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: 03303)

SHAPING FUTURE

growth

ANNUAL REPORT 2011

Contents

CORPORATE INFORMATION

SHARE INFORMATION

Listing place	:	Main Board of The Stock Exchange of Hong Kong Limited
Stock code	:	03303
Listing date	:	21 September 2006
Stock name	:	Jutal Oil Ser
Issued shares	:	622,799,278 ordinary shares
Website	:	http://www.jutal.com

BOARD OF DIRECTORS

Executive directors

Mr. Wang Lishan *(Chairman)*
Mr. Cao Yunsheng *(CEO)*
Mr. Chen Guocai
Mr. Tian Huiwen

Independent non-executive directors

Mr. Su Yang
Mr. Lan Rong
Mr. Xiang Qiang
Mr. Gao Liangyu

AUDIT COMMITTEE

Mr. Su Yang *(Chairman)*
Mr. Lan Rong
Mr. Xiang Qiang
Mr. Gao Liangyu

REMUNERATION COMMITTEE

Mr. Xiang Qiang *(Chairman)*
Mr. Su Yang
Mr. Lan Rong
Mr. Gao Liangyu

NOMINATION COMMITTEE

Mr. Gao Liangyu *(Chairman)*
Mr. Lan Rong
Mr. Su Yang
Dr. Xiang Qiang

COMPANY REPRESENTATIVE AND COMPANY SECRETARY

Mr. Luk Chi Tong

REGISTERED OFFICE

Cricket Square,
Hutchins Drive,
P.O. Box 2681,
Grand Cayman,
KY1-1111,
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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1 Connaught Place, Hong Kong

HEADQUATERS 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

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 AND REPORTING ACCOUNTANT

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,
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INVESTOR ENQUIRY

Investor Relations
Jutal Offshore Oil Services Limited
10th Floor, Chiwan Petroleum Building
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Financial Highlights

1. RESULTS *(RMB'000)*

Turnover
(RMB 000)

Gross Profit
(RMB 000)

Net Profit
(RMB 000)

2. BASIC AND DILUTED EARNINGS PER SHARE

Net profit attributable to the owners of the Company was RMB9,306,000 for the year and the basic and diluted earnings per ordinary share were RMB0.0169.

3. DIVIDEND

The board of directors does not recommend the payment of any dividend for the year ended 31 December 2011.

Wang Lishan
Chairman

In Pursuit of Quality

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 2011 to the shareholders.

BUSINESS REVIEW

Having been committed to enhance our core competitive strength, the Group implemented the development strategies through pressing ahead R&D and engineering of advanced technology, quality product manufacturing as well as effective marketing. In 2011, the Group has achieved breakthroughs in new business development, the construction of fabrication site and facilities, R&D and technical skills, earmarking a significant milestone for the Group over the past year.

Promote General Contracting for Business Transformation

In 2011, the Group has undergone momentous changes from a pure manufacturer to EPC (Engineering, Procurement and Construction) general contractor for the oil, gas and water processing skid equipment business. With valuable R&D and engineering experiences being cultivated and consolidated over the years, the Group is able to provide one-stop solutions to customers based on their technical requirements, which include engineering, procurement, manufacturing, on-site installation and commissioning. During the year, the Group has undertaken a number of large-scale EPC contracting equipment supply projects, including the gas and water processing modules required for the exploitation of overseas oil field by overseas and domestic oil companies. These projects have been successfully launched, which aggrandized the Group's reputation and market prominence, thereby securing a leading edge in the industry.

In July 2011, the Group completed the acquisition of the entire equity interest of Zhuhai Prospering Offshore Oil Engineering Limited, through which it possessed a 400,000-sq.m. fabrication site located at the Equipment Manufacture Area of Zhuhai Gaolan Port Economic Zone.

Set a Foothold in Subsea Fabrication for High-end Manufacturing

With our on-going and unfailing efforts, the Group has established cooperations with international oil field production equipment supplier regarding the fabrication of subsea oil field production equipments. During the reporting year, the Group has successfully built and delivered the first set of "subsea manifold device", which is to be used in the oil and gas projects in the South China Sea. As the manufacturing of this subsea manifold device requires high quality materials, techniques, technologies and management, the smooth delivery of the device underscores that the Group has become the first company in China capable of manufacturing a subsea device on its own and that its integrated manufacturing capacity has received recognition from mainstream oil and gas equipment and facility contractors in the world.

CHAIRMAN'S STATEMENT

Consolidate Core Strength to Secure Leading Edge

Advanced R&D and engineering capabilities are fundamental to the Group's dominance in the market. Through research and development conducted by introduction and on its own, the Group has gradually established a modern oil, gas and water processing and related engineering system. With the proficient application of advanced technologies including the oil, gas and water separation technology, water treatment technology and gas dehydration and desulfurization technology, we provide domestic and overseas customers with self-supporting engineering and fabrication of oil, gas and water treatment equipments. In 2011, the Group has applied for and obtained a number of patents.

During 2011, the Group acquired the entire equity interest of Zhuhai Prospering Offshore Oil Engineering Limited ("Zhuhai Prospering"), through which it possessed a 400,000-sq.m. fabrication site located at the Equipment Manufacture Area of Zhuhai Gaolan Port Economic Zone on which the second phase of the construction of Zhuhai plant was underway, thus further boosting the integrated fabrication capacity of the Group.

Proactive Market Development to Enhance Growth Potential

The intricacies of the global macroeconomic conditions and the relevant industries bring about challenges to the Group's operation and development. Over the past year, the Group has reinforced its traditional business and clientele while actively soliciting new customers and replicating successful experience to emerging markets to foster the development of new business with huge potential. We made timely adjustment of our business structure to cope with changes in external market and customers, which laid a solid foundation for our sustainable development in the future.

In respect of our shipbuilding services business, the Group has collaborated with other shipbuilding enterprises while consolidating our business in Dalian, striving to establish business cooperation for the fabrication of offshore oil and gas equipment and facilities. Through our projects, the Group's project management and on-site construction capability were well-received by customers, which laid a rigid foundation for our future market development. In respect of the offshore oil and gas services business, we aggressively sought for new customers and business, developed new business that requires advanced technology such as the fabrication and installation of subsea equipment. Capitalizing on our integrated services, the Group provided customers with attentively formulated solutions, arranged for the procurement of materials and facilities fabrication in strict compliance with the schedule. We also completed all tasks with safety, quality and punctuality, receiving the highest acclaims from customers.

