilities of the Awilco deepwater drilling rig. The processing capacity of Penglai Jutal is recognised by more and more experts in the business. The large module workshop to be completed will further improve the production chain of Penglai Jutal, enhance its market competitiveness, and help the expansion of wider international offshore engineering market.

PROVISION OF TECHNICAL SUPPORT SERVICES FOR SHIPBUILDING INDUSTRY

We realized a favorable growth in the shipbuilding technical services business in 2008. Coating services contributed more than 50% of the gross profit in this business segment, and we continued to keep this strength. In addition to the provision of electrical installation and commissioning services for shipbuilding, we also undertook electrical & instrument projects for drilling rigs. The Group's wholly-owned subsidiary in Dalian provides chord legs cracks repairing and chord legs extension for drilling rigs, structure fabrication and repairing for modules. With the improvement of the management and skill level, we can guarantee the project schedule can be met and quality of projects can be maintained.

We also made progress in prospecting new clients and contacted some ship factories and marine engineering companies to obtain orders.

CIVIL ENGINEERING BUSINESS

The business of this segment shrunk dramatically due to the impact of economic crisis. It is currently not possible to predict when the business can be restored. We will continue to follow up potential market opportunities, properly enforce the existing contracts, and reduce the management expenses of relevant division.

PROSPECTS

2009 is still a year full of various uncertainties. Even though the external environment has brought difficulties to our operation, it also given the opportunity to do self-examination and improve our internal management to prepare for further business development.

At the beginning of 2009, we restructured the corporate management structure and business segments, highlighted market-oriented strategy, decided to build core competitive power and train core staff, strengthen management of quality, safety, environmental protection and health, and spared no efforts to create new operation situations.

A great deal of capital will be expected to inject into the development of the offshore oil & gas industry in China, indicating an enormous potential market demands. We will concentrate our competitive talents force for market development in 2009, seize the opportunities to expand the domestic market, and take the initiative to actively develop the international market. Therefore, on the one hand, we need to follow up and understand the market information in a timely manner to seize the market opportunities, and on the other, we shall do well the biding/tendering management, take actions according to definite targets we made, and achieve the cost, profits and cash flow management objectives.

We established the design center to endeavor to foster and construct the design capacity in the coming years in order to improve our core competitiveness in respect of fabrication business and service business, increase the gross profit margin. We deeply realized that continuous operation and development must depend on construction of core competitiveness, and therefore, the Company will persistently and patiently advance construction and improvement of the products, services, management and corporate culture in the coming years. During such long-term process, fostering talents is essential.

We believe that depending on well-defined strategy guidelines and effective implementation, relying on our excellent management team and enthusiastic employees, we will hold together to overcome the difficulties and take the initiative to make progress, and certainly bring a satisfactory return to our shareholders.

On behalf of the Board, I would like to express my heart-felt gratitude to all supporting shareholders, to all enthusiastic and outstanding management and staff of the Group and to our honored customers.

WANG Lishan
Chairman

Hong Kong, 3 April 2009

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL AND BUSINESS REVIEW

Turnover

In the year of 2008, the Group recorded a turnover of RMB364,087,000, a decrease of RMB58,769,000 or approximately 13.90% as compared to the year of 2007. Being affected by the deteriorating global economic environment, the Group's orders from overseas, Hong Kong and Macau decreased sharply, especially those overseas projects of oil & gas facilities and oil & gas processing equipment fabrication business and civil engineering business decreased by RMB49,024,000 and RMB16,426,000 respectively. The turnover from the oil & gas technical support services business decreased by RMB10,078,000 or approximately 11.99% from RMB84,024,000 in 2007 to RMB73,946,000 in 2008. The performance of this segment has only been slightly affected from the current economic environment, where the decrease from 2007 was normal business fluctuation. The turnover from shipbuilding technical support services business experienced large growth in 2008 and increased by RMB16,759,000 or approximately 27.12% from RMB61,786,000 in 2007 to RMB78,545,000 in 2008, such increase was mainly because of the stability of the major clients' businesses.

The following shows the breakdown of turnover by business segment during the past three years:

	For the financial year ended 31 December					
	2008		2007		2006	
Products/Services	RMB'000	Percentage to total turnover (%)	RMB'000	Percentage to total turnover (%)	RMB'000	Percentage to total turnover (%)
1. Provision of technical support services for oil & gas industry	73,946	20	84,024	20	60,803	20
2. Fabrication of oil & gas facilities and oil & gas processing equipment	159,485	44	208,509	49	145,407	49
3. Provision of technical support services for shipbuilding industry	78,545	22	61,786	15	46,417	16
4. Civil engineering business	52,111	14	68,537	16	44,563	15
Total	364,087	100	422,856	100	297,190	100

Cost of sales

The Group's cost of sales and service for 2008 was RMB298,707,000, decreased by 9.18% from RMB328,916,000 in 2007. Cost of sales comprised direct and overhead costs. The direct costs in 2008 amounted to RMB264,856,000, representing 88.67% of the cost of sales, and the amount of direct costs in 2007 was RMB294,575,000, representing 89.56% of the cost of sales. Direct costs mainly comprised the cost of materials, subcontracting costs and labor costs, which were RMB76,857,000, RMB95,368,000 and RMB46,902,000 respectively in 2008, representing 29.02%, 36.01% and 17.71% of the direct costs respectively, and these three elements accounted for 40.08%, 35.88% and 10.90% of the direct costs respectively in 2007. The Group calculates cost of sales on an order-by-order basis for projects, and the cost elements of each project differ from one another, therefore the cost of sales varies from project to project. The overhead costs in 2008 was RMB33,851,000, decreased by 1.43% from RMB34,341,000 in 2007.

Gross profit

The Group's gross profit in 2008 was RMB65,380,000, decreased by 30.40% from RMB93,940,000 in 2007, with the gross profit margin decreased to 17.96% from 22.22% in 2007. The gross profit margins for the business in all four segments had different degree of decreases, where the decrease in gross profit margin of the oil & gas technical support services business and oil & gas facilities and oil & gas processing equipment fabrication business was mainly due to the adjustment of market strategy for the current economic situations. The Group had lowered its gross profit expectation in bidding projects in 2008 where the decrease in cost of sales and services was not relative to the decrease in revenue. The main reason for the decrease in the gross profit margin of the civil engineering business was that the demand fell sharply as a result of the global financial crisis, where the decrease in cost of sales and services was not relative to the decrease in revenue. Furthermore, the subcontracting fees for installation in Hong Kong increased sharply. The main reason for decrease in the gross profit margin of the shipbuilding technical support services business was that the labor costs for the employees rose sharply, with the percentage of the labor costs to the income increased from 24.30% in 2007 to 31.06% in 2008.

The following shows the breakdown of gross profit by business segment during the past three years:

	For the financial year ended 31 December								
	2008			2007			2006		
Products/Services	RMB'000	Gross profit margin (%)	Percentage to total gross profit (%)	RMB'000	Gross profit margin (%)	Percentage to total gross profit (%)	RMB'000	Gross profit margin (%)	Percentage to total gross profit (%)
1. Provision of technical support services for oil & gas industry	11,102	15	17	15,966	19	17	15,636	26	22
2. Fabrication of oil & gas facilities and oil & gas processing equipment	23,517	15	36	46,203	22	49	27,137	19	37
3. Provision of technical support services for shipbuilding industry	30,269	39	46	27,679	45	30	18,882	41	26
4. Civil engineering business	492	1	1	4,092	6	4	10,827	24	15
Total	65,380		100	93,940		100	72,482		100

Other incomes

Other incomes increased by 40.62% from 2007 and reached RMB12,080,000, which mainly comprised the interest income of RMB2,342,000, net foreign exchange gains of RMB5,226,000, compensation income of RMB2,630,000, gain on finance lease arrangement and finance income from finance lease of RMB1,533,000, and miscellaneous income of RMB349,000.

Administrative expenses

Administrative expenses mainly comprised wages, entertainment expenses, traveling expenses, depreciation, leasing expenses, auditors remuneration, intermediary service fees for listed companies and miscellaneous daily operating expenses. The administrative expenses increased by RMB23,493,000 or approximately 70.88% compared to that of 2007, to RMB56,639,000 in 2008. The increase in the administrative expense in 2008 mainly comprised the increase in wages and employee benefits of RMB11,450,000 (including the insurances expense for employees and the share-based payments expenses charged in the year for granting share options to the Group's directors and eligible employees), representing an increase of 73.41% compared to that of 2007; The increase in allowance for receivables and allowance for obsolete stocks of RMB4,237,000; The increase in entertainment fees of RMB1,621,000, representing an increase of 84.97% compared to that of 2007; The increase in traveling expenses of RMB1,468,000, representing an increase of 78.84% compared to that of 2007. The main reasons for the increase in the wages and employee benefits were mainly the result of the increase in the number managerial personnel due to the establishment of new subsidiaries, employment of several foreign senior officers, increase in average remuneration for the managerial personnel, and issuance of the share options to principal managerial personnel. The main reason for the increase in the entertainment and traveling expenses was that the Group had adopted more aggressive market development strategies in 2008; and the main reasons for increase in the allowance made for receivables and obsolete stocks were that, affected by the global financial crisis, some international clients may have liquidity problems and the prices for several types of raw materials dropped significantly, and the Group made such provisions based on the current market condition.

Finance costs

The finance costs in 2008 increased by 277.43% to RMB4,988,000 compared to that of 2007, which mainly comprised bank loans interest of RMB2,323,000 and effective interest expenses on convertible loans of RMB1,921,000. The convertible loans were redeemed at par during the year.

Share of the profits of an associate

The Group held 30% of the equity interest in Penglai Jutal Offshore Engineering Heavy Industries Co., Ltd. ("Penglai Jutal"). Net profit of Penglai Jutal for the year 2008 amounts to RMB53,812,000. Under the equity method of accounting, the Group share profit from Penglai Jutal of RMB16,143,000.

Minority interest

Tianjin Jutal Marine Services Limited, a subsidiary in which the Group has 55% equity interest, had incurred loss of RMB2,470,000 for the year. The loss for the year shared by the minority equity holder in proportion of the equity interest amounts to RMB1,112,000.

Net profit attributable to the equity holder of the company

The net profit attributable to the shareholders of the Company in 2008 amounts to RMB29,545,000, a decrease of 56.57% from 2007. The basic earnings per share were RMB0.0593.

2. LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, the Group's balance of funds (cash and bank deposits) was about RMB44,750,000 (RMB149,725,000 as of 31 December 2007), the net cash used in operating activities was RMB6,617,000, the net cash used in investing activities was RMB57,493,000 and the net cash used in from financing activities was RMB34,438,000.

At 31 December 2008, banking facilities of RMB201,452,000 were granted to the Group, of which RMB89,378,000 had been utilized, and facilities of approximately RMB112,074,000 were available, including banking facilities of RMB70,660,000 which can be obtained by the group in form of bank loans. As at 31 December 2008, the balance of the short-term bank borrowings was RMB53,326,000.

3. CAPITAL STRUCTURE

As at 31 December 2008, the Company's share capital comprised 498,000,000 ordinary shares (2007: 498,000,000 ordinary shares).

As at 31 December 2008, the Group's net assets amounted to approximately RMB524,485,000 (2007: RMB534,527,000), including non-current assets of approximately RMB467,086,000 (2007: RMB411,900,000), net current assets of approximately RMB70,872,000 (2007: RMB140,379,000), and non-current liabilities of approximately RMB13,473,000 (2007: RMB17,752,000).

4. MATERIAL ACQUISITION AND DISPOSAL

The Group had no material acquisition and disposal in 2008.

The Group will continue seeking for acquisition opportunities of those companies with their businesses similar or complementary to the Group for the purpose of strengthening the competitiveness. However, the Group had not yet identified any target for acquisition for the current reporting year ended.

5. MATERIAL INVESTMENT

In April 2008, the Group had further injected USD4,800,000 (approximately to RMB33,570,000) to maintain its 30% equity interest in Penglai Jutal. The funds were used for future development of Penglai Jutal.

6. FUTURE PLANS FOR SIGNIFICANT INVESTMENT

Considering that phase I of the Zhuhai fabrication site has not been fully utilised due to the aggravated market condition in 2008. The management of the Company has decided to suspend the construction of phase II of the Zhuhai fabrication site.

In September 2008, Shenzhen Jutal Machinery Equipment Co., Ltd. ("Shenzhen Jutal"), a wholly-owned subsidiary of the Group, and Hefei Hongzhou Shipping Engineering Co., Ltd. ("Hongzhou Shipping") established a new company in Tianjin, i.e. Tianjin Jutal Marine Services Limited ("Jutal Marine"). Shenzhen Jutal and Hongzhou Shipping held 55% and 45% of the equity interest of Jutal Marine respectively. Under the terms and conditions of the agreement with Hongzhou Shipping, Jutal Marine has entered into an acquisition agreement with Hongzhou Shipping after its establishment, pursuant to which Jutal Marine agreed to acquire and Hongzhou Shipping agreed to sell a full revolving hoisting engineering vessel named "HongLi 900" ("HongLi 900") at a consideration of RMB125,000,000. Pursuant to the acquisition agreement, Jutal Marine has the right to terminate the agreement if Hongli 900 cannot satisfy the technical requirement within the three months period and the prospective lessee cannot use Hongli 900 in their offshore oil platform construction projects. In the opinion of the directors of the Company, Hongli 900 cannot be recognised as the Group's property, plant and equipment as at 31 December 2008, on the grounds that Hongli 900 was not yet in the condition necessary for it to be capable of operating in the manner intended by management as the technical requirement has not been met as at the year end. As at 31 December 2008, Shenzhen Jutal had invested RMB5,500,000 into Jutal Marine, and once the Group decides to acquire "HongLi 900", Jutal Marine will pay Hongzhou Shipping RMB125,000,000.