PROSPECTS

In 2011, despite the significant impact on the Group's results for the reporting period due to our low gross margin policy for certain new business on the basis of the marketing strategy coupled with the reduction in the amount of construction work of our associate – Penglai Jutal Offshore Engineering Heavy Industries Company Limited ("Penglai Jutal"). The Group's dedication and achievements over the last few years are still of great importance to realizing our strategic objectives in the future.

Utilizing international technology and enhancing our own research and development and engineering capacity, the Group will improve and perfect its EPC general contracting ability to become an oil, water and gas treatment equipment solution provider with core technology. As a forerunner in China, we will rapidly fortify our competitive strength to tap into the international market.

In late 2011 and early 2012, the Group has commanded a few sizeable fabrication orders, including fabrication orders for a series of subsea structures for an offshore deepwater gas field in the South China Sea in collaboration with an internationally renowned oil and gas contractor, orders for the fabrication of produced water treatment packages for overseas oil and gas fields of China oil companies as well as orders of gas treatment packages for overseas customers. Currently, the Group's existing orders and orders under negotiation have basically been able to satisfy the production capacity of the Zhuhai plant in 2012. Fabrication of subsea equipment will become the next pillar business of the Group for strategic development. To this end, the Company has particularly set up the subsea products department for the independent management and operation of the business.

Construction of the second phase of Zhuhai fabrication site is underway and anticipated to be completed by mid-2012. The second phase construction includes a port, a skid way with loading capacity of approximately 2,000 tonnes and facilities designed specifically for subsea fabrication business. Upon completion, the Group's capacity in undertaking larger oil and gas fabrication business will be greatly enhanced.

The Group will enlarge the R&D and engineering capacity and cooperate with domestic and foreign research and engineering institutions incessantly. To cater to the launching of new projects, we have conducted research and development on new products whilst a number of patents are pending for application. Focusing on the overall strategic objectives for the development of the oil, gas and water treatment equipment business and offshore construction projects, the Group will bolster the processing and in-depth engineering capability for the supply of oil, gas and water treatment equipment business, while recruiting engineers related to the offshore engineering business.

During the incoming year, the Group will continue the construction and improvement of management systems while enhancing the operating capacity of various projects. With diligent efforts in fostering the innovative development of our business and exploring new markets, we will consolidate existing achievements, identify and capture any opportunities to fuel our future growth.

We will firmly implement the Group's development strategy based on the long-term development plan of the Group. On behalf of the Board, I would like to express my heartfelt gratitude to all shareholders, enthusiastic and outstanding management and staff, and all parties who offered firm support to the Group.

By Order of the Board
Wang Lishan
Chairman

Hong Kong, 23 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL AND BUSINESS REVIEW

Turnover

In year 2011, the Group recorded turnover of approximately RMB493,348,000, representing an increase of 15.25% or RMB65,282,000 compared with year 2010. All the Group's reportable segments other than civil engineering business recorded revenue growth. In particular, revenue from the Group's major business of fabrication of oil and gas facilities and oil and gas processing skid equipment business increased by 18.89% or RMB52,494,000 over last year.

The table below set out the analysis of turnover by product or service for the preceding three financial years:

	For the financial year ended 31 December					
	2011		2010		2009	
Products/Services	**RMB'000**	**Percentage to total turnover (%)**	RMB'000	Percentage to total turnover (%)	RMB'000	Percentage to total turnover (%)
1. Provision of technical supporting and related services for oil and gas industry and sales of equipment and materials	**89,532**	**18**	82,084	19	108,235	28
2. Fabrication of oil and gas facilities and oil and gas processing skid equipment	**330,456**	**67**	277,962	65	218,324	55
3. Provision of technical support services for shipbuilding industry	**73,360**	**15**	66,340	15	60,404	15
4. Civil Engineering business	**–**	**–**	1,680	1	9,148	2
Total	**493,348**	**100**	428,066	100	396,111	100

The second phase of the construction of Zhuhai plant was underway and anticipated to be completed by mid-2012. Upon completion, the Group's capacity in undertaking oil and gas fabrication business will be greatly enhanced.

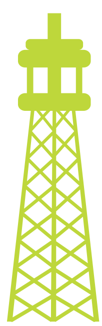
Cost of sales and service

Cost of sales and service of the Group for the year amounted to approximately RMB393,156,000, representing an increase of 18.34% or RMB60,921,000 compared with 2010.

Gross profit

The total gross profit of the Group amounted to approximately RMB100,192,000 in year 2011, representing an increase of 4.55% compared with RMB95,831,000 in year 2010. The overall gross profit margin was decreased from 22.39% in 2010 to 20.31%. The gross profit margin from the provision of technical support services for shipbuilding industry business decreased from 25% last year to 13%. The decline in gross profit margin was mainly attributable to changes in business structure and vigorous competition. The gross profit margin of the provision of technical supporting and related services for oil and gas industry and sales of equipment and materials business has been increased from 28% in last year to 39%, mainly due to the Group's active exploration of new customers and business and development of new high technology businesses, the implementation of internal refined management while fully utilize its own employees to reduce its reliance on external subcontracting services and lower costs. In view of its marketing strategy of lower gross profit margins for certain new business as well as our first attempts in a number of key projects, the gross profit margin of the fabrication of oil and gas facilities and oil and gas processing skid equipment business was lower than that of 2010.

The Group's existing orders and orders under negotiation have basically been able to satisfy the production capacity of Zhuhai plant in 2012. The business of Penglai Jutal remains satiated.



The table below set out the analysis of gross profit/(loss) by product or service for the preceding three financial years:

	For the financial year ended 31 December								
	2011			2010			2009		
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 supporting and related services for oil and gas industry and sales of equipment and materials	**34,790**	**39**	**35**	23,088	28	24	36,075	33	40
2. Fabrication of oil and gas facilities and oil and gas processing skid equipment	**55,792**	**17**	**55**	55,858	20	58	38,661	18	43
3. Provision of technical support services for shipbuilding industry	**9,660**	**13**	**10**	16,308	25	17	20,147	33	22
4. Civil Engineering business	**(50)**	**-**	**-**	577	34	1	(4,905)	(54)	(5)
Total	**100,192**		**100**	95,831		100	89,978		100

Other income

Other income of the Group was decreased by 87.28% compared with year 2010 to RMB2,423,000, primarily due to the substantial decrease in gain on disposals of property, plant and equipment and compensation income during the reporting year (In 2010, gain on disposals of property, plant and equipment amounted to RMB11,114,000 and compensation income amounted to RMB3,436,000, mainly represents gain on disposal of vessel – "Hongli 900" and the related compensation received).