7. RISK OF FOREIGN EXCHANGE

Although the main production and operation of the Group take place in Mainland China, the Group still has businesses internationally where the overseas assets are priced in USD and HKD. The changes in exchange rate of RMB which is the main functional currency, against USD and HKD will expose to the Group to currency exchange risks. For this reason, the Group will endeavor to reduce the amount of the assets priced in USD or HKD outside Mainland China; meanwhile, the Group will conduct rolling estimates of the exchange rate, in order to consider any possible currency exchange risks in the business contract.

The Group neither participated in any derivative transaction with high risks nor signed any leveraged foreign exchange contracts.

8. ASSETS PLEDGED BY THE GROUP

As at 31 December 2008, other than bank deposits of RMB4,056,000 which have been pledged as security for the performance bonds and other banking facilities, there are no other pledged assets.

9. CONTINGENT LIABILITIES

As at 31 December 2008, the Group did not have any material contingent liabilities.

10. CAPITAL MANAGEMENT

The primary object of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2008.

The Group monitors capital using a gearing ratio, which is total debt divided by total capital. Total debt is calculated as "total borrowings", as shown in the consolidated balance sheet. Total capital is calculated as "equity", as shown in the consolidated balance sheet. The gearing ratios as at the balance sheet dates were as follows:

	2008 RMB'000	2007 RMB'000
Bank loan	53,326	–
Total debt	53,326	–
Total equity	524,485	534,527
Gearing ratio	10.17%	–

11. EMPLOYEES INFORMATION AND REMUNERATION POLICY

As at 31 December 2008, the Group had 1,843 employees in total (2007: 1,515), including 328 management and technical staff (2007: 312) and 1,585 technicians (2007: 1,203). Details of employee remuneration are set out in note 12 of the financial statements.

The Group determines the remuneration and incentive of its staff based on their positions, duties and performance with reference to industrial standards. The Group maintains social security insurance such as pension, medical, unemployment and industrial accident insurance for its workers in the PRC pursuant to relevant legislation, and contributes to the mandatory provident fund for its employees in Hong Kong pursuant to requirements.

The Group places emphasis on staff development and encouraging staff to continue their learning, and formulate an annual training plan.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Wang Lishan (王立山), aged 50, is an executive director and the chairman of the Company, who is responsible for the overall development strategic planning. He was graduated from Dalian Polytechnic University (大連理工大學) in 1982 with a bachelor's degree in offshore oil construction engineering. Mr. Wang has approximately 27 years management and administration experience in the oil and gas industries. Prior to joining the Group, he worked in Bohai Petroleum Company Platform Manufacturing Factory (渤海石油公司平台製造廠) from 1982 to 1988 and Offshore Oil Company of Bohai Oil Company (渤海石油公司) from 1988 to 1995. Mr. Wang joined the Group in 1995, and was appointed as an executive Director in November 2005.

Mr. Jiang Dong (姜東), aged 41, is an executive director and the vice chairman of the Company, who is responsible for the overall development strategic planning of the Group with the chairman. He was graduated from Beijing Polytechnic University (北京理工大學) in 1989 with a bachelor's degree in mechanical engineering, and obtained his master degree in business administration from Peking University (北京大學) in 2006. Mr. Jiang joined the Group in 1995 as the deputy general manager of Shenzhen Jutal Machinery Equipment Co., Ltd ("Shenzhen Jutal). (深圳巨濤機械設備有限公司), a wholly-owned subsidiary of the Company, in charge of the operation and management of offshore engineering projects. He has been in charge of the overall offshore engineering installation, procurement, hull outfitting and constructions since 1998. He became the general manager of Shenzhen Jutal. in 2003. Prior to joining the Group, he had worked in Jiangxi Nanchang Tool Manufacturing Factory (江西南昌工具製造廠) and had worked as the project coordinator of Hong Kong Chunhua Heavy Industries Limited (香港春江化工有限公司). Mr. Jiang was appointed as an executive Director in August 2006.

Mr. Cao Yunsheng (曹雲生), aged 46, is an executive director and CEO of the Company, who is responsible for the overall operations of the Group. He was graduated from Tianjin College of Finance and Economics (天津財經學院) in 1988, majoring in accounting, and was graduated with a master degree in business administration from Tianjin University (天津大學) in 2004. Mr. Cao joined the Group in 2001 as the deputy general manager of Shenzhen Jutal. in charge of the finance, administration and the capital operations of the Group and supervision of the Group's cash-flow management. Prior to joining the Group, he was the supervisor of the finance department and chief accountant of Bohai Petroleum Company Platform Manufacturing Factory (渤海石油公司平台製造廠), the chief accountant of China Offshore Oil Platform Construction Company (中國海洋石油平台製造公司) and a financial controller of CNOOC Engineering. Mr. Cao was appointed an executive Director in November 2005.

Mr. Chen Guocai (陳國才), aged 47, is an executive director and general manager of the Company, who is responsible for market developing and external cooperation of the Group. He was graduated with a bachelor degree in petroleum engineering from the Southwest Petroleum Institute (西南石油學院) in 1982, and obtained a MBA degree from the Maastricht School of Management, the Netherlands. Mr. Chen joined China National Offshore Oil Corp. ("CNOOC") (中國海洋石油總公司) as engineer and operation manager in 1982. He joined Yacheng 13-1 gas project in joint venture with an American Company Arco, which was later merged with BP, as CNOOC Chief Representative of the project, assumed a leadership role in the partnership with ARCO involving in project construction and field operations. He was then promoted to the position of Vice President of CNOOC Shanghai in 2001 and was transferred to CNOOC International as vice president in 2004. Mr. Chen joined the Group in February 2007 and was appointed as an executive Director in the Directors' meeting held in 19 April 2007. He has about 26 years extensive experiences in the petroleum industry ranging from field operation, engineering and construction, operational &, corporate management, merger & acquisition, international and joint venture operation and management.

Independent non-executive Director

Mr. Su Yang (蘇洋), aged 41, is an independent non-executive director of the Company. Mr. Su obtained a bachelor degree in statistics from Hunan University (湖南大學) and the Certificate of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in 1992 and 1994 respectively. He has a wealth working experience in the field of accounting. Mr. Su was appointed as project manager of Shenzhen Zhongchong Certified Public Accountants (深圳中誠會計師事務所) in 1995 and then Mr. Su served as department manager of Yuehua Certified Public Accountants Co., Ltd. Shenzhen (深圳岳華會計師事務所有限公司) in 1997. He has been the head and principal partner of Shenzhen TaiYang Certified Public Accountants (深圳泰洋會計師事務所) since 2004. Mr. Su was appointed as an independent non-executive Director in August 2006.

Mr. Lan Rong (蘭榮), aged 49, is an independent non-executive director of the Company. He was graduated from Jiangxi University of Finance and Economics (江西財經大學) in 1983 with a bachelor degree in investment finance and obtained a master degree in money and banking from Xiamen University (廈門大學) in 1997. He also obtained his EMBA degree from Cheung Kong Graduate School of Business (長江商學院) in 2007. Mr. Lan has rich experience in finance, banking and investments. He had worked in Fujian Industrial Bank (福建興業銀行) as senior management and now is the Chairman of Industrial Securities Co., Ltd. (興業證券股份有限公司). Mr. Lan was appointed as an independent non-executive Director in May 2008.

Mr. Xiang Qiang (項強), aged 45, is an independent non-executive director of the Company. Mr. Xiang graduated from Beijing Tsinghua University (清華大學) with a bachelor's degree in architectural structural engineering in 1986, and obtained his MBA degree from Xiamen University (廈門大學) in 2000, EMBA degree from Cheung Kong Graduate School of Business (長江商學院). Mr. Xiang has more than twenty years experience in design, management, government and real estate company management. He had been the general manager and Chairman of Xiamen Yuandang New City Development Company (廈門市員當新市區開發建設公司), and is currently the general manager of Xiamen Housing Construction Group Co., Ltd. (廈門住宅建設集團有限公司). In addition, he had been the Chairman of Xiamen Marco Polo Oriental Hotel (廈門馬可波羅東方大酒店), the Vice President of Xiamen Golden Dragon joint Automotive Industry Co., Ltd. (廈門金龍聯合汽車工業有限公司), the director of Fujian Industrial Securities Co. Ltd. (福建興業證券股份有限公司), the Vice President of the Xiamen Association of Realtors (廈門房地產協會), the Vice President of Xiamen enterprises and entrepreneurs Federation (廈門企業與企業家聯合會) and the part-time professor of the business school of Xiamen University (廈門大學工商管理學院). Mr. Xiang was appointed as an independent non-executive Director in May 2008.

Mr. Wang Yu (王宇), aged 37, is an independent non-executive director of the Company. Mr. Wang obtained a master degree and a bachelor degree in International Maritime Studies (國際海事專業) from Dalian Maritime University (大連海事大學) in 1996 and 1993 respectively. He has about 13 years of working experience in the legal field and has been serving as a legal commissioner (法律事務專員) for China International Marine Containers (Group) Ltd. (中國國際海運集裝箱(集團)股份有限公司), the shares of which are listed on Shenzhen Stock Exchange, since 2003. Mr. Wang is currently a director of Shenzhen CIMC Real Estate Development Company Limited (深圳中集置地發展有限責任公司) and Polyearn Development Corp. Mr. Wang was appointed as an independent non-executive Director in August 2006.

AUTHORISED REPRESENTATIVE, COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Luk Chi Tong (陸志棠), aged 37, joined the Company in January 2007. Mr. Luk currently acts as the company secretary and the authorised representative of the Company. He has extensive auditing experience. He is a fellow of The Association of Chartered Certified Accountants and is an associate member of the Hong Kong Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Mr. Ken Crawford, aged 47, is the deputy general manager of the Company and responsible for the overseas market development of the Group. He has Over 20 years experience in working for international upstream oil & gas well service companies in operational, technical support, HSEQC, business development and Senior Management roles, over five years experience acting as management consultant to a wide variety of industries. Mr. Crawford had been working for Proceanic Engineering Services Pte Ltd., Proximo Pte Ltd., Compass Energy Pte Ltd., The Expro Group as the engineer, area manager, consultant and senior management. Prior to joining the Group, He was the general manager of Proceanic Engineering Services Pte Ltd. Mr. Crawford joined the Company in November 2008.

Mr. Liang Hai (梁海), aged 40, is the assistant to the general manager of the Company and responsible for the marketing of the Group. He was graduated from Tianjin University (天津大學) in 1991 with a bachelor's degree in offshore engineering. He has over 15 years experience in the offshore oil and natural gas industries, including inland project manufacturing, marine maintenance and equipment reparation. Mr. Liang joined the Group in April 1999 and had served in a number of positions in the Group, including the project manager, operation manager of the offshore engineering business department, and was appointed the current position in 2006. Prior to joining the Group, he had worked in Bohai Petroleum Platform Manufacturing Factory (渤海石油公司平台製造廠), Shenzhen Chiwan Offshore Engineering Co., Ltd.(深圳赤灣海洋工程有限公司) and Shenzhen Chiwan Sambawang Engineering Co. Ltd.(深圳赤灣勝寶旺工程有限公司).

Mr. Sun Jili (孫繼禮), aged 42, is the assistant to the general manager of the Company and is in charge of the large projects business of the Group. He was graduated from Dalian Polytechnic University (大連理工大學) in 1990, majoring in ship engineering. Mr. Sun joined the Group in 1998 and had served in a number of positions in the Group, including the project manager, marketing engineer and manager of the marketing team as well as manager of the offshore engineering business department. He has over 16 years of experience in the offshore oil and natural gas industries. Prior to joining the Group, Mr. Sun had worked in Bohai Shipping (遼寧渤海造船廠).

Mr. Tian Huiwen (田會文), aged 65, is the manager of new business department of the Company. He joined the Company in February 2007 and is responsible for the study and implement of the Company's M&A business. He was graduated from China University of Petroleum – Beijing (北京石油學院) majored in industry economics and management. Mr. Tian had been working at China Offshore Oil Bohai Company as operation management manager and vice manager from 1970 to 2004 and had been working at China Petroleum Base as consultant for new energy development.

Mr. Zhao Wuhui (趙武會), aged 35, is the deputy financial controller of the Company, responsible for the finance and accounting management. Mr. Zhao graduated from Northeast Forest University (東北林業大學) with a bachelor degree in accounting in 1998 and joined the Group in March 2002 served as financial director of finance department and finance manager. Prior joining the Group, he had worked Kerry Oils & Grains (China) Co., Ltd. (嘉里糧油(中國)有限公司) and Everbright Timber Industry (Shenzhen) Co., Ltd. (光大木材工業(深圳)有限公司) as accountant and auditor.

Mr. Lin Feng (林峰), aged 40, is the manager of the design department of the Group. He was graduated from Tianjin University (天津大學) in 1991 with a bachelor's degree in offshore and ship engineering. He has over 18 years of experience in offshore engineering. Mr. Lin joined the Group in 1999 and had served as project manager and manager of the design department. Prior to joining the Group, he had worked as an engineer in Bohai Petroleum Platform Manufacturing Factory (渤海石油公司平台製造廠) and assistant manager in Chiwan Sembawang.

Mr. He Shigang (何仕剛), aged 38, is the manager of the offshore engineering business department of the Group and in charge of its overall business operation. He was graduated from the Marine Engineering College of Northwest Industrial University (西北工業大學) with a bachelor degree in thermal dynamic mechanical devices in 1993. Mr. He joined the Group in October 1999 and had served in a number of positions in the Group, including the project manager, operation manager of the offshore engineering business department of Shenzhen Jutal, the manager of the operation department and the general manager of Jutal Oilfield Services (Tianjin) Co., Ltd. ("Tianjin Jutal ") (巨濤油田服務(天津)有限公司), a wholly-owned subsidiary of the Company. Prior to joining the Group, Mr. He was the engineer and chief engineer of the electric design office of the design department of Tianjin Xingang Shipyard (天津新港船廠).