Administrative expenses

Administrative expenses were increased by 20.63% or RMB14,266,000 compared with year 2010 to RMB83,427,000, which mainly comprised of management staff's remuneration, market development and management expenses, travelling expenses, motor vehicle expenses, insurance expenses and share options expenses. The increase in total administrative expenses is mainly due to increase in headcount of management staff, which results in an corresponding increase in salary level, premium, housing provident funds and welfare expenses while travelling expenses increased due to the Group's strenuous business expansion.

Finance costs

Finance costs reached RMB4,269,000 in 2011, which mainly comprised of bank loans interest of RMB3,243,000 and bank charges and other finance costs of RMB1,026,000.

Share of profits of an Associate

The Group held 30% of equity interest in Penglai Jutal. In year 2011, major contracts of Penglai Jutal were signed during the second half of the year, leading to uneven and substantial decrease in the amount of works in 2011 as compared with 2010. In 2011, Penglai Jutal recorded net profit after tax amounted to RMB7,630,000. The Group's share of profits from the associate was amounted to RMB2,289,000 under the equity method of accounting.

Net profits attributable to the owners of the Company and earnings per share

In year 2011, net profit attributable to owners of the Company was amounted to RMB9,306,000. Basic and diluted earnings per share were RMB0.0169.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the working funds (cash on hand and bank deposits) of the Group amounted to approximately RMB70,261,000 (31 December 2010: RMB90,196,000). During the year, cash outflow from operating activities amounted to RMB19,370,000, cash outflow from investing activities amounted to RMB42,465,000, and cash inflow from financing activities amounted to RMB45,787,000.

As at 31 December 2011, the total banking facilities of the Group amounted to RMB257,563,000, of which RMB118,190,000 was utilised and RMB139,373,000 was unutilised. Out of the unutilised banking facilities, RMB13,100,000 was available for raising bank loans. As at 31 December 2011, bank loans of the Group amounted to RMB97,000,000.

CAPITAL STRUCTURE

During the year, the Company issued 124,699,278 consideration shares as part of the purchase consideration for the acquisition of the entire equity interests of Zhuhai Prospering. Furthermore, during the year share options were exercised by option holders to subscribe for a total of 100,000 ordinary shares of the Company.

As at 31 December 2011, the share capital of the Company comprised of 622,799,278 ordinary shares (2010: 498,000,000 ordinary shares).

As at 31 December 2011, the net assets of the Group amounted to approximately RMB825,062,000 (2010: RMB656,392,000), comprising non-current assets of approximately RMB761,644,000 (2010: RMB553,667,000), net current assets of approximately RMB85,993,000 (2010: RMB121,061,000) and non-current liabilities of approximately RMB22,575,000 (2010: RMB18,336,000).

MANAGEMENT DISCUSSION AND ANALYSIS

ACQUISITION OF A SUBSIDIARY

On 5 January 2011, an indirect wholly-owned subsidiary of the Company, Hong Kong Jutal Holdings Limited ("Hong Kong Jutal Holding"), has entered into an acquisition agreement (the "Acquisition Agreement") with Firstachieve Group Limited ("Firstachieve"). Pursuant to the Acquisition Agreement, Hong Kong Jutal Holding has agreed to purchase and Firstachieve has agreed to sell the entire equity interest of Zhuhai Prospering. The consideration of the acquisition is RMB140,500,000, and will be satisfied by (i) RMB16,100,000 in cash from the Group's internal resources; and (ii) RMB124,400,000 by the issue and allotment of 124,699,278 consideration shares at HK$1.16 each. At the direction of the Firstachieve, the consideration shares will be issued and allotted to Cheung Hing Investments Limited, which is wholly-owned by Mr. Wang Lishan, who is an executive director and the Chairman of the Company, where the Firstachieve is a company wholly-owned by his spouse.

The above acquisition was completed on 26 July 2011. Zhuhai Prospering has become a wholly-owned subsidiary of the Company, the financial results, assets and liabilities of Zhuhai Prospering have been consolidated into the consolidated financial statements of the Group.

SIGNIFICANT INVESTMENT

During year 2011, the Group has initiated the construction of the second phase of Zhuhai plant. Investment for the construction of the port and skid way at the preliminary stage is approximately RMB50 million and estimate additional investment of RMB50 million is required for the construction of subsequent plant and ancillary facilities. The construction works for the second phase of Zhuhai plant is expected to be completed and commence operation in 2012.

For the year ended 31 December 2011, the Group did not have any other significant investment.

FOREIGN EXCHANGE RISK

The principal place of production and operation of the Group is in the PRC, and the functional currency of the principal operating subsidiaries of the Group is RMB. The Group also operates its business overseas and possesses assets which are priced in currencies other than RMB. Fluctuation of RMB against other currencies like United States Dollars ("USD") and Hong Kong Dollars ("HKD") would bring certain foreign exchange risk to the Group. The Group would minimise the amount of assets which were priced in other currencies like USD and HKD, perform rolling estimates on foreign exchange rates, and would consider potential foreign exchange risk when entering into business contracts. The Group did not enter into any high risk derivatives trading and leveraged foreign exchange contracts for the years ended 31 December 2011 and 2010.

ASSETS PLEDGED BY THE GROUP

As at 31 December 2011, except for the bank deposits amounted to RMB1,770,000 that were pledged as security deposits for the issuance of performance bonds, letter of credits and bank acceptance, there were no other assets pledged by the Group.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any significant contingent liabilities.

CAPITAL MANAGEMENT

The Group's objectives when managing capital are 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 Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustment to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital using a gearing ratio, which is bank loans divided by total equity of the Group. The Group's policy is to keep the gearing ratio at a reasonable level.

The gearing ratios at 31 December 2011 and at 31 December 2010 were as follows:

	2011 **RMB'000**	2010 RMB'000
Bank loans	**97,000**	38,000
Total equity	**825,062**	656,392
Gearing ratio	**11.76%**	5.79%

The increase in bank loans and the gearing ratio from year ended 31 December 2010, mainly due to the second phase construction in Zhuhai being launched by the Group in 2011 while a number of engineering projects were underway, resulting in an increase in bank loans.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2011, the Group had total 2,658 employees (2010: 2,118), of which 525 (2010: 390) were management and technical staff, and 2,133 (2010: 1,728) were technicians.