Mr. Li Xiaoming (李曉明), aged 45, is the manager of the process equipment department of the Group. He obtained a bachelor degree in engineering from Xi'an Jiaotong University (西安交通大學). Mr. Li joined the Group in 1999 and had been the manager of QA/HSE department and the business and marketing department. Prior joining the Group, he had worked in CNOOC platform manufacture factory (中海油平台製造公司) and Chiwan Sembawang (深圳赤灣勝寶旺工程有限公司) as engineer and project manager.

Mr. Yang Bo (楊波), aged 37, is the general manager of Jutal Marine Shipbuilding Engineering Services (Dalian) Co., Ltd. ("Dalian Jutal") (巨濤海洋船舶工程服務(大連)有限公司), a wholly-owned subsidiary of the Company, and is in charge of its overall operation. He was graduated from East China Shipbuilding Institute (華東船舶工業學院) with bachelor's degree in marine engineering in 1994. Mr. Yang joined the Group in May 2002 and had served as deputy manager and general manager of the Dalian subsidiary. Prior to joining the Group, he was the head of research office of Dalian Shipyard (大連造船廠).

DIRECTORS' REPORT

The directors of the Company (the "Directors") present the annual report and the audited accounts of the Group for the year ended 31 December 2008.

PRINCIPLE ACTIVITIES

The principle activity of the Company is investment holding.

The Group is engaged in providing integrated services, including fabrication and technical support services in offshore oil & gas and shipbuilding industry, as well as undertaking civil engineering projects.

The activities of the principal subsidiaries are set out in note 18 to the consolidated financial statements.

DISTRIBUTIVE RESERVES

As at 31 December 2008, the Company's share premium reserve was approximately RMB465,002,000 (subject to section 34 of the Cayman Companies Law and the Article of Association of the Company), and the retained earnings approximately RMB9,434,000 were available for distribution to the shareholders of the Company (the "Shareholders").

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

RESULTS AND DIVIDENDS

Details of the Group's result for the year ended 31 December 2008 are set out in the consolidated income statement on page 36.

The Directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2008 to the Shareholders.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement during the year in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL AND TRANSACTIONS INVOLVING SHARES OF THE COMPANY

Pursuant to an agreement concerning the acquisition of Stand Success Resources Limited, the Company issued the redeemable non-interest bearing convertible bonds in an aggregate principal amount of HK$68,000,000 to Prospering Investments Limited, a company indirectly wholly-owned by Mr. Wang Lishan, our chairman, Director and substantial Shareholder, as part of the consideration in 2007. The convertible loans carry the rights to convert into maximum 17,085,427 ordinary shares of the Company ("Shares") at the price of HK$3.98 per Share, subject to adjustment. The convertible bonds were not listed and physically settled equity derivatives. The convertible bonds have a term of one year from the date of issue and were matured on 6 September 2008. The Company has redeemed the convertible bonds upon its maturity in September 2008 and Prospering Investments Limited has not exercised any conversion rights of the convertible bonds.

Details of the movements during the year in share capital of the Company are set out in note 32 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period ended 31 December 2008 after the date on which the Share first commenced trading on the Stock Exchange, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SHARE OPTION

The Company's share option scheme ("Share Option Scheme") was adopted on 28 August 2006 by the way of passing resolutions by all of the then shareholders of the Company with a valid period of 10 years commencing on the date on which the shares of the Company commenced trading on the main board of the Stock Exchange. The Share Option Scheme enables the Company to grant options to eligible participants as incentives and rewards for their contribution to the Group. Eligible participants include all full-time employee, Directors (including independent non-executive Directors) and part-time employees with weekly working hours of 10 hours and above, of the Group, substantial Shareholders of each member of the Group, associates of the Directors and substantial shareholders of any member of the Group, trustee of any trust pre-approved by the board of Directors (the "Board"); and any advisor (professional or otherwise), consultant, distributor, supplier, agent, customer, joint venture partner, service provider to the Group whom the Board considers, in its sole discretion, has contributed or contributes to the Group.

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme must not, in aggregate, exceed 40,000,000 shares, representing 10% of the issued share capital (400,000,000 Shares) at the date of adoption of the Share Option Scheme. The total number of Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the relevant class of the shares in issue from time to time.

According to the terms of the Share Option Scheme, the consideration for the grant of the options should be HK$1.00. The options may be exercised in accordance with the terms of the Share Option Scheme at any time during the exercise period as determined by the Board which shall in any event not be more than ten years from the date of grant.

The Board approved to grant and the Company has granted in aggregate 11,460,000 options and 20,370,000 options to Directors and other eligible participants under the Share Option Scheme during the year 2007 and 2008 respectively. Details of the options granted under the Share Option Scheme are as follows:

(i) Options granted in 2007

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of the Shares immediately before the date of granting the options (HK$)	Number of options as at 1 January 2008	Number of options exercised during the year	Number of options cancelled during the year	Number of options lapsed in accordance with the terms of the options or the share option scheme during the year	Number of options outstanding as at 31 December 2008	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Wang Lishan	16/03/2007	16/03/2008 to 15/03/2017	1.68	1.63	2,000,000	–	–	–	2,000,000	0.40%
Jiang Dong	16/03/2007	16/03/2008 to 15/03/2017	1.68	1.63	1,000,000	–	–	–	1,000,000	0.20%
Cao Yunsheng	16/03/2007	16/03/2008 to 15/03/2017	1.68	1.63	1,000,000	–	–	–	1,000,000	0.20%
Chen Guocai	16/03/2007	16/03/2008 to 15/03/2017	1.68	1.63	1,000,000	–	–	–	1,000,000	0.20%
Other eligible participants	16/03/2007	16/03/2008 to 15/03/2017	1.68	1.63	6,460,000	–	–	–	6,460,000	1.30%
Total					11,460,000	–	–	–	11,460,000	2.30%

(ii) Options granted in 2008

Name of grantee	Date of grant of the options	Exercise period	Exercise price of the options (HK$)	Closing price of the Shares immediately before the date of granting the options (HK$)	Number of options granted during the year	Number of options exercised during the year	Number of options cancelled during the year	Number of options lapsed in accordance with the terms of the options or the share option scheme during the year	Number of options outstanding as at 31 December 2008	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Wang Lishan	12/03/2008	12/03/2009 to 11/03/2018	1.62	1.55	2,000,000	–	–	–	2,000,000	0.40%
Jiang Dong	12/03/2008	12/03/2009 to 11/03/2018	1.62	1.55	1,200,000	–	–	–	1,200,000	0.24%
Cao Yunsheng	12/03/2008	12/03/2009 to 11/03/2018	1.62	1.55	1,200,000	–	–	–	1,200,000	0.24%
Chen Guocai	12/03/2008	12/03/2009 to 11/03/2018	1.62	1.55	1,200,000	–	–	–	1,200,000	0.24%
Other eligible participants	12/03/2008	12/03/2009 to 11/03/2018	1.62	1.55	14,770,000	–	–	–	14,770,000	2.97%
Total					20,370,000	–	–	–	20,370,000	4.09%

Each option granted under the Share Option Scheme during the year gives the holder the right to subscribe for one Share. Although the options granted under the Share Option Scheme during the year has a duration of ten years from the date of grant, they are not fully exercisable within first or the second year from the date of grant (depending on the terms and conditions of the relevant options as set out by the Board upon the granting of the relevant options).

The price for granting the options is HK$1. The exercise price determined by the Board is not less than the highest of:

(i) the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant;

(ii) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the date of grant; and

(iii) the nominal value of the share of the Company at the time of exercise of an option.

No option has been exercised or lapsed during the financial year ended at 31 December 2008.

DIRECTORS' SERVICE CONTRACT

The Directors during the year and to the date of this report were as follows:

	Date of appointment	Date of resignation
Executive Directors		
Mr. Wang Lishan	24 November 2005	–
Mr. Jiang Dong	26 August 2006	–
Mr. Cao Yunsheng	24 November 2005	–
Mr. Chen Guocai	18 April 2007	–
Independent Non-executive Directors		
Mr. Su Yang	26 August 2006	–
Mr. Mai Boliang	26 August 2006	30 May 2008
Dr. Xiang Bing	26 August 2006	30 May 2008
Mr. Wang Yu	26 August 2006	–
Mr. Xiang Qiang	30 May 2008	–
Mr. Lan Rong	30 May 2008	–

Pursuant to the articles of association of the Company, at each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. A retiring Director shall be eligible for re-election and shall continue as a Director throughout the meeting at which he retires.

Each of the executive Directors has entered into a service contract with the Company for an initial term of 3 years, unless terminated by not less than 3 months' notice in writing served by either the Director or the Company. In other circumstances, each agreement can also be terminated by the Company, including but not limited to serious breaches of the Directors' obligations under the agreement or serious misconduct.

Each of the independent non-executive Directors has signed an appointment letter with the Company for a term of 3 years. Save for the Directors' fees of RMB10,000 per month for each independent non-executive Director, none of the independent non-executive Director is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Apart from the foregoing, none of the Directors of the Company has entered into any service agreement which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

The Group's emolument policies are as follows:

(i) the amount of remuneration is determined on a case by case basis depending on the Directors or employees' relevant experience, responsibility, workload and the time devoted to the Group;

(ii) non-cash benefits may be provided at the discretion of the Board to the relevant Directors or employees under their remuneration package; and

(iii) the Directors or employees who are eligible participants under the Share Option Scheme may be granted, at the discretion of the Board, the Share Option Scheme adopted by the Company, as part of their remuneration package.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed in note 12 & 38 to the consolidated financial statements, no contract of significance in relation to the Group's business, to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REMUNERATION OF THE FIVE HIGHEST PAID DIRECTORS/ EMPLOYEES

Details of directors' remuneration and those of the five highest paid individuals in the Group are set out in note 12 to the consolidated financial statements, respectively.

INTERESTS AND SHORT POSITION OF DIRECTORS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2008, the interests of the Directors and their associates in the equity shares, underlying shares or debenture of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), to be entered in the register maintained by the Company pursuant to section 352 of the SFO referred to therein, or to be notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" in the Listing Rules, were as follows:

(i) The Company

Name of Directors	Capacity	Number of Shares	Approximate percentage of shareholding
Wang Lishan	Interest of a controlled corporation *(Note 2)*	260,212,000 (L) *(Note 1)*	52.25%
	Share options	4,000,000 (L)	0.8%
Jiang Dong	Interest of a controlled corporation *(Note 3)*	18,000,000 (L)	3.62%
	Share options	2,200,000 (L)	0.44%
Cao Yunsheng	Interest of a controlled corporation *(Note 4)*	12,000,000(L)	2.41%
	Share options	2,200,000 (L)	0.44%
Chen Guocai	Interest of a controlled corporation *(Note 5)*	10,000,000 (L)	2.01%
	Share options	2,200,000 (L)	0.44%

(ii) Associated Corporation

Name of Director	Name of associated corporation	Capacity	Number of Shares	Percentage of shareholding in the associated corporation
Wang Lishan	Cheung Hing Investments Limited *(Note 6)*	Beneficial owner	1 (L)	100%

Notes:

1. The letter "L" denotes a long position in the Shares.

2. The 260,212,000 Shares are held by Cheung Hing Investments Limited, which is wholly-owned by Wang Lishan.

3. The 18,000,000 shares are held by Right East Investments Limited, which is wholly-owned by Jiang Dong.

4. The 12,000,000 shares are held by Sino Joint International Limited, which is wholly-owned by Cao Yunsheng.

5. The 10,000,000 shares are held by Sino Bright Management Limited, which is wholly-owned by Chen Guocai.

6. Cheung Hing Investments Limited in turn owns 1 ordinary share of Prospering Investments Limited (representing 100% shareholding in Prospering Investments Limited), and 1 ordinary share of Gold Designs International Limited (representing 100% shareholding in Gold Designs International Limited).

Save as disclosed above, none of the Directors or chief executive of the Company aware of any other Director or chief executive of the Company who has any interests or short positions in any Shares and underlying shares in, and debentures of, the Company or any associated corporation as at 31 December 2008. Save and except Mr. Wang Lishan, who is a director of Cheung Hing Investments Limited, none of the Director or proposed Director is a director or employee of a company which has an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the following persons had has an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is interested in 5% or more shares or underlying shares which be entered in the register maintained by the Company pursuant to section 336 of the SFO referred to therein:

Name of Shareholder	Capacity	Number of shares	Percentage of shareholding
Cheung Hing Investments Limited	Beneficial Owner *(Note 2)*	260,212,000 (L) *(Note 1)*	52.25%
Martin Currie (Holdings) Limited	Interest of controlled corporation *(Note 3)*	35,372,000 (L)	7.1%

Notes:

1. The letter "L" denotes a long position in the Shares respectively.

2. The 260,212,000 Shares are held by Cheung Hing Investments Limited, which is wholly-owned by Mr. Wang Lishan, our chairman, director and substantial share holder of the Company.

3. Among the 35,372,000 Shares, 15,304,000 Shares are held by Martin Currie Inc., which is indirectly wholly-owned by Martin Currie (Holdings) Limited, and 20,068,000 Shares are held by Martin Currie Investment Management, which is indirectly wholly-owned by Martin Currie (Holdings) Limited.

Save for the disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company which will have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO as at 31 December 2008.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Save as the options granted to the directors of the Company under the Share Option Scheme, no time during the year was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for 47.75% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 22.81% of the Group's total sales. The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 24.43% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 7.03% of the Group's total purchases.