The Group determines the remuneration and incentives of employees with reference to the prevailing industry practice, and based on their position, duties and performance. The Group contributes to social security funds including pension fund, medical, unemployment and industrial accident insurances for employees in the PRC, and contributes to mandatory provident fund for employees in Hong Kong according to corresponding laws and regulations.

The Group put emphasis on staff development, encourages employees to pursue continuous education, and formulates training programs for employees every year.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Wang Lishan (王立山), aged 53, 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 (大連理工大学) in 1982 with a bachelor's degree in offshore oil construction engineering. Mr. Wang has rich experience of management and administration in the oil and gas industries. Prior to joining the Group, he worked in Bohai Petroleum Company Platform Manufacturing Factory (渤海石油公司平台制造廠) 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. Cao Yunsheng (曹雲生), aged 49, 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 50, is an executive director and president 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 rich experiences in the petroleum industry ranging from field operation, engineering and construction, operational and corporate management, merger and acquisition, international and joint venture operation and management.

Mr. Tian Huiwen (田會文), aged 68, is an executive director 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. Tian was appointed an executive director in October 2009.

Independent non-executive director

Mr. Su Yang (蘇洋), aged 44, 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 (中国註冊會計師協會) in 1992 and 1994 respectively. He has a wealth working experience in the field of accounting. Mr. Su had been project manager of Shenzhen Zhongcheng Certified Public Accountants (深圳中誠會計師事務所), department manager of Yuehua Certified Public Accountants Co., Ltd. Shenzhen (深圳岳華會計師事務所有限公司) and the head and principal partner of Shenzhen TaiYang Certified Public Accountants (深圳泰洋會計師事務所). He is currently the managing partner of Wuzhou Songde Certified Public Accountants(五洲松德聯合會計師事務所). Mr. Su was appointed as an independent non-executive director in August 2006.

Mr. Lan Rong (蘭榮), aged 52, 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) 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 48, 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 extensive senior managerial experience. He has been appointed as the general manager, chairman or president of various entities in China with focus on different areas such as hospitality, securities, real estate project management and development, etc.. Mr Xiang is currently the general manager of Scitech Group Company Limited (賽特集團有限公司) and an executive director and president of PCD Stores (Group) Limited (中國春天百貨集團有限公司). Mr. Xiang was appointed as an independent non-executive director in May 2008.

Mr. Gao Laingyu (高良玉), aged 47, is an independent non-executive director of the Company. He obtained his master degree of economics and his bachelor degree at Graduate Department of People's Bank of China (中國人民銀行研究生部) in 1991 and Nanjing Agriculture University (南京農業大學) in 1986 respectively and is an economist. Mr. Gao started his career in 1986 and the positions held by him include officer of the audits department of Nanjing Agriculture University, section chief of Finance Management Department of the People's Bank of China, the deputy division chief of Public Offering Supervision Department of the Chinese Securities Regulatory Commission (中國證券監督管理委員會). At present he serves as the director and chief executive officer in the China Southern fund Management Limited (南方基金管理有限公司). Mr. Gao was appointed as an independent non-executive director in May 2009.

AUTHORISED REPRESENTATIVE AND COMPANY SECRETARY

Mr. Luk Chi Tong (陸志棠), aged 40, 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.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. He Rugang (賀汝剛), aged 49, is the vice president of the Company, who is responsible for the commercial and marketing of the offshore engineering projects. He was graduated from Tianjin University with a bachelor's degree in offshore oil construction. Mr. He Joined the Group in 1997 as a deputy general manager, and has been in the SBM Beijing Representative office, Dalian Shipbuilding Industry Offshore Engineering Co., Ltd. (大連船舶重工集團海洋工程有限公司), and CNOOC North Pars project as sales manager, deputy general manager and commercial manager respectively from year 2005 to year 2010. He was appointed the current position in January 2011. Prior to joining the Group, Mr. He had worked in CNOOC platform Fabrication Co. (中海油平台製造公司) and Shenzhen Chiwan Offshore Engineering Co., Ltd. (深圳赤灣海洋工程有限公司).

Mr. Li Jing (李靖), aged 44, is the vice president of the Company. He was graduated from Sun Yat-Sen University (中山大學) with a bachelor's degree in enterprise management. Mr. Li joined the Group in 1999, and had served as operation manager and the manager of New Star System Formwork Co., Limited (鑫星系統模板有限公司). Mr. Li also served as the deputy manager of Penglai Jutal Offshore Engineering heavy Industry Co., Ltd. (蓬萊巨濤海洋工程重工有限公司) from the year 2004 to 2009. Prior to joining the Group, Mr. Li had worked in CNOOC platform Fabrication Co. (中海油平台製造公司), 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. Guo Yong (郭勇), aged 50, is the vice president of the Company, who is responsible for the Group's commercial and marketing, R & D and design of the process skid equipment fabrication business. Mr. Guo graduated from the Nanjing Institute of Chemical Technology (南京化工學院) with a bachelor degree in Chemical Machinery in 1983, and obtained his master's degree in engineering from Huazhong University of Science and Technology (華中工學院) in 1985. Mr. Guo had served as senior engineer and manager in Beijing Petrochemical Engineering Company (北京石化工程公司), Technip Engineering Consulting (Shanghai) Co., Ltd., and Nanjing Yingke. Mr. Guo joined the Group in 2007.

Mr. Li Chunyi (李純毅), aged 60, is the assistant to the president of the Company and in charge of the sales and market of the Bohai region. He joined the Group in 1999 and had served as the administration manager and the deputy manager of Tianjin Jutal. Prior to joining the Group, Mr. Li was a government official.

Mr. Yang Bo (楊波), aged 40, is the assistant to the president of the Company and the manager of Jutal Offshore Shipbuilding Services (Dalian) Co., Ltd. (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).

Mr. Jin Yan (金焱), aged 46, is the assistant to the president of the Company, who is responsible for the investor relations and the construction of Zhuhai fabrication yard. He was graduated from the Mechanic Engineering Faculty of Nautical College (上海海運學院) (now the Engineering Mechanic Faculty of the Logistics Engineering College of Shanghai Maritime University (上海海事大學)) in 1988. Mr. Jin joined the Group in March 2000. Prior to joining the Group, Mr. Jin was the manager and deputy general manger of the property department of Shenzhen Gold Industries Co., Ltd. (深圳黃金實業有限公司) and the technical supervisor and deputy manager of the technical department of Shekou China Merchants Port Service (招商港蛇口港務有限公司).

The directors of the Company (the "Directors") present the annual report and the audited accounts of the Group for the year ended 31 December 2011.

PRINCIPLE ACTIVITIES

The principle activity of the Company is investment holding.

The Group is mainly engaged in providing integrated services, including fabrication and technical support services in offshore oil and gas and shipbuilding industry.

The activities of the principal subsidiaries are set out in note 19 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company's share premium reserve was approximately RMB645,832,000, and the retained profits approximately RMB22,914,000 were available for distribution to the shareholders of the Company (the "Shareholders").

Under the Companies Law of the Cayman Islands, the funds in the share premium 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 2011 are set out in the consolidated income statement on page 35.

The Board does not recommend the payment of any dividend for the year ended 31 December 2011.

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

During the year, the Company issued 124,699,278 consideration shares as part of the purchase consideration for the acquisition of the entire equity interests of Zhuhai Prospering. Furthermore, during the year share options were exercised by option holders to subscribe for a total of 100,000 ordinary shares of the Company.

As at 31 December 2011, the share capital of the Company comprised of 622,799,278 ordinary shares (2010: 498,000,000 ordinary shares).

Details of the movements during the year in share capital of the Company are set out in note 34 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 year ended 31 December 2011 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 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; 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 General Scheme Limit of the Share Option Scheme has been refreshed and approved by shareholder's resolution at the Company's annual general meeting held on 27 May 2009. 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 49,800,000 Shares, representing 10% of the shares in issue on the date of the said annual general meeting (498,000,000 Shares). 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 options to Directors and other eligible participants under the Share Option Scheme from 1 January 2007 to 31 December 2011. 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 2011	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 2011	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	0.32%
Cao Yunsheng	16/03/2007	16/03/2008 to 15/03/2017	1.68	1.63	1,000,000	–	–	–	1,000,000	0.16%
Chen Guocai	16/03/2007	16/03/2008 to 15/03/2017	1.68	1.63	1,000,000	–	–	–	1,000,000	0.16%
Tian Huiwen	16/03/2007	16/03/2008 to 15/03/2017	1.68	1.63	350,000	–	–	–	350,000	0.06%
Other eligible participants	16/03/2007	16/03/2008 to 15/03/2017	1.68	1.63	4,810,000	–	–	550,000	4,260,000	0.68%
Total					**9,160,000**	**–**	**–**	**550,000**	**8,610,000**	**1.38%**

(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 as at 1 January 2011	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 2011	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	0.32%
Cao Yunsheng	12/03/2008	12/03/2009 to 11/03/2018	1.62	1.55	1,200,000	–	–	–	1,200,000	0.19%
Chen Guocai	12/03/2008	12/03/2009 to 11/03/2018	1.62	1.55	1,200,000	–	–	–	1,200,000	0.19%
Tian Huiwen	12/03/2008	12/03/2009 to 11/03/2018	1.62	1.55	350,000	–	–	–	350,000	0.06%
Other eligible participants	12/03/2008	12/03/2009 to 11/03/2018	1.62	1.55	10,520,000	–	–	950,000	9,570,000	1.54%
Total					**15,270,000**	**–**	**–**	**950,000**	**14,320,000**	**2.30%**

(iii) Options granted in 2009

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 2011	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 2011	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Cao Yunsheng	14/08/2009	14/08/2010 to 13/08/2019	0.92	0.92	800,000	—	—	—	800,000	0.13%
Chen Guocai	14/08/2009	14/08/2010 to 13/08/2019	0.92	0.92	800,000	—	—	—	800,000	0.13%
Tian Huiwen	14/08/2009	14/08/2010 to 13/08/2019	0.92	0.92	300,000	—	—	—	300,000	0.05%
Other eligible participants	14/08/2009	14/08/2010 to 13/08/2019	0.92	0.92	9,650,000	100,000	—	400,000	9,150,000	1.47%
Total					**11,550,000**	**100,000**	**—**	**400,000**	**11,050,000**	**1.77%**

(iv) Options granted in 2010

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 2011	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 2011	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Eligible participants	27/05/2010	27/05/2013 to 26/05/2020	0.93	0.88	6,500,000	-	-	-	6,500,000	1.04%
Total					**6,500,000**	**-**	**-**	**-**	**6,500,000**	**1.04%**

(v) Options granted in 2011

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 2011	Shareholding percentage of the underlying shares for the Options in the share capital of the Company
Cao Yunsheng	23/05/2011	23/05/2013 to 22/05/2021	1.06	1.04	1,000,000	–	–	–	1,000,000	0.16%
Chen Guocai	23/05/2011	23/05/2013 to 22/05/2021	1.06	1.04	1,000,000	–	–	–	1,000,000	0.16%
Other eligible participants	23/05/2011	23/05/2013 to 22/05/2021	1.06	1.04	29,750,000	–	–	650,000	29,100,000	4.67%
Total					**31,750,000**	**–**	**–**	**650,000**	**31,100,000**	**4.99%**

Each option granted under the Share Option Scheme during the period gives the holder the right to subscribe for one Share. 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.

DIRECTORS AND DIRECTORS' SERVICE CONTRACT

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

Executive directors	Date of appointment	Date of resignation
Mr. Wang Lishan	24 November 2005	–
Mr. Cao Yunsheng	24 November 2005	–
Mr. Chen Guocai	18 April 2007	–
Mr. Tian Huiwen	27 October 2009	–

Independent non-executive directors	Date of appointment	Date of resignation
Mr. Su Yang	26 August 2006	–
Mr. Xiang Qiang	30 May 2008	–
Mr. Lan Rong	30 May 2008	–
Mr. Gao Liangyu	27 May 2009	–

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 has entered into any service agreements with any member of the Group 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, note 24, note 33 and note 41 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 2011, 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)	396,911,278 (L) (Note 1)	63.73%
	Share options	4,000,000 (L)	0.64%
Chen Guocai	Interest of a controlled corporation (Note 3)	10,000,000 (L)	1.61%
	Share options	4,000,000 (L)	0.64%
Cao Yunsheng	Interest of a controlled corporation (Note 4)	12,000,000 (L)	1.93%
	Share options	4,000,000 (L)	0.64%
Tin Huiwen	Share options	1,000,000 (L)	0.16%

(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 5)	Beneficial owner	1 (L)	100%

Notes:

1. The letter "L" denotes a long position in the Shares.
2. The 396,911,278 Shares are held by Cheung Hing Investments Limited, which is wholly-owned by Wang Lishan.
3. The 10,000,000 shares are held by Sino Bright Management Limited, which is wholly-owned by Chen Guocai.
4. The 12,000,000 shares are held by Sino Joint International Limited, which is wholly-owned by Cao Yunsheng.
5. 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 2011. 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 2011, 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)	396,911,278 (L) (Note 1)	63.73%

Notes:

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

2. The 396,911,278 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.

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 2011.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Save as the options granted to the Directors 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 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 47.87% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 14.42% of the Group's total sales. The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 16.58% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 5.91% of the Group's total purchases.