Save and except that Mr. Wang Lishan, the Executive director and Chairman of the Company, through Prospering Investment Limited indirectly held 49% shareholdings of Dalian Shipbuilding Offshore Company Limited, which is the fifth largest customer of the year and the sales to which accounted for approximately 4.11% of the Group's total sales, none of the directors, their associates or any shareholders of the Company which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

CONNECTED TRANSACTIONS

(i) Land Lease

On 1 March 2008, Zhuhai Jutal Offshore Oil Services Limited ("Zhuhai Jutal"), a indirectly wholly-owned subsidiary of the Company, entered into a lease agreement with Zhuhai Prospering Offshore Oil Engineering Limited ("Zhuhai Prospering"). Pursuant to the lease agreement, Zhuhai Prospering agreed to lease a piece of land situate at the equipment manufacture area of Gao Lan port Economic Zone in Zhuhai with a total floor area of approximately 67,000.00 sq.m at RMB30 per sq.m per annum for three years. Since Zhuhai Prospering is a wholly-owned subsidiary of First Achieve Group Limited, which in turn is 100 percent beneficially owned by Madam Wang Wei, spouse of Wang Lisahan, the chairman of the Company, The lease constitutes a continuing connected transaction for the Company under the Listing Rules. According to the rule 14A.37 of the Listing Rules, the Board had approved and the independent non-executive Directors had reviewed the lease agreement was:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company and the Company as a whole.

The board had received the letter from the Company's auditor according to the rule 14A.38 of the Listing Rules, confirmed that:

(1) the lease agreement had been approved by the board;

(2) the transaction had been entered into in accordance with the relevant agreement governing the transactions; and

(3) the transaction had not exceeded the cap disclosed in previous announcement.

(ii) Acquisition of Hongli 900

Shenzhen Jutal, a wholly-owned subsidiary of the Company, and Hefei Hongzhou Shipping Engineering Company Limited ("Hongzhou Shipping") established a new company named Marine Services Limited ("Jutal Marine") on 25 September 2008. Jutal Marine was beneficially owned as 55% by Shenzhen Jutal and 45% by Hongzhou Shipping.

On 29 September 2008, Jutal Marine had entered into an acquisition agreement with Hongzhou Shipping. Pursuant to the acquisition agreement, Jutal Marine has conditionally agreed to acquire and Hongzhou Shipping has conditionally agreed to sell Hongli 900, a vessel owned by Hongzhou Shipping and registered at the port of Anhui Wuhu at that time at a consideration of RMB125,000,000 (equivalent to approximately HK$142,045,455).

The Directors (including the independent non-executive Directors who give their opinion after taking into account the advise of the independent financial adviser) were of the view that the acquisition agreement was on normal commercial terms and was entered into in the ordinary course of business of the Company. The Directors also believed that the acquisition agreement was fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

Details of the connected transactions of the year are disclosed in note 38 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float since the listing of the shares on the Stock Exchange and as at the date of this report.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint RSM Nelson Wheeler as auditors of the Company. The Board confirms that there has been no change in auditors of the Company since 24 November 2005, date of incorporation.

On behalf of the Board

Wang Lishan
CHAIRMAN

Hong Kong

3 April 2009

CORPORATE GOVERNANCE REPORT

The Company has adopted the Code on Corporate Governance Practices (the "Code Provisions") introduced in Appendix 14 of the Listing Rules to maintain a high standards of corporate governance so as to improve the corporate transparency and protect the interests of the Shareholders.

In the opinion of the Board, the Company had complied with the Code Provision. There are four independent non-executive Directors in the Board, all of them possess adequate independence and therefore the Board considers the Company has achieved balance of and provided sufficient protection to its interests.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions.

Having made specific enquiry of all Directors, the Directors of the Company have complied with the required standard set out in the Model Code regarding Directors' securities transactions.

BOARD

The Board currently comprises four executive Directors and four independent non-executive Directors.

Executive Directors

Mr. Wang Lishan
Mr. Jiang Dong
Mr. Chen Guocai
Mr. Cao Yunsheng

Independent Non-executive Directors

Mr. Lan Rong
Mr. Su Yang
Mr. Xiang Qiang
Mr. Wang Yu

Mr. Wang Lishan and Mr. Cao Yunsheng are the chairman and the Chief Executive Officer ("CEO") of the Company respectively and the roles of chairman and the CEO are segregated and not exercised by the same individual. The biographical details of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

To the best acknowledgment of the Company, among the members of the Board, none of them has any financial, business and relative relationship with the other members in the Board, including the chairman and the general manager. All of them are free to make independent judgments.

By the terms of the service contracts, for the executive Directors, and the appointment letters, for the independent non-executive Directors, the term for each Director is three years.

Eleven board meetings were held at the reviewing period. Details of the attendance of directors are set out below:

		Attendance of meetings
Executive Directors		
Mr. Wang Lishan		9
Mr. Jiang Dong		10
Mr. Chen Guocai		11
Mr. Cao Yunsheng		11
Independent non-executive directors		
Mr. Mai Boliang	(resigned on 30 May 2008)	3
Mr. Su Yang		6
Dr. Xiang Bing	(resigned on 30 May 2008)	3
Mr. Wang Yu		6
Mr. Xiang Qiang	(appointed on 30 May 2008)	3
Mr. Lan Rong	(appointed on 30 May 2008)	3

The responsibility of the Board is to lead and supervise the development direction and operation strategy of the Group, and to decide on material affairs of the Company such as the resolution of budget, resolution of profits allocation, significant investments and acquisitions, issue of new shares, amendments to the articles of association and appointments to senior management of the Company. While the management of the Company was given sufficiently autonomy by the Board to handle the daily ordinary course of administration and management, when the Board delegates aspects of its management and administration functions to management, it has given clear directions as to the powers of management, in particular, with respect to the circumstances where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Board confirmed that the Company has received, from each of the independent non-executive Directors, an annual confirmation of this independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that they are independent under Rule 3.13 of the Listing Rules.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for prepare the financial statements of the Group.

The statement of the auditors of the company on their reporting responsibilities on the financial statements of the Group is set out in the auditors' report on page 34.

The Group has an internal audit department and a quality control department which are responsible for the internal control and risk management of the Company. The duties of the departments are to audit and review regularly the financial management, production and service procedures and documentation management system of the Company, and to report on the findings of the auditing. The executive Directors and senior management of the Group will be given a monthly financial report and management report so as to supervise the operation development of each business department and make reasonable planning.

The board has conducted its annual review of the effectiveness of the system of internal control of the Group. In view of the report of the internal and external environment changes of the year and the impact to the business, the Board considered it necessary to further strengthen the company's internal controls and risk management, especially risk prediction capacity, as well as reporting on emergencies. According to the review of the internal control system by independent audit authority, the Group will further improve its internal management and supervising system and measures.

Furthermore, pursuant to the newly amended Code Provisions, the Board also reviewed the resources, qualifications and experience of staff of the Company's accounting and financial reporting function. The Board considered it is adequate of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmers and budget.

AUDIT COMMITTEE AND AUDIT COMMITTEE'S REPORT

The Company has established an audit committee with specific written terms of reference which deal clearly with its duties. The audit committee of the Company has four members, including the four independent non-executive Directors of the Company, which are Mr. Su Yang, Mr. Lan Rong, Mr. Wang Yu and Mr. Xiang Qiang. Mr. Su Yang is the chairman of the audit committee. The primary duties of the audit committee (inter alia) are to review the financial reporting process and internal control system of the Group, and to make proposals to the Board of Directors as to appointment, renewal and resignation of the Company's external auditor and the related remuneration and appointment terms.

During the year, two audit committee meetings were held in the year to discuss and approve the financial statements and the dividend payment, re-appoint the external auditor. The committee adopted the auditor's suggestion and comments that need to improve and made the management to implement. All members attended the meeting.

The audit committee oversees the financial reporting process. In this process, the management of the Company is responsible for the preparation of Group's financial statements including the selection of suitable accounting policies. Independent external auditors are responsible for auditing and attesting to Group's financial statements and evaluating the Group's system of internal controls. The audit committee oversees the respective works of the management and the external auditors to monitor the processes and safeguards employed by them. The audit committee reports to the Board on its findings after each of its meeting.

The audit committee reviewed and discussed with management and external independent auditors the Group's financial statements for the year ended 31 December 2008. The audit committee also received reports and met with the independent auditors to discuss the general scope of their audit work and their assessment of Group internal controls.

Based on these reviews and discussions and the report of the independent auditors, the audit committee recommended for the Board's approval of the consolidated financial statements for the year ended 31 December 2008, with the Auditors' Report thereon.

The audit committee also reviewed and recommended to the Board approval of the unaudited financial statements for the first six months of 2008, prior to public announcement and filing.

The audit committee recommended to the Board that the Shareholders be asked to re-appoint RSM Nelson Wheeler as the Group's independent auditors for 2009.

REMUNERATION COMMITTEE

The Company has established a remuneration committee with specific written terms of reference which deal clearly with its duties. The remuneration committee comprises of four independent non-executive Directors, which are Mr. Lan Rong, Mr. Su Yang, Mr. Wang Yu and Mr. Xiang Qiang. Mr. Xiang Qiang is the chairman of the remuneration committee. The primary duties of the remuneration committee are to review and determine the remuneration package, bonus and other allowance terms payable to Directors and senior management, and to make proposals to the Board in respect of the remuneration policy and structure of all the Directors and senior management of the Group. During the year, one remuneration committee meeting was held in the year to discuss and approve:

(1) annual salary review for 2008 for the Directors and the employees;

(2) the grant of share options under the Share Option Scheme to eligible participants including the Directors; and

(3) the remuneration policy.

All members attended the meeting.

NOMINATION COMMITTEE

The Company has established a nomination committee with specific written terms of reference which deal clearly with its duties. The nomination committee comprises of four independent non-executive directors, namely, Mr. Wang Yu, Mr. Su Yang, Mr. Lan Rong and Mr. Xiang Qiang. Mr. Wang Yu is the chairman of the nomination committee. The nomination committee is responsible to make proposals to the Board of Directors in respect of the appointment of Directors and the renewal plans of Directors. Basically the nomination procedure follows the articles of association of the Company. In considering the candidates, the nomination committee will take into account his past performance and experience, academic and working qualifications, general market conditions in accordance with the requirements set out in the Listing Rules and the articles of association of the Company so as to make the composition of the board of directors filled with a variety and a balance of skills and experience.

During the year, one nomination committee meeting was held in the year to:

(1) recommending and nominating Mr. Xiang Qiang and Mr. Lan Rong as the independent non-executive directors to fill vacancies of the Board as a result of the resignation of Mr. Mai Boliang and Dr. Xiang Bing; and

(2) reviewing regularly the roles of directors by considering the issues of conflict of interest, their performance and conduct.

All members attended the meeting.

THE AUDITOR'S REMUNERATION

RSM Nelson Wheeler is the Company's external auditor. Their remuneration for providing auditing services and other services for the Group during 2008 are as below:

	HK$'000
Audit service for the annual report	880
Review of the interim report	145
Other services	86

INDEPENDENT AUDITOR'S REPORT

RSM Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

TO THE SHAREHOLDERS OF
JUTAL OFFSHORE OIL SERVICES LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Jutal Offshore Oil Services Limited (the "Company") set out on pages 36 to 89, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants
Hong Kong

3 April 2009

CONSOLIDATED INCOME STATEMENT

For the Year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Turnover	6	364,087	422,856
Cost of sales and service		(298,707)	(328,916)
Gross profit		65,380	93,940
Other income	7	12,080	8,591
Administrative expenses		(56,639)	(33,146)
Other operating expenses		(3,266)	(536)
Profit from operations		17,555	68,849
Finance costs	9	(4,988)	(1,322)
Share of profits of an associate	19	16,143	11,586
Profit before tax		28,710	79,113
Income tax expense	10	(277)	(11,084)
Profit for the year	11	28,433	68,029
Attributable to:			
Equity holders of the Company		29,545	68,029
Minority interests		(1,112)	–
		28,433	68,029
Earnings per share	14		
		RMB	RMB
Basic		5.93 CENTS	14.82 CENTS
Diluted		5.93 CENTS	14.71 CENTS

CONSOLIDATED BALANCE SHEET

AT 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	15	84,395	69,491
Prepaid land lease payments	16	951	1,025
Goodwill	17	198,099	211,366
Investment in an associate	19	179,862	130,018
Finance lease receivables	23	3,779	–
		467,086	411,900
Current assets			
Inventories	20	7,898	5,069
Trade and bills receivables	21	82,316	42,527
Gross amount due from customers for contract work	22	57,668	154,850
Prepayments, deposits and other receivables		20,006	32,379
Finance lease receivables	23	1,089	–
Due from directors	24	1,781	238
Due from an associate	19	76	1,867
Current tax assets		1,480	–
Pledged bank deposits	25	4,056	3,346
Bank and cash balances	25	44,063	148,984
		220,433	389,260
Current liabilities			
Trade and bills payables	26	68,074	93,699
Gross amount due to customers for contract work	22	1,106	2,762
Accruals and other payables		24,742	86,433
Due to a related company	27	1,048	–
Bank loans	28	53,326	–
Convertible loans	29	–	61,896
Current tax liabilities		1,265	4,091
		149,561	248,881
Net current assets		70,872	140,379
Total assets less current liabilities		537,958	552,279

CONSOLIDATED BALANCE SHEET

AT 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Non-current liabilities			
Deferred tax liabilities	30	13,473	17,752
NET ASSETS		524,485	534,527
Capital and reserves			
Share capital	32	5,048	5,048
Reserves	35	520,549	529,479
Equity attributable to equity holders of the Company		525,597	534,527
Minority Interests	31	(1,112)	–
		524,485	534,527

Approved by the Board of Directors on 3 April 2009

Wang Lishan
Chairman

Cao Yunsheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year ended 31 December 2008