Except Dalian Shipbuilding Industry Offshore Company Limited ("Dalian Shipbuilding Offshore"), which is an associate (as defined under the Listing Rules) of Prospering Investments Limited, a company beneficially wholly-owned by Mr. Wang Lishan, who is the chairman of the Company, an executive director and a controlling shareholder (as defined under the Listing Rules), none of the Directors, their associates or any Shareholders 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) On 5 January 2011, Hong Kong Jutal Holdings, an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with Firstachieve, a investment holding company incorporated in the British Virgin Islands with limited liability and wholly-owned by Ms. Wang Wei, spouse of Mr. Wang, who is the chairman of the Company, an executive director and a controlling shareholder (as defined under the Listing Rules). Pursuant to the Acquisition Agreement, Hong Kong Jutal Holdings has conditionally agreed to purchase and Firstachieve has conditionally agreed to sell the entire equity interest of Zhuhai Prospering, for the consideration of RMB140,500,000.

The consideration was satisfied as to RMB16,100,000 by the payment in cash and RMB124,400,000 by the issue and allotment of 124,699,278 consideration shares at the issue price of HK$1.16 each to Cheung Hing Investments Limited.

The Acquisition Agreement and the transactions under it were approved by the independent shareholders at the extraordinary general meeting held on 25 February 2011 and the Acquisition was completed on 26 July 2011.

(ii) On 1 March 2008, Zhuhai Jutal Offshore Oil Services Limited ("Zhuhai Jutal"), an indirect wholly-owned subsidiary of the Company, entered into a lease agreement with Zhuhai Prospering. Pursuant to the lease agreement, Zhuhai Prospering agreed to lease a piece of land situate at the Equipment Manufacture Area of Gaolan Port Economic Zone in Zhuhai with a total site area of approximately 67,000 square meters at RMB30 per square meter per annum for three years. Since Zhuhai Prospering is a wholly-owned subsidiary of Firstachieve, which in turn is wholly-owned by Ms. Wang Wei, spouse of Wang Lishan, who is the chairman of the Company, an executive director and a controlling shareholder (as defined under the Listing Rules). The lease constitutes a continuing connected transaction for the Company under the Listing Rules.

After expiry, the parties extended the term for a further 3 years. In July 2011 Zhuhai Prospering became a subsidiary of the Company and the lease ceased to be a connected transaction. The transaction amount arising from March to July 2011 does not exceed the disclosure threshold under the Listing Rules.

(iii) The Company has been providing construction support services ("Historical CCT") to Dalian Shipbuilding Offshore since 2008. Those transactions continued in 2011. As Dalian Shipbuilding Offshore is an associate (as defined under the Listing Rules) of Prospering Investments Limited, a company beneficially wholly-owned by Mr. Wang Lishan, who is the chairman of the Company, an executive director and a controlling shareholder (as defined under the Listing Rules), Dalian Shipbuilding Offshore is therefore a connected person of the Company under the Listing Rules. The Historical CCT constituted a historical non-exempt continuing connected transactions for the Company and were subject to the reporting and announcement requirements and requires the approval of the independent shareholders under the then Chapter 14A of the Listing Rules which were in force at the relevant time.

The Board has recently noted that the Company failed to report and announce the details of the Historical CCT and to seek the approval of independent shareholders. The Company also failed to conduct annual review of the Historical CCT from 2008 to 2010. Such failures constituted breaches of the Listing Rules.

The failure to comply with the Listing Rules requirements was inadvertent. Despite the breaches, the financial information of the Historical CCT has been disclosed in the financial section of the annual reports of the Company for the relevant fiscal years.

According to the rules 14A.37 of the Listing Rules, the independent non-executive directors had reviewed the continuing connected transactions and confirmed that the transactions were:

(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.

Further, in accordance with Rule 14A.38 of the Listing Rules, the Company's auditor was requested and engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

With regard to the transactions under the lease agreement between Zhuhai Jutal and Zhuhai Prospering, the auditor has 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.

However, with regard to the transactions with Dalian Shipbuilding Offshore, due to the breaches of the Listing Rules requirements by the Company as disclosed above, the auditor informed the Company that it was unable to report on under Rule 14A.38 of the Listing Rules regarding the Historical CCT for the year 2011.

A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

Details of the connected transactions of the year are disclosed in note 24, note 33 and note 41 to the consolidated financial statements.

DONATION

The Group's donations in 2011 totals RMB10,000 for charitable purposes.

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
23 March 2012

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.

To comply with the newly effective Listing Rules requirements, the Board committee has approved the adoption of the new Corporate Governance Code set out in Appendix 14 of the Listing Rules (to be effective on 1 April 2012) with effect from 1 April 2012.

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 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. Cao Yunsheng
Mr. Chen Guocai
Mr. Tian Huiwen

Independent non-executive directors

Mr. Su Yang
Mr. Xiang Qiang
Mr. Lan Rong
Mr. Gao Liangyu

Mr. Wang Lishan and Mr. Cao Yunsheng are the chairman and the 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.

Ten 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	7
Mr. Chen Guocai	10
Mr. Cao Yunsheng	9
Mr. Tian Huiwen	8
Independent non-executive directors	
Mr. Su Yang	5
Mr. Xiang Qiang	5
Mr. Lan Rong	5
Mr. Gao Liangyu	5

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.

ACCOUNTBILITY 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 certain functions to be 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 and conduct regular internal audits.

Furthermore, pursuant to the 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, which are Mr. Su Yang, Mr. Lan Rong, Mr. Gao Liangyu 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 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, renew the external auditor. The audit committee adopted the auditor's suggestion and comments that need to improve and made the management to implement. All members attended the meetings.

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 statement including the selection of suitable accounting policies. Independent external auditors are responsible for auditing and attesting to Group's financial statement 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 statement for the year ended 31 December 2011. 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 2011, 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 2011, 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 year 2012.

To comply with the newly effective Listing Rules requirements, the audit committee has approved the adoption of the new terms of reference with effect from 1 April 2012.

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. Gao Liangyu 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 suggest:

(1) annual salary review for 2011 for the Directors and the senior management;

(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.

To comply with the newly effective Listing Rules requirements, the remuneration committee has approved the adoption of the new terms of reference with effect from 1 April 2012.

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. Gao Liangyu, Mr. Su Yang, Mr. Lan Rong and Mr. Xiang Qiang. Mr. Gao Liangyu is the chairman of the nomination committee. The nomination committee is responsible to make proposals to the Board 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 filled with a variety and a balance of skills and experience.

During the year, one nomination committee meetings were held in the year to:

(1) decide the names of the Directors who should retired and be re-elected at the annual general meeting;

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

All members attended the meeting.

To comply with the newly effective Listing Rules requirements, the nomination committee has approved the adoption of the new terms of reference with effect from 1 April 2012.

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 2011 are as below:

	HK$'000
Audit service for the annual report	950,000
Review of the interim report	180,000
Other services	160,000

SHAREHOLDERS' RIGHTS

Each general meeting other than an annual general meeting, shall be called an extraordinary general meeting. General meetings maybe held in any part of the world as may be determined by the Board.

According to Article No.58 of the Company's articles of association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board of the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition.

If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

An annual general meeting and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by not less than twenty-one (21) clear days' notice. All other extraordinary general meetings may be called by not less than fourteen (14) clear days' notice.

Shareholders and investors are welcome to visit the Company's website and raise enquiries to our Board through our Investor Relations Department whose contact details are available on the website.

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") and it's subsidiaries (collectively referred to as the "Group") set out on pages 35 to 95, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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 2011 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.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

23 March 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Note	**2011 RMB'000**	2010 RMB'000
Turnover	*6*	**493,348**	428,066
Cost of sales and service		**(393,156)**	(332,235)
Gross profit		**100,192**	95,831
Other income	*7*	**2,423**	19,048
Administrative expenses		**(83,427)**	(69,161)
Other operating expenses		**(156)**	(1,435)
Profit from operations		**19,032**	44,283
Finance costs	*9*	**(4,269)**	(4,640)
Share of profit of an associate	*20*	**2,289**	42,046
Profit before tax		**17,052**	81,689
Income tax expense	*10*	**(7,746)**	(12,056)
Profit for the year	*11*	**9,306**	69,633
Attributable to:			
Owners of the Company		**9,306**	67,472
Non-controlling interests	*32*	**–**	2,161
		9,306	69,633
Earnings per share	*14*		
		RMB	RMB
Basic		**1.69 cents**	13.55 cents
Diluted		**1.69 cents**	13.53 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Profit for the year		**9,306**	69,633
Other comprehensive income, net of tax			
Exchange differences on translating foreign operations		**(12,883)**	(7,439)
Total comprehensive income for the year		**(3,577)**	62,194
Attributable to:			
Owners of the Company		**(3,577)**	60,033
Non-controlling interests	32	**–**	2,161
		(3,577)	62,194

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	15	**308,334**	93,906
Prepaid land lease payments	16	**742**	809
Goodwill	17	**182,135**	191,129
Intangible assets	18	**2,522**	3,319
Investment in an associate	20	**265,442**	263,153
Finance lease receivables	24	**–**	1,351
Deferred tax assets	31	**2,469**	–
		761,644	553,667
Current assets			
Inventories	21	**7,554**	7,439
Trade and bills receivables	22	**69,979**	73,353
Gross amount due from customers for contract work	23	**121,698**	78,577
Prepayments, deposits and other receivables		**24,884**	16,510
Finance lease receivables	24	**1,351**	1,257
Due from directors	25	**1,074**	630
Due from an associate	26	**36**	–
Current tax assets		**222**	606
Pledged bank deposits	27	**1,770**	3,234
Bank and cash balances	27	**69,347**	87,989
		297,915	269,595
Current liabilities			
Trade and bills payables	28	**65,704**	68,654
Gross amount due to customers for contract work	23	**5,648**	3,049
Accruals and other payables		**40,134**	34,540
Bank loans	29	**97,000**	38,000
Current tax liabilities		**3,436**	4,291
		211,922	148,534
Net current assets		**85,993**	121,061
Total assets less current liabilities		**847,637**	674,728

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Non-current liabilities			
Deferred tax liabilities	*31*	**22,575**	18,336
NET ASSETS		**825,062**	656,392
Capital and reserves			
Share capital	*34*	**6,084**	5,048
Reserves	*37(a)*	**818,978**	651,344
Equity attributable to owners of the Company		**825,062**	656,392

Approved by the Board of Directors on 23 March 2012

Wang Lishan
Chairman

Cao Yunsheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners 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	Non-controlling interests	Total equity
	(Note 34)	(Note 37(c))	(Note 37(c))	(Note 37(c))	(Note 37(c))	(Note 37(c))	(Note 37(c))				(Note 32)	
	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 2010	5,048	465,002	(52,040)	2,951	(36,096)	8,601	22,273	178,823	–	594,562	41,939	636,501
Total comprehensive income for the year	–	–	–	–	(7,439)	–	–	67,472	–	60,033	2,161	62,194
Purchase of non-controlling interests (note 32)	–	–	–	–	–	–	–	–	–	–	(44,100)	(44,100)
Share-based payments	–	–	–	–	–	1,797	–	–	–	1,797	–	1,797
Share options forfeited	–	–	–	–	–	(920)	–	920	–	–	–	–
Transfer to statutory reserves	–	–	–	–	–	–	1,751	(1,751)	–	–	–	–
2010 proposed final dividend	–	–	–	–	–	–	–	(12,699)	12,699	–	–	–
Changes in equity for the year	–	–	–	–	(7,439)	877	1,751	53,942	12,699	61,830	(41,939)	19,891
At 31 December 2010 and 1 January 2011	5,048	465,002	(52,040)	2,951	(43,535)	9,478	24,024	232,765	12,699	656,392	–	656,392
Total comprehensive income for the year	–	–	–	–	(12,883)	–	–	9,306	–	(3,577)	–	(3,577)
Issue of shares on acquisition of a subsidiary (note 33)	1,035	180,736	–	–	–	–	–	–	–	181,771	–	181,771
Share-based payments	–	–	–	–	–	3,099	–	–		3,099	–	3,099
Shares issued under share option scheme (note 34)	1	94	–	–	–	(19)	–	–	–	76	–	76
Share options forfeited	–	–	–	–	–	(433)	–	433	–	–	–	–
Transfer to statutory reserves	–	–	–	–	–	–	1,448	(1,448)	–	–	–	–
Dividend paid	–	–	–	–	–	–	–	–	(12,699)	(12,699)	–	(12,699)
Changes in equity for the year	1,036	180,830	–	–	(12,883)	2,647	1,448	8,291	(12,699)	168,670	–	168,670
At 31 December 2011	6,084	645,832	(52,040)	2,951	(56,418)	12,125	25,472	241,056	–	825,062	–	825,062