	Attributable to equity holders of the Company											
	Share Capital	Share premium account	Special Reserve	Convertible loan notes equity reserve	Foreign currency translation reserve	Share-based payment reserve	Statutory Reserves	Retained profits	Proposed final dividend	Total	Minority interests	Total Equity
	(Note 32)	(Note 35(c))	(Note 35(c))	(Note 35(c))	(Note 35(c))	(Note 35(c))	(Note 35(c))				(Note 31)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	4,239	229,429	(52,040)	–	(2,205)	–	6,782	57,690	20,750	264,645	–	264,645
Share issue expenses	–	(4,824)	–	–	–	–	–	–	–	(4,824)	–	(4,824)
Translation difference	–	–	–	–	(18,211)	–	–	–	–	(18,211)	–	(18,211)
Net expense recognised directly in equity	–	(4,824)	–	–	(18,211)	–	–	–	–	(23,035)	–	(23,035)
Profit for the year	–	–	–	–	–	–	–	68,029	–	68,029	–	68,029
Total recognised income and expense for the year	–	(4,824)	–	–	(18,211)	–	–	68,029	–	44,994	–	44,994
2006 final dividend paid	–	–	–	–	–	–	–	–	(20,750)	(20,750)	–	(20,750)
Issue of shares on placement	809	240,397	–	–	–	–	–	–	–	241,206	–	241,206
Recognition of share based payment	–	–	–	–	–	1,481	–	–	–	1,481	–	1,481
Recognition of equity component of convertible loans	–	–	–	2,951	–	–	–	–	–	2,951	–	2,951
Transfer to statutory reserves	–	–	–	–	–	–	4,850	(4,850)	–	–	–	–
2007 proposed final dividend	–	–	–	–	–	–	–	(28,087)	28,087	–	–	–
	809	240,397	–	2,951	–	1,481	4,850	(32,937)	7,337	224,888	–	224,888
At 31 December 2007 and 1 January 2008	5,048	465,002	(52,040)	2,951	(20,416)	1,481	11,632	92,782	28,087	534,527	–	534,527
Translation difference	–	–	–	–	(15,437)	–	–	–	–	(15,437)	–	(15,437)
Net expense recognised directly in equity	–	–	–	–	(15,437)	–	–	–	–	(15,437)	–	(15,437)
Profit for the year	–	–	–	–	–	–	–	29,545	–	29,545	(1,112)	28,433
Total recognised income and expense for the year	–	–	–	–	(15,437)	–	–	29,545	–	14,108	(1,112)	12,996
2007 final dividend paid	–	–	–	–	–	–	–	–	(28,087)	(28,087)	–	(28,087)
Recognition of share based payment	–	–	–	–	–	5,049	–	–	–	5,049	–	5,049
Transfer to statutory reserves	–	–	–	–	–	–	4,314	(4,314)	–	–	–	–
	–	–	–	–	–	5,049	4,314	(4,314)	(28,087)	(23,038)	–	(23,038)
At 31 December 2008	5,048	465,002	(52,040)	2,951	(35,853)	6,530	15,946	118,013	–	525,597	(1,112)	524,485

CONSOLIDATED CASH FLOW STATEMENT

For the Year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	28,710	79,113
Adjustments for:		
Finance costs	4,988	1,322
Share of profits of an associate	(16,143)	(11,586)
Share based payments	5,049	1,481
Interest income	(2,342)	(5,564)
Depreciation	6,259	3,773
Amortisation of prepaid land lease payments	74	74
Loss on disposals of property, plant and equipment	220	80
Reversal of impairment losses on receivables	–	(697)
Allowances for receivables	5,532	2,295
Allowances for inventories	1,000	–
Operating profit before working capital changes	33,347	70,291
Increase in inventories	(3,829)	(992)
Increase in trade receivables	(44,989)	(24,016)
Decrease/(increase) in gross amount due from customers for contract work	97,182	(97,786)
Decrease/(increase) in prepayments, deposits and other receivables	12,041	(19,615)
Increase in amounts due from directors	(1,543)	(238)
Decrease/(increase) in amounts due from an associate	1,791	(1,867)
Increase in pledged bank deposits	(764)	(1,765)
(Decrease)/increase in trade and bills payables	(25,625)	46,303
Decrease in gross amounts due to customers for contract work	(1,656)	(367)
(Decrease)/increase in accruals and other payables	(61,691)	66,251
Increase in amounts due to a related company	1,048	–
Cash generated from operations	5,312	36,199
Income taxes paid	(8,862)	(4,781)
Interest paid	(2,323)	–
Other finance costs	(744)	(389)
Finance leases charges paid	–	(1)
Net cash (used in)/generated from operating activities	(6,617)	31,028
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	2,342	5,564
Acquisition of a subsidiary	–	(255,389)
Purchases of property, plant and equipment	(21,540)	(42,911)
Proceeds from disposals of property, plant and equipment	149	77
Capital injection in an associate	(33,576)	–
Increase in finance lease receivable	(4,868)	–
Net cash used in investing activities	(57,493)	(292,659)

CONSOLIDATED CASH FLOW STATEMENT

For the Year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of finance lease payables	–	(123)
Proceeds from issue of shares on placement	–	241,206
Share issue expenses paid	–	(4,824)
Bank loans raised	66,541	–
Repayment of bank loans	(13,215)	–
Dividends paid to equity holders of the Company	(28,087)	(20,750)
Cash paid for redemption of the convertible bonds	(59,677)	–
Net cash (used in)/generated from financing activities	(34,438)	215,509
NET DECREASE IN CASH AND CASH EQUIVALENTS	(98,548)	(46,122)
Effect of foreign exchange rate changes	(6,427)	(18,205)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	149,725	214,052
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	44,750	149,725
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	44,063	148,984
Pledged bank deposits	687	741
	44,750	149,725

Pledged bank deposits can be reconciled to the consolidated balance sheet as follows:

	2008 RMB'000	2007 RMB'000
Pledged bank deposits (mature in three months or less)	687	741
Pledged bank deposits (mature after three months)	3,369	2,605
	4,056	3,346

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is 10th Floor, Chiwan Petroleum Building, Shekou, Nanshan District, Shenzhen, PRC. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 18 to the financial statements.

In the opinion of the directors of the Company, as at 31 December 2008, Cheung Hing Investments Limited, a company incorporated in the Samoa, is the immediate and ultimate parent; and Mr. Wang Lishan is the ultimate controlling party of the Company.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2008. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUE)*

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Inter-company transactions, balances and unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the interests of the Group until the minority's share of losses previously absorbed by the Group has been recovered.

(b) Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUE)*

(b) Business combination and goodwill *(CONTINUE)*

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in the consolidated income statement and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The interests of minority shareholders in the subsidiary is initially measured at the minority's proportion of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the acquisition date.

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

The Group's share of an associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUE)*

(c) Associates *(CONTINUE)*

The gain or loss on the disposal of an associate represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the associate which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUE)*

(d) Foreign currency translation *(CONTINUE)*

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Buildings	20-44 years
Plant and machinery	5-10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Construction in progress represents plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUE)*

(f) Leases

Leases are classified as finance leases whenever the terms of lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

(i) Finance leases
Amounts due from lessee under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

The Group as lessee

(i) Operating leases
Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

(ii) Finance leases
At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the balance sheet as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUE)*

(h) Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as "Gross amount due from customers for contract work". When progress billings exceed costs incurred plus recognised profits less recognised losses, the surplus is recorded in the balance sheet as "Gross amount due to customers for contract work". Progress billings not yet paid by the customer are included in the balance sheet under "Trade and bills receivables". Amounts received before the related work is performed are included in the balance sheet under "Accruals and other payables".

(i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the income statement.

(j) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUE)*

(j) Trade and other receivables *(CONTINUE)*

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(k) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(l) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(n) Convertible loans

Convertible loans which entitle the holder to convert the loans into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loans and the fair value assigned to the liability component, representing the embedded option for the holder to convert the loans into equity of the Group, is included in equity as convertible loan notes equity reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUE)*

(n) Convertible loans *(CONTINUE)*

Transaction costs are apportioned between the liability and equity components of the convertible loans based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

(o) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Interest income is recognised on a time-proportion basis using the effective interest method.

Revenues from the sales of equipments and trading of raw materials are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Subcontracting fee income is recognised when the subcontracting services are rendered.

Revenues from the rendering of technical consultancy services are recognised when the services of the transaction are rendered. Revenues from the rendering of services other than technical consultancy services are recognised by reference to stage of completion using percentage of completion method as mentioned below.

Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract; and revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUE)*

(q) Revenue recognition *(CONTINUE)*

Contract revenue *(CONTINUE)*

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable to be recoverable.

(r) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(s) Share-based payments

The Group issues equity-settled share-based payments to certain Directors and employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

(t) Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUE)*

(u) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUE)*

(v) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, gross amount due from customers for contract work, inventories and trade and bills receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on terms mutually agreed between the segments.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUE)*

(w) Segment reporting *(CONTINUE)*

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

(x) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, inventories, gross amount due from customers for contract work and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(y) Provisions and contingent liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUE)*

(z) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

(a) Recognition of property, plant and equipment

(i) On 29 September 2008, Tianjin Jutal Marine Services Limited ("Jutal Marine"), a subsidiary of the Company entered into a sale and purchase agreement ("the Agreement") pursuant to which Jutal Marine has conditionally agreed to purchase and Hefei Hongzhou Shipping Engineering Company Limited ("Hongzhou Shipping") has conditionally agreed to sell a vessel "Hongli 900" at a consideration of RMB125,000,000. Hongli 900 has been delivered to Jutal Marine in September 2008 at Tianjin port of the PRC according to the terms under the Agreement.

According to the Agreement, Hongzhou Shipping shall transfer the register and title of Hongli 900 to Jutal Marine after 3 months from the date Hongli 900 was occupied by the prospective lessee in their offshore oil platform construction projects. Jutal Marine has the right to terminate the agreement if within the three months period, Hongli 900 cannot satisfy the technical requirement and the prospective lessee cannot use Hongli 900 in their offshore oil platform construction projects.

At 3 April 2009, Hongli 900 is still under feasibility test and modification. Hongli 900 is not yet in the condition to be occupied by the prospective lessee in their offshore oil platform construction project.

In the opinion of the directors of the Company, Hongli 900 cannot be recognised as the Group's property, plant and equipment as at 31 December 2008, on the grounds that Hongli 900 was not yet in the condition necessary for it to be capable of operating in the manner intended by management as the technical requirement has not been met and the title has not been transferred to the Group as at the year end.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(CONTINUE)*

Critical judgements in applying accounting policies *(CONTINUE)*

(a) Recognition of property, plant and equipment (CONTINUE)

(ii) The Group's property includes industrial buildings and office premises with carrying amount of RMB42,444,000 (the "Property") as at 31 December 2008 erected on a piece of land situated at the equipment manufacture area of Gan Lan Port Economic Zone in Zhuhai with a total floor area of approximately 67,000 square meters (the "Land"). As stated in note 38(b) to the financial statements, the Land was leased from a related company, Zhuhai Prospering Offshore Oil Engineering Limited ("Zhuhai Prospering") for a period of 3 years from 1 March 2008 to 28 February 2011.

According to the lease agreement, the Group will have preferential right to extend the lease after the lease expires on 28 February 2011. Despite the fact that the Group has not obtained the relevant legal title of the Property, in the opinion of the directors, the Group should recognise the cost of the Property as property, plant and equipment, on the grounds that the Group had obtained a consent letter from Zhuhai Prospering on 27 February 2008 confirming that the Group has effective control over the Property for a period of 30 years.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Revenue and profit recognition

The Group estimated the percentage of completion of the construction contracts by reference to the proportion that contract costs incurred for work performed to date to the estimated total costs for the contracts. When the final cost incurred by the Group is different from the amounts that were initially budgeted, such differences will impact the revenue and the profit or loss recognised in the period in which such determination is made. Budget cost of each project will be reviewed periodically and revised accordingly where significant variances are noted during the revision.

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(CONTINUE)*

Key sources of estimation uncertainty *(CONTINUE)*

(c) Allowance for impairment of receivables

The Group's management determines the allowance for impairment of receivables. This estimate is based on the credit history of its customers and the current market condition. It could change significantly as a result of changes in the financial position of the customers. Management will reassess the allowance made at each balance sheet date.

(d) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

(e) Share-based payment expenses

The fair value of the share options granted to the directors and employees determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Group's share-based payment reserve. In assessing the fair value of the share options, the Black-Scholes option pricing model (the "Black-Scholes Model") was used. The Black-Scholes Model is one of the generally accepted methodologies used to calculate the fair value of the share options. The Black-Scholes Model requires the input of subjective assumptions, including the expected dividend yield and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

Most of the Group's business transactions, assets and liabilities are principally denominated in Renminbi ("RMB"), Hong Kong dollars and United States dollars ("US dollar"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. But given the trend of appreciation of Renminbi against the Hong Kong dollars and US dollar, and in line with the development plans, the Group has avoided some of the foreign currency risk by diverting part of the funds to Mainland China and through other approach, and will further consider to make reasonable arrangements for assets outside Mainland China denominated in foreign currencies.

5. FINANCIAL RISK MANAGEMENT *(CONTINUE)*

(a) Foreign currency risk *(CONTINUE)*

At 31 December 2008, if the US dollar had weakened 10 per cent against RMB with all other variables held constant, consolidated profits after tax for the year would have been approximately RMB250,000 (2007: RMB261,000) lower, arising mainly as a result of the foreign exchange loss on bank deposits and net position of trade receivables and trade payables denominated in US dollar. If the US dollar had strengthened 10 per cent against RMB with all other variables held constant, consolidated profits after tax for the year would have been approximately RMB250,000 (2007: RMB261,000) higher, arising mainly as a result of the foreign exchange gain on bank deposits and net position of trade receivables and trade payables denominated in US dollar.

(b) Credit risk

The Group has no significant concentrations of credit risk with exposure spread over a number of counterparties and customers. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The carrying amount of the trade and other receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

All the Group's financial liabilities mature within one year.

(d) Interest rate risk

The Group's exposure to interest-rate risk arises from its bank deposits and bank borrowings. Part of the deposits and borrowings bear interests at variable rates varied with the then prevailing market condition and expose the Group to cash flow interest rate risk.

The Group's convertible loans and other fixed-rate bank borrowings and bank deposits, bear fixed interest rate and therefore are subject to fair value interest rate risks.

The Group's result is not sensitive to changes in interest rate as the net effect on the interest expense incurred from variable-rate bank borrowings and the interest income generated from bank deposits are insignificant.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

5. FINANCIAL RISK MANAGEMENT *(CONTINUE)*

(e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

6. TURNOVER

The Group's turnover which represents sales of goods to customers, revenue from construction contracts and other services rendered are as follows:

	2008	2007
	RMB'000	RMB'000
Sales of goods	**21,421**	31,040
Revenue from construction contracts and other services rendered	**342,666**	391,816
	364,087	422,856

7. OTHER INCOME

	2008	2007
	RMB'000	RMB'000
Compensation income	**2,630**	–
Finance income from finance lease	**439**	–
Gain on finance lease	**1,094**	–
Interest income	**2,342**	5,564
Net foreign exchange gains	**5,226**	2,232
Reversal of impairment losses on receivables	**–**	697
Sundry income	**349**	98
	12,080	8,591

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

8. SEGMENT INFORMATION

(a) Primary reporting format – business segments

The Group is organised into four main business segments:

– Provision of technical support services for oil and gas industry and sales of equipment and materials.

– Fabrication of oil and gas facilities and oil and gas processing skid equipment.

– Civil engineering business.

– Provision of technical support services for shipbuilding industry.

	Provision of technical support services for oil and gas industry and sales of equipment and materials RMB'000	Fabrication of oil and gas facilities and oil and gas processing skid equipment RMB'000	Civil engineering business RMB'000	Provision of technical support services for shipbuilding industry RMB'000	Elimination RMB'000	Consolidation RMB'000
Year ended 31 December 2008						
Revenue						
External sales	73,946	159,485	52,111	78,545	–	364,087
Inter-segment sales	–	–	–	–	–	–
Total	73,946	159,485	52,111	78,545	–	364,087
Segment results	11,102	23,517	492	30,269	–	65,380
Other income						12,080
Unallocated expenses						(59,905)
Profit from operations						17,555
Share of profits of an associate						16,143
Finance costs						(4,988)
Profit before tax						28,710
At 31 December 2008						
Segment assets	29,599	147,247	17,191	29,817		223,854
Unallocated assets						463,665
Total assets						687,519
Segment liabilities	21,009	45,995	4,820	8,844		80,668
Unallocated liabilities						82,366
Total liabilities						163,034
Other segment information						
Capital expenditure	1,698	13,083	227	6,532		21,540
Depreciation	1,099	4,281	440	439		6,259
Allowance for receivables	200	4,693	551	88		5,532
Reversal of impairment loss on receivables	–	–	–	–		–

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

8. SEGMENT INFORMATION *(CONTINUE)*

(a) Primary reporting format – business segments *(CONTINUE)*

	Provision of technical support services for oil and gas industry and sales of equipment and materials RMB'000	Fabrication of oil and gas facilities and oil and gas processing skid equipment RMB'000	Civil engineering business RMB'000	Provision of technical support services for shipbuilding industry RMB'000	Elimination RMB'000	Consolidation RMB'000
Year ended 31 December 2007						
Revenue						
External sales	84,024	208,509	68,537	61,786		422,856
Inter-segment sales	–	5,433	31,430	–	(36,863)	–
Total	84,024	213,942	99,967	61,786	(36,863)	422,856
Segment results	15,966	46,203	4,092	27,679		93,940
Other income						8,591
Unallocated expenses						(33,682)
Profit from operations						68,849
Share of profits of an associate						11,586
Finance costs						(1,322)
Profit before tax						79,113
At 31 December 2007						
Segment assets	35,588	181,898	24,359	24,311		266,156
Unallocated assets						535,004
Total assets						801,160
Segment liabilities	17,089	137,711	13,150	5,521		173,471
Unallocated liabilities						93,162
Total liabilities						266,633
Other segment information						
Capital expenditure	1,074	37,794	454	3,589		42,911
Depreciation	1,061	972	434	1,306		3,773
Allowance for receivables	24	58	2,196	17		2,295
Reversal of impairment loss on receivables	426	271	–	–		697

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

8. SEGMENT INFORMATION *(CONTINUE)*

(b) Secondary reporting format – geographical segments

The Group's four divisions operate in five principal geographical areas – the PRC (excluding Hong Kong and Macau for reporting purposes), Hong Kong, Macau, Other Asian Countries and United Kingdom.

The following is an analysis of the revenue, based on the geographical location of its customers:

	Revenue from external customers	
	2008	2007
	RMB'000	RMB'000
The PRC	**264,970**	251,678
Hong Kong	**31,334**	52,889
Macau	**16,639**	14,977
Other Asian Countries	**25,824**	12,838
United Kingdom	**10,209**	69,273
Others	**15,111**	21,201
	364,087	422,856

The following is an analysis of the total assets and capital expenditure, based on the geographical area in which the assets are located:

	Total assets		Capital expenditure	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
The PRC	**652,528**	678,628	**21,520**	42,862
Hong Kong	**22,356**	51,974	**20**	29
Macau	**1,570**	7,944	**–**	20
Other Asian Countries	**10,087**	1,045	**–**	–
United Kingdom	**486**	61,222	**–**	–
Others	**492**	347	**–**	–
	687,519	801,160	**21,540**	42,911

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

9. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Finance leases charges	–	1
Interest on bank loans	2,323	–
Effective interest expense on convertible loans	1,921	932
Others	744	389
	4,988	1,322

10. INCOME TAX EXPENSE

	2008 RMB'000	2007 RMB'000
Current tax – Hong Kong Profits Tax		
Provision for the year	–	–
Under/(over)-provision in prior years	14	(36)
	14	(36)
Current tax – PRC Enterprise Income Tax		
Provision for the year	4,549	6,008
Under-provision in prior years	20	–
	4,569	6,008
Current tax – Overseas		
Provision for the year	28	87
Over-provision in prior years	(55)	(75)
	(27)	12
Deferred tax (Note 30)	(4,279)	5,100
	277	11,084

10. INCOME TAX EXPENSE *(CONTINUE)*

(i) Hong Kong Profits Tax

Provision for Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) based on the assessable profits for the year.

(ii) PRC Enterprise Income Tax

In accordance with the relevant PRC income tax laws and regulations, the applicable PRC Enterprise Income Tax rates of the Company's subsidiaries are as follows:

(a) Shenzhen Jutal Machinery Equipment Company Limited ("Shenzhen Jutal")

Shenzhen Jutal is a foreign investment enterprise operated in Shenzhen Special Economic Zone with the applicable tax rate at 18%.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Tax Law") by Order No.63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was increased from 18% to 25% progressively from 1 January 2008 onwards. Therefore the applicable tax rate of Shenzhen Jutal is 18%, 20%, 22%, 24% and 25% for the year ended 31 December 2008, 2009, 2010, 2011 and 2012 onwards respectively.

(b) Jutal Oil Field Services (Tianjin) Company Limited ("Tianjin Jutal")

Tianjin Jutal is a foreign investment enterprise operated in Tanggu Marine Hi-Tech Zone with the applicable tax rate at 12.5%. It is subject to two years tax exemption for the years 2004 and 2005 and three years 50% tax relief for the year 2006 till 2008. Starting from 1 January 2009, Tianjin Jutal will be taxed at 25%.

(c) Jutal Offshore Shipbuilding Services (Dalian) Company Limited ("Dalian Jutal")

Dalian Jutal is a foreign investment enterprise operated in Dalian Economic & Technological Development Area with applicable tax rate at 25%. It is subjected to two years tax exemption for the years 2008 and 2009 and followed by a reduced PRC enterprise income tax rate at 11%, 12% and 12.5% for the year 2010, 2011 and 2012 respectively. Starting from 1 January 2013, Dalian Jutal will be taxed at 25%.

(d) Jutal Offshore Oil Services (Zhuhai) Company Limited ("Zhuhai Jutal")

Zhuhai Jutal is a domestic enterprise established in the PRC with applicable tax rate at 25%.

(e) Tianjin Jutal Marine Services Limited ("Jutal Marine")

Jutal Marine is a domestic enterprise established in the PRC with applicable tax rate at 25%.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

10. INCOME TAX EXPENSE *(CONTINUE)*

(iii) Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

(iv) According to the new China Corporate Income Tax Law ("CIT Law") and the detailed implementation regulations, foreign shareholders are subject to a 10% withholding tax ("WHT") for the dividend repatriated by a company in the PRC starting from 1 January 2008. For certain treaty jurisdictions such as Hong Kong which has signed tax treaties with the PRC, the WHT rate is 5%. According to Cai Shui [2008] Circular 1 jointly issued by the Ministry of Finance and the State Administration of Taxation on 22 February 2008, where a company in the PRC declares dividend in 2008 and beyond out of the cumulative retained earnings as of 31 December 2007 (i.e. 2007 retained earnings), such dividends earned by the foreign shareholders are exempted from WHT. For dividend which arises from profit of a company in the PRC earned after 1 January 2008, WHT is levied on the foreign shareholders.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC Enterprise Income Tax rate are as follows:

	2008 **RMB'000**	2007 RMB'000
Profit before tax (excluding share of profits of an associate)	**12,567**	67,527
Tax at the PRC Enterprise Income Tax rate of 18% (2007: 15%)	**2,262**	10,129
Tax effect of income that is not taxable	**(10,855)**	(3,997)
Tax effect of expenses that are not deductible	**14,486**	4,802
Tax effect of tax losses not recognised	**2,320**	–
Tax effect of temporary differences not recognised	**(72)**	968
Increase in deferred tax liability resulting from change in tax rate enacted	**794**	1,449
Deferred tax on undistributed earnings of the PRC subsidiaries and an associate	**1,634**	–
Over-provision in prior years	**(21)**	(111)
Effect of different tax rates of subsidiaries	**(10,271)**	(2,156)
Income tax expense	**277**	11,084

The deferred tax balances have been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

11. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging the following:

	2008 RMB'000	2007 RMB'000
Depreciation	**6,259**	3,773
Directors' emoluments		
– As directors	**480**	480
– For management	**2,921**	3,388
– Share-based payments	**1,543**	645
	4,944	4,513
Loss on disposal of property, plant and equipment	**220**	80
Operating lease charges		
– Hire of plant and equipment	**611**	3,866
– Land and buildings	**6,429**	4,756
Auditor's remuneration	**895**	1,112
Cost of inventories sold	**76,857**	118,070
Allowance for inventories	**1,000**	–
Allowance for receivables	**5,532**	2,295
Staff costs including directors' emoluments		
– Salaries, bonuses and allowances	**88,258**	63,016
– Retirement benefits scheme contributions	**2,551**	1,981
– Share-based payments	**5,049**	1,481
	95,858	66,478

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of each director were as follows:

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Share-based payments RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors						
Wang Lishan	–	982	–	568	21	1,571
Jiang Dong	–	627	–	325	21	973
Cao Yunsheng	–	601	–	325	21	947
Chen Guocai	–	627	–	325	21	973
	–	2,837	–	1,543	84	4,464
Independent non-executive directors						
Su Yang	120	–	–	–	–	120
Mai Boliang (Note (a))	50	–	–	–	–	50
Wang Yu	120	–	–	–	–	120
Xiang Bing (Note (a))	50	–	–	–	–	50
Lan Rong (Note (b))	70	–	–	–	–	70
Xiang Qiang (Note (b))	70	–	–	–	–	70
	480	–	–	–	–	480
Total for 2008	480	2,837	–	1,543	84	4,944
Executive directors						
Wang Lishan	–	722	–	258	19	999
Jiang Dong	–	902	–	129	19	1,050
Cao Yunsheng	–	801	–	129	19	949
Deng Zhiyun (Note (c))	–	30	–	–	–	30
Chen Guocai	–	857	–	129	19	1,005
	–	3,312	–	645	76	4,033
Independent non-executive directors						
Su Yang	120	–	–	–	–	120
Mai Boliang	120	–	–	–	–	120
Wang Yu	120	–	–	–	–	120
Xiang Bing	120	–	–	–	–	120
	480	–	–	–	–	480
Total for 2007	480	3,312	–	645	76	4,513

Notes:

(a) Resigned on 30 May 2008
(b) Appointed on 30 May 2008
(c) Resigned on 18 April 2007

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(CONTINUE)*

There was no arrangement under which a director waived or agreed to waive any emoluments during the year.

The five highest paid individuals in the Group during the year included 4 (2007: 4) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 1 (2007: 1) individual is set out below:

	2008 RMB'000	2007 RMB'000
Basic salaries and allowances	833	332
Discretionary bonus	–	–
Share-based payments	80	45
Retirement benefit scheme contributions	–	–
	913	377

The emoluments fell within the following band:

	Number of individuals	
	2008	2007
Nil to HK$1,000,000	1	1

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDENDS

The directors of the Company do not recommend payment of any interim dividend (2007: Nil) or final dividend (2007: HK$0.06 per ordinary share) for the year ended 31 December 2008.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

	2008 RMB'000	2007 RMB'000
Earnings		
Earnings for the purpose of calculating basic and diluted earnings per share	29,545	68,029

	2008	2007
Number of shares		
Issued ordinary shares at 1 January	498,000,000	415,000,000
Effect of issue of shares	–	44,115,068
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	498,000,000	459,115,068
Effect of dilutive potential ordinary shares arising from share options outstanding	–	3,411,644
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	498,000,000	462,526,712

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of the ordinary shares in issue during the year.