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**17,052**	81,689
Adjustments for:			
Finance costs		**4,269**	4,640
Share of profit of an associate		**(2,289)**	(42,046)
Share-based payments		**3,099**	1,797
Interest income		**(676)**	(568)
Depreciation		**10,927**	14,368
Amortisation of prepaid land lease payments		**67**	68
Amortisation of intangible assets		**797**	664
Loss/(gain) on disposals of property, plant and equipment		**16**	(11,114)
Reversal of allowance for trade and other receivables		**–**	(380)
Reversal of allowance for inventories		**–**	(66)
Allowances for trade and other receivables		**682**	860
Operating profit before working capital changes		**33,944**	49,912
Increase in inventories		**(115)**	(2,339)
Decrease in trade and bills receivables		**3,564**	19,732
(Increase)/decrease in gross amount due from customers for contract work		**(43,121)**	12,691
(Increase)/decrease in prepayments, deposits and other receivables		**(8,408)**	7,975
(Increase)/decrease in amounts due from directors		**(444)**	24
(Increase)/decrease in amount due from an associate		**(36)**	9
Decrease in pledged bank deposits		**171**	3,276
Decrease trade and bills payables		**(2,950)**	(20,843)
Increase/(decrease) in gross amount due to customers for contract work		**2,599**	(10,766)
Increase/(decrease) in accruals and other payables		**5,950**	(30,212)
Decrease in amount due to a related company		**–**	(1,791)
Cash (used in)/generated from operations		**(8,846)**	27,668
Income taxes paid		**(6,255)**	(4,633)
Interest paid		**(3,243)**	(3,443)
Other finance costs		**(1,026)**	(1,197)
Net cash (used in)/generated from operating activities		**(19,370)**	18,395
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**676**	568
Purchases of property, plant and equipment		**(32,701)**	(11,036)
Proceeds from disposals of property, plant and equipment		**101**	122,327
Purchase of intangible assets		**–**	(3,983)
Decrease in finance lease receivables		**1,257**	1,171
Acquisition of a subsidiary	*33*	**(11,798)**	–
Net cash (used in)/generated from investing activities		**(42,465)**	109,047

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank loans raised		**143,840**	58,000
Repayment of bank loans		**(84,840)**	(89,370)
Purchase of non-controlling interests	*32*	**(590)**	(43,510)
Dividends paid to owners of the Company		**(12,699)**	–
Proceeds from issue of shares under share option scheme	*34*	**76**	–
Net cash generated from/(used in) financing activities		**45,787**	(74,880)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(16,048)**	52,562
Effect of foreign exchange rate changes		**(3,887)**	(692)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**90,196**	38,326
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**70,261**	90,196
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**69,347**	87,989
Pledged bank deposits		**914**	2,207
		70,261	90,196

Pledged bank deposits can be reconciled to the consolidated statement of financial position as follows:

	2011 RMB'000	2010 RMB'000
Pledged bank deposits (mature in three months or less)	**914**	2,207
Pledged bank deposits (mature after three months)	**856**	1,027
	1,770	3,234

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. 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, the People's Republic of China (the "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 19 to the financial statements.

In the opinion of the directors of the Company, as at 31 December 2011, 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 (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2011. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant 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 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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 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 that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits 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.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated income statement and consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy (x) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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 and is initially recognised at cost. Identifiable assets and 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 and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, 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.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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 on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses for each statement of comprehensive income 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Foreign currency translation (cont'd)

(iii) Translation on consolidation (cont'd)

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 profit or loss 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 recognised in profit or loss 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:

Vessel	10 years
Buildings	20-44 years
Plant and machinery	5-10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years
Leasehold land	Over the lease period

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents property, plant and machinery under construction or 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 profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Patents and the computer software

Patents and computer software are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 5 years.

(g) 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 lessee

(i) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as 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 statement of financial position 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Leases (cont'd)

The Group as lessor

(i) Operating leases

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(ii) Finance leases

Leases that substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as finance leases. Amounts due from lessees under finance leases are recognised 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.

(h) Inventories

Inventories for trading, representing raw materials, are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Inventories for construction contracts, representing raw materials and consumables, are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. Net realisable value is determined by reference to the underlying specific contracts in progress in which the inventories will ultimately be used.

(i) 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 end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded in the statement of financial position at the amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the statement of financial position 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 statement of financial position as "Gross amount due to customers for contract work". Progress billings not yet paid by the customer are included in the statement of financial position under "Trade and bills receivables". Amounts received before the related work is performed are included in the statement of financial position under "Accruals and other payables".

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position 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 the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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 profit or loss.

(k) 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 profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss 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.

(l) Cash and cash equivalents

For the purpose of the statement of cash flows, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) 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.

(n) 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 reporting period.

(o) 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.

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.

(p) 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.

(q) Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) 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.

Rental income is recognised on a straight-line basis over the lease term.

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 lease.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(s) 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 end of the reporting period.

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 profit or loss 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.

(t) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(u) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(v) 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 recognised in profit or loss 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 end of the reporting period.

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. 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, and interests in joint ventures, 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 the end of each reporting period 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(v) Taxation (cont'd)

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 end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly 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.

(w) Related parties

A related party is a person or entity that is related to the Group.

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company.

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

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (A).
- (vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(x) Impairment of assets

At the end of each period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, deferred tax assets, 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 profit or loss, 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 profit or loss, 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.

(z) Events after the reporting period

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

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions.

The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) 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.

(c) 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.

(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.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONT'D)

Key sources of estimation uncertainty (cont'd)

(e) Allowance