Diluted earnings per share is calculated based on the profit attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue during the year after adjusting for the number of diluted potential ordinary shares granted under the Company's share option scheme. There are no diluted potential ordinary shares for the year ended 31 December 2008.

The effects of convertible loans are anti-dilutive.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2007	18,780	12,606	3,402	7,692	335	42,815
Additions	155	7,160	469	1,900	33,227	42,911
Reclassification	31,266	308	–	–	(31,574)	–
Disposals	–	(525)	(33)	–	–	(558)
Exchange differences	–	(36)	(15)	–	–	(51)
At 31 December 2007 and at 1 January 2008	50,201	19,513	3,823	9,592	1,988	85,117
Additions	–	4,838	1,130	2,208	13,364	21,540
Reclassification	12,409	29	–	–	(12,438)	–
Disposals	–	(607)	(677)	(154)	–	(1,438)
Exchange differences	–	(33)	(19)	(1)	–	(53)
At 31 December 2008	62,610	23,740	4,257	11,645	2,914	105,166
Accumulated depreciation						
At 1 January 2007	2,691	3,991	1,995	3,617	–	12,294
Charge for the year	578	1,468	513	1,214	–	3,773
Disposals	–	(390)	(11)	–	–	(401)
Exchange differences	–	(23)	(16)	(1)	–	(40)
At 31 December 2007 and at 1 January 2008	3,269	5,046	2,481	4,830	–	15,626
Charge for the year	1,814	2,102	523	1,820	–	6,259
Disposals	–	(372)	(543)	(154)	–	(1,069)
Exchange differences	–	(28)	(16)	(1)	–	(45)
At 31 December 2008	5,083	6,748	2,445	6,495	–	20,771
Carrying amount						
At 31 December 2008	57,527	16,992	1,812	5,150	2,914	84,395
At 31 December 2007	46,932	14,467	1,342	4,762	1,988	69,491

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

16. PREPAID LAND LEASE PAYMENTS

	2008 RMB'000	2007 RMB'000
At 1 January	**1,025**	1,099
Additions	**–**	–
Amortisation of prepaid land lease payments	**(74)**	(74)
At 31 December	**951**	1,025

The Group's prepaid land lease payments represent payments for land use rights situated in the PRC under medium term leases.

17. GOODWILL

	RMB'000
Cost and carrying amount	
At 31 December 2007 and 1 January 2008	211,366
Exchange difference	(13,267)
At 31 December 2008	198,099

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated to the CGU which represents the share of interest in an associate. As at 31 December 2008, no impairment loss on goodwill is identified.

The recoverable amounts of the CGU are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the business of the CGU. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 3%. This rate does not exceed the average long-term growth rate for the relevant markets. The discount rate applied to cash flow projects is 10.3%.

18. SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2008 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
			Direct	Indirect	
Directly held:					
Jutal Investment Limited	British Virgin Islands	5 ordinary shares of US$1 each	100%	–	Investment holding
Indirectly held:					
Jutal Engineering Company Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100%	Provision of technical support services for oil gas industry and sale of equipment and materials and undertaking of civil engineering projects
Jutal Engineering (Macau) Company Limited	Macau	Registered capital of MOP100,000	–	100%	Undertaking of civil engineering projects
Jutal Holdings Limited	British Virgin Islands	2 ordinary shares of US$1 each	–	100%	Investment holding
Hong Kong Jutal Holdings Limited	Hong Kong	1 ordinary share of HK$1 each	–	100%	Investment holding
Stand Success Resources Limited	British Virgin Islands	1 ordinary share of US$1 each	–	100%	Investment holding
巨濤油田服務(天津)有限公司 (Jutal Oil Field Services (Tianjin) Company Limited)	PRC	Registered capital of HK$10,000,000	–	100%	Provision of technical support services for oil and gas industry and sale of equipment and materials
深圳巨濤機械設備有限公司 (Shenzhen Jutal Machinery Equipment Company Limited)	PRC	Registered capital of RMB60,000,000	–	100%	Fabrication of oil and gas facilities and oil and gas processing skid equipment, provision of technical support services for oil & gas industry and sale of equipment and materials, undertaking of civil engineering projects and provision of technical support services in the shipbuilding industry

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

18. SUBSIDIARIES *(CONTINUE)*

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
			Direct	Indirect	
Directly held: *(Cont'd)*					
珠海巨濤海洋石油服務有限公司 (Jutal Offshore Oil Services (Zhuhai) Company Limited)	PRC	Registered capital of RMB40,000,000	–	100%	Design and manufacture of oil and gas processing skid equipment
巨濤海洋船舶服務(大連)有限公司 (Jutal Offshore Shipbuilding Services (Dalian) Company Limited)	PRC	Registered capital of HK$10,000,000	–	100%	Provision of technical support services in the shipbuilding industry
天津巨濤海洋船舶服務有限公司 (Tianjin Jutal Marine Services Limited)	PRC	Registered capital of RMB10,000,000	–	55%	Provision of offshore installation, offshore and over water heavy equipment hoisting, machanical equipment lease, vessels lease and massive transportation

Tianjin Jutal, Shenzhen Jutal and Dalian Jutal are foreign investment enterprises established in the PRC. Zhuhai Jutal and Jutal Marine are domestic enterprises established in the PRC.

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

19. INVESTMENTS IN AN ASSOCIATE

	2008 RMB'000	2007 RMB'000
Unlisted investments:		
Share of net assets	179,862	130,018

Details of the Group's associate at 31 December 2008 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing
Penglai Jutal Offshore Engineering Heavy Industries Company Limited ("Penglai Jutal") 蓬萊巨濤海洋工程重工有限公司	PRC	Registered capital of US$43,500,000	30%

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

19. INVESTMENTS IN AN ASSOCIATE *(CONTINUE)*

On 12 September 2008, Penglai Jutal has been approved by relevant government authority to increase the registered capital from US$27,500,000 to US$43,500,000. The Group had further invested US$4,800,000 to maintain its 30% equity interest in Penglai Jutal.

Principal activities:

Sales and construction of facilities for provision of offshore oil and natural gas exploration and production operation, quayside machinery, chemical engineering facilities and steal formation design, fabrication, installation and repair, offshore back office as well as quayside and warehouse services.

Summarised financial information in respect of the Group's associate is set out below:

	2008 **RMB'000**	2007 RMB'000
At 31 December		
Total assets	**1,103,250**	849,364
Total liabilities	**(503,711)**	(415,971)
Net assets	**599,539**	433,393
Group's share of associate's net assets	**179,862**	130,018
Year ended 31 December		
Total revenue	**468,364**	280,843
Total profit for the year	**53,812**	78,495
Group's share of associate's profit for the year	**16,143**	11,586

The amount due from an associate is unsecured, interest-free and has no fixed repayment terms.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

20. INVENTORIES

	2008 RMB'000	2007 RMB'000
Raw materials	**7,898**	5,069

21. TRADE AND BILLS RECEIVABLES

The Group's trading terms with other customers are mainly on credit. The credit terms other than retentions receivable generally range from 30 to 60 days. The credit terms for retentions receivable generally range from 12 to 18 months after the completion of the contracts. Application for progress payments of contract works is made on a regular basis. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

An ageing analysis of trade and bills receivables, based on the invoice date, and net of allowance, is as follows:

	2008 RMB'000	2007 RMB'000
0 to 30 days	**21,229**	27,616
31 to 90 days	**49,488**	5,060
91 to 365 days	**10,085**	3,867
Over 365 days	**1,514**	5,984
	82,316	42,527

As at 31 December 2008, trade receivables aged over 90 days includes retentions receivable amounted to RMB7,951,000 (2007: RMB9,260,000).

As at 31 December 2008, an allowance was made for estimated irrecoverable trade receivables of approximately RMB4,044,000 (2007: RMB2,376,000). The movements in the allowance for estimated irrecoverable trade receivables during the year are as follows:

	2008 RMB'000	2007 RMB'000
At 1 January	**2,376**	904
Impairment loss recognised	**5,200**	2,176
Reversal of impairment losses	**–**	(697)
Uncollective amounts written off	**(3,532)**	(7)
At 31 December	**4,044**	2,376

21. TRADE AND BILLS RECEIVABLES *(CONTINUE)*

As of 31 December 2008, trade receivables of RMB7,247,000 (2007: RMB1,807,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. An ageing analysis of these trade receivables is as follows:

	2008 RMB'000	2007 RMB'000
Up to 3 months	3,245	1,181
3 to 6 months	3,184	320
Over 6 months	818	306
	7,247	1,807

22. GROSS AMOUNT DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	2008 RMB'000	2007 RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	262,785	288,836
Less: Progress billings	(202,540)	(135,128)
Less: Exchange differences	(3,683)	(1,620)
	56,562	152,088
Gross amount due from customers for contract work	57,668	154,850
Gross amount due to customers for contract work	(1,106)	(2,762)
	56,562	152,088

In respect of construction contracts in progress at the balance sheet date, retentions receivable included in trade receivables amounted to RMB8,136,000 (2007: RMB9,530,000). The amount of retentions expected to be recovered after more than twelve months amounted to RMB739,000 (2007: RMB1,255,000).

The Group did not have any advances received in respect of construction contracts at 31 December 2008. At 31 December 2007, advances received in respect of construction contracts amounted to RMB70,297,000 and are included in accruals and other payables.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

23. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**1,452**	–	**1,089**	–
In the second to fifth years, inclusive	**4,357**	–	**3,779**	–
	5,809	–	**4,868**	–
Less: Unearned finance income	**(941)**	–	**N/A**	N/A
Present value of lease obligation	**4,868**	–	**4,868**	–
Less: Amount due for settlement within 12 months (shown under current assets)			**(1,089)**	–
Amount due for settlement after 12 months (shown under non-current assets)			**3,779**	–

The Group enters into finance lease arrangement for a levering machine with a related company, 大連船舶重工海洋工程有限公司 ("Dalian Shipbuilding Offshore Company Limited"). The lease term is 5 years. The interest rate inherent in the leases is fixed at the contract date for the entire lease term and thus exposes the Group to fair value interest rate risk. The effective interest rate contracted is 7.47% per annum. The lease is on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

All finance lease receivable are denominated in Renminbi.

The Group's finance lease receivable is secured over the levering machine leased.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

24. DUE FROM DIRECTORS

Amounts due from directors disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Name	Terms of loan	Balance at 31 December 2008	Balance at 1 January 2008	Maximum amount outstanding during the year
		RMB'000	RMB'000	RMB'000
Wang Lishan	Unsecured, no fixed repayment terms and interest-free	596	43	662
Chen GuoCai	Unsecured, no fixed repayment terms and interest-free	96	–	1,141
Cao Yunsheng	Unsecured, no fixed repayment terms and interest-free	82	–	151
Jiang Dong	Unsecured, no fixed repayment terms and interest-free	1,007	195	1,870
		1,781	238	

25. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities to the Group. The deposits are in RMB and HK$ and at fixed interest rate ranging from 0.36% to 2.86% per annum (2007: 0.72% to 2.86% per annum) and therefore are subject to fair value interest rate risk.

As at 31 December 2008, the Group had aggregate banking facilities of approximately RMB201,452,000 (2007: RMB118,141,000) granted from several banks for short-term loans, performance bonds and trade financing. The Group issued performance bonds totalling RMB29,131,000 (2007: RMB23,164,000) and utilised other banking facilities totalling RMB60,247,000 (2007: RMB8,147,000).

As at 31 December 2008, the bank and cash balances of the Group denominated in RMB amounted to RMB27,421,000 (2007: RMB79,886,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

26. TRADE AND BILLS PAYABLES

An ageing analysis of trade and bills payables, based on the date of receipt of goods and services, is as follows:

	2008 **RMB'000**	2007 RMB'000
0 to 30 days	**41,586**	63,456
31 to 90 days	**10,768**	16,085
91 to 365 days	**9,992**	13,494
Over 365 days	**5,728**	664
	68,074	93,699

Included in the Group's trade and bills payables at balance sheet date were trade payables due to an associate, Penglai Jutal which amounted to RMB24,521,000 (2007: Nil).

27. DUE TO A RELATED COMPANY

The amount due to a related company is unsecured, interest-free and has no fixed terms of repayment.

28. BANK LOANS

All bank loans are repayable within one year and shown under current liabilities.

The carrying amounts of the Group's bank loans are denominated in Renminbi and Hong Kong dollar respectively:

	Renminbi RMB'000	**Hong Kong Dollars** RMB'000	**Total** RMB'000
2008	34,340	18,986	53,326
2007	–	–	–

The average interest rate of bank loans at 31 December 2008 was 6.47% per annum (2007: Nil).

Bank loans of RMB34,340,000 (2007: Nil) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Other bank loans are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

28. BANK LOANS *(CONTINUE)*

Bank loan of RMB30,000,000 was guaranteed by Mr. Wang Lishan, the chairman, an executive director and a substantial shareholder of the Company.

Bank loan of RMB18,986,000 was jointly guaranteed by Mr. Wang Lishan and Cheung Hing Investments Limited, the immediate and ultimate parent of the Company.

29. CONVERTIBLE LOANS

The convertible loan notes were issued on 7 September 2007 to Prospering Investments Limited, a company beneficially owned by Mr. Wang Lishan, the chairman, an executive director and a substantial shareholder of the Company. The notes were convertible into ordinary shares of the Company at any time between the date of issue of the notes and their settlement date. The loan notes were convertible at a conversion price of HK$3.98 per share of the Company.

The loan notes were interest free. The loan notes have not been converted and redeemed at par on 6 September 2008.

The net proceeds received from the issue of the convertible loan notes have been split between the liability element and an equity component, as follows:

	RMB'000
Nominal value of convertible loan notes issued (HK$68,000,000)	63,920
Equity component	(2,951)
Liability component at date of issue	60,969
Interest charged in 2007	932
Exchange differences	(5)
Liability component at 31 December 2007 and 1 January 2008	61,896
Interest charged in 2008	1,921
Exchange differences	(4,140)
Redeemed at par	(59,677)
Liability component at 31 December 2008	–

The interest charged for the year 2008 is calculated by applying an effective interest rate of 4.78% to the liability component for the 9.2 months period since 1 January 2008.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

30. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised by the Group.

	Accelerated tax depreciation RMB'000	Investment in an associate RMB'000	Recognition of contracting income RMB'000	Undistributed earnings of the PRC subsidiaries RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007	1,642	–	988	–	(381)	2,249
Acquisition of a subsidiary	–	10,403	–	–	–	10,403
Charge to income statement (note 10)						
Changes in temporary differences	(18)	–	3,655	–	14	3,651
Effect of change in tax rate	525	–	924	–	–	1,449
At 31 December 2007 and at 1 January 2008	2,149	10,403	5,567	–	(367)	17,752
Charge to income statement (note 10)						
Changes in temporary differences	28	1,201	(6,834)	433	99	(5,073)
Effect of change in tax rate	215	–	618	–	(39)	794
At 31 December 2008	2,392	11,604	(649)	433	(307)	13,473

At 31 December 2008 the Group has unused tax losses of RMB13,112,000 (2007: Nil) available for offset against future profits. No deferred tax asset has been recognized due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB3,800,000 and RMB2,000 that can be carried forward by five years and three years respectively. Other losses may be carried forward indefinitely.

31. MINORITY INTEREST

	2008 RMB'000	2007 RMB'000
Balance at 1 January	**–**	–
Share of loss of the year	**1,112**	–
Balance at 31 December	**1,112**	–

Minority interests at 31 December 2008 represent the portion of share of loss for the year by Hongzhou Shipping, where Hongzhou Shipping is obliged to inject capital to cover this loss.

Shenzhen Jutal, an indirect wholly-owned subsidiary of the Company has entered into an agreement on 22 September 2008 with Hongzhou Shipping to set up Jutal Marine. According to the agreement, Shenzhen Jutal had 55% interest in Jutal Marine. As at 31 December 2008, the Group has injected RMB5,500,000 representing its 55% share of the equity interest in Jutal Marine. However, the capital injection from the Hongzhou Shipping remains outstanding.

32. SHARE CAPITAL

	Note	Number of Shares	Amount HK$'000
Authorised:			
Ordinary shares of HK$0.01 (2007: HK$0.01) each			
At 1 January 2007, 31 December 2007 and 31 December 2008		700,000,000	7,000

	Note	Number of Shares	Amount HK$'000	Equivalent to amount RMB'000
Issued and fully paid:				
Ordinary shares of HK$0.01 (2007: HK$0.01) each				
At 1 January 2007		415,000,000	4,150	4,239
Issue of shares on placement	(a)	83,000,000	830	809
At 31 December 2007 and at 31 December 2008		498,000,000	4,980	5,048

(a) Cheung Hing Investments Limited ("the Vendor"), wholly-owned by Mr. Wang Lishan, the chairman and an executive director of the Company was a substantial shareholder of the Company holding 260,000,000 shares representing 62.65% of the Company's issued share capital as at 7 June 2007. The Vendor and the Company had entered into a placing and subscription agreement ("Placing and Subscription Agreement") dated 7 June 2007 with China Merchants Securities (HK) Company Limited ("the Placing Agent"), pursuant to which the Placing Agent has agreed to place, and the Vendor sold, 83,000,000 existing shares at the placing price of HK$2.98 per share. Pursuant to the Placing and Subscription Agreement, the Vendor had conditionally agreed to subscribe for 83,000,000 new shares at the placing price. Immediately after the placing and subscription, the Vendor's shareholding in the Company's shares reduced to 52.21% and the total number of issued share of the Company was increased from 415,000,000 to 498,000,000. The Vendor remained as a substantial shareholder of the Company after completion of the Placing and Subscription Agreement. Net proceeds from the subscription were approximately HK$242,393,000 (equivalent to RMB236,382,000).

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

32. SHARE CAPITAL *(CONTINUE)*

(b) The Group currently does not have any specific policies and processes for managing capital. But the Group reviews the capital structure frequently and will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts, redemption of existing debts or selling assets to reduce debts if necessary to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of it's shares. The Group receives a report from the share registrars monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2008, 39.72% (2007: 37.71%) of the shares were in public hands.

33. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The Company adopted a share option scheme (the "Scheme") on 28 August 2006. The Scheme enables the Company to grant options to eligible participants as incentives and rewards for their contribution to the Group. Eligible participants include all full time employees, Directors (including independent non-executive Directors) and part-time employees with weekly working hours of 10 hours and above, of the Group, Substantial Shareholders of each member of the Group, associates of the Directors and Substantial Shareholders of any member of the Group, trustee of any trust pre-approved by the Board; and any advisor (professional or otherwise), consultant, distributor, supplier, agent, customer, joint venture partner, service provider to the Group whom the Board considers, in its sole discretion, has contributed or contributes to the Group.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of shares options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors (excluding an independent non-executive Director who is the Grantee of the Options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval taken on a poll and a circular must be sent to the Shareholders.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

33. SHARE-BASED PAYMENTS *(CONTINUE)*

Equity-settled share option scheme *(CONTINUE)*

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

Share options do not confer rights on the holder to dividends or to vote at shareholders' meetings.

Details of the specific categories of options are as follows:

	Date of grant	Vesting period	Exercise period	Exercise price HK$
2007A	16 March 2007	16 March 2007 to 15 March 2008	16 March 2008 to 15 March 2017	1.68
2007B	16 March 2007	16 March 2007 to 15 March 2009	16 March 2009 to 15 March 2017	1.68
2008A	12 March 2008	12 March 2008 to 11 March 2009	12 March 2009 to 11 March 2018	1.62
2008B	12 March 2008	12 March 2008 to 11 March 2010	12 March 2010 to 11 March 2018	1.62

If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

	2008		2007	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at the beginning of the year	**11,460,000**	**1.68**	–	–
Granted during the year	**20,370,000**	**1.62**	11,460,000	1.68
Forfeited during the year	**–**	**–**	–	–
Exercised during the year	**–**	**–**	–	–
Expired during the year	**–**	**–**	–	–
Outstanding at the end of the year	**31,830,000**	**1.64**	11,460,000	1.68
Exercisable at the end of the year	**5,730,000**	**1.68**	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

33. SHARE-BASED PAYMENTS *(CONTINUE)*

Equity-settled share option scheme *(CONTINUE)*

The options outstanding at the end of the year have a weighted average remaining contractual life of 9.0 years (2007: 9.2 years) and the exercise price is ranging from HK$1.62 to HK$1.68 (2007: HK$1.68). In 2008, options were granted on 12 March 2008 (2007: on 16 March 2007). The estimated fair value of these share options at grant date are HK$7,534,780 (2007: HK$2,863,000).

The fair value was calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	2008 **HK$**	2007 HK$
Grant date share price	**1.60**	1.65
Exercise price	**1.62**	1.68
Expected volatility	**54.76% – 62.55%**	26.52% – 29.51%
Expected life	**1-2 years**	1-2 years
Risk free rate	**1.03% – 1.225%**	3.912% – 3.928%
Expected dividend yield	**3.75%**	–

Expected volatility was based on the historical volatility of the share prices of comparable companies over the periods that are equal to the expected lives before the grant date.

34. BALANCE SHEET OF THE COMPANY

	2008 **RMB'000**	2007 RMB'000
Investments in subsidiaries	**68,832**	73,442
Prepayments, deposits and other receivables	**121**	316
Due from subsidiaries	**383,368**	460,245
Bank and cash balances	**488**	19,741
Accruals and other payables	**(898)**	(1,093)
Convertible loans	**–**	(61,896)
Bank loans	**(18,985)**	–
NET ASSETS	**432,926**	490,755
Share capital	**5,048**	5,048
Reserves	**427,878**	485,707
TOTAL EQUITY	**432,926**	490,755

35. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

(b) Company

	Share premium account RMB'000	Convertible loans notes equity reserve RMB'000	Foreign currency translation reserve RMB'000	Share-based payment reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At at 1 January 2007	229,429	–	(3,841)	–	328	20,750	246,666
Issue of shares on placement	240,397	–	–	–	–	–	240,397
Share issue expenses	(4,824)	–	–	–	–	–	(4,824)
Recognition of share based payment	–	–	–	1,481	–	–	1,481
Recognition of equity component of convertible loans	–	2,951	–	–	–	–	2,951
Translation difference	–	–	(23,261)	–	–	–	(23,261)
2006 final dividend paid	–	–	–	–	–	(20,750)	(20,750)
Profit for the year	–	–	–	–	43,047	–	43,047
2007 proposed final dividend	–	–	–	–	(28,087)	28,087	–
At 31 December 2007 and 1 January 2008	465,002	2,951	(27,102)	1,481	15,288	28,087	485,707
Recognition of share based payment	–	–	–	5,049	–	–	5,049
Translation difference	–	–	(28,937)	–	–	–	(28,937)
2007 final dividend paid	–	–	–	–	–	(28,087)	(28,087)
Loss for the year	–	–	–	–	(5,854)	–	(5,854)
At 31 December 2008	465,002	2,951	(56,039)	6,530	9,434	–	427,878

(c) Nature and purpose of reserves

(i) Share premium account

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

35. RESERVES *(CONTINUE)*

(c) Nature and purpose of reserves *(CONTINUE)*

(ii) Share-based payment reserve

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3(s) to the financial statements.

(iii) Special reserve

The special reserve represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof pursuant to the reorganisation as set out in the prospectus of the Company dated 11 September 2006.

(iv) Statutory reserves

The statutory reserves, which are non-distributable, is appropriated from the profit after taxation of the Group's PRC subsidiaries under the applicable laws and regulations in the PRC.

(v) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(d)(iii) to the financial statements.

(vi) Convertible loan notes equity reserve

The convertible loan notes equity reserve represents the value of the unexercised equity component of convertible notes issued by the Company recognised in accordance with the accounting policy adopted for convertible loans in note 3(n) to the financial statements.

36. CAPITAL COMMITMENTS

The Group's capital commitments at the balance sheet date are as follows:

	2008 **RMB'000**	2007 RMB'000
Property, plant and equipment		
Contracted but not provided for	**129,453**	10,139

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

37. LEASE COMMITMENTS

At 31 December 2008 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2008 RMB'000	2007 RMB'000
Within one year	**5,074**	1,987
In the second to fifth years, inclusive	**3,444**	1,834
After five years	**732**	792
	9,250	4,613

Operating lease payments represent rentals payable by the Group for a piece of land, certain of its office, warehouses and motor vehicles. Leases are negotiated for an average term of eight years and rentals are fixed over the lease terms and do not include contingent rentals.

38. RELATED PARTY TRANSACTIONS

Other than those related party transactions and balances disclosed elsewhere in the financial statements, the Group's transactions with related parties during the year are as follows:

		2008 RMB'000	2007 RMB'000
Subcontracting expenses paid/payable to an associate, Penglai Jutal	(a)	**26,726**	–
Rental expenses paid/payable to a related company, Zhuhai Prospering	(b)	**1,675**	–
Contract revenue received/receivable from a related company, 大連船舶重工海洋工程有限公司 ("Dalian Shipbuilding Offshore Company Limited" ("Dalian Shipbuilding"))	(c)	**14,949**	–

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008

38. RELATED PARTY TRANSACTIONS *(CONTINUE)*

(a) At 31 December 2008, the balance due to Penglai Jutal in relating to the subcontracting expenses charged of RMB24,521,000 (2007: Nil) was included in the Group's trade and bills payable.

(b) Zhuhai Jutal has entered into a lease agreement with Zhuhai Prospering to lease a piece of land situated at the equipment manufacture area of Gan Lan Port Economic Zone in Zhuhai with a total floor area of approximately 67,000 square meters. The lease term was three years commencing from 1 March 2008 to 28 February 2011.

Zhuhai Prospering is a wholly-owned subsidiary of Firstachieve Group Limited, which in turn is 100 percent beneficially owned by Madam Wang Wei, spouse of Mr. Wang Lishan, the chairman, an executive director and a substantial shareholder of the Company.

(c) Dalian Shipbuilding is an associate of Prospering Investments Limited, a Company beneficially wholly-owned by Mr. Wang Lishan, the chairman, an executive director and a substantial shareholder of the Company.

39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 3 April 2009.

SUMMARY OF FINANCIAL DATA ANNOUNCED IN PREVIOUS YEARS

(All amounts in RMB'000 unless otherwise stated)

INCOME STATEMENT

	For the year ended 31 December					
	2003	2004	2005	2006	2007	**2008**
Turnover	145,590	184,862	248,887	297,190	422,856	**364,087**
Profit for the year	19,345	25,987	39,573	42,662	68,029	**29,545**

ASSETS AND LIABILITIES

	For the year ended 31 December					
	2003	2004	2005	2006	2007	**2008**
Total assets	104,134	127,453	112,765	340,526	801,160	**687,519**
Total liabilities	(66,794)	(64,126)	(42,356)	(75,881)	(266,633)	**(163,034)**
Total equity	37,340	63,327	70,409	264,645	534,527	**524,485**

Notes:

1. Financial information for each of the three years ended 31 December 2003, 31 December 2004 and 31 December 2005 for the Group were prepared in accordance with combined basis as if the Group's structure has been in existence since the Company's shares were listed on the Stock Exchange. The results for the three years ended 31 December 2005 and assets and liabilities as at 31 December 2003, 2004 and 2005 of the Company were extracted from the Company's prospectus dated 11 September 2006.

2. The results for the year ended 31 December 2006, 31 December 2007 and 31 December 2008 and assets and liabilities as at 31 December 2006, 31 December 2007 and 31 December 2008 were extracted from the audited consolidated income statement and the audited consolidated balance sheet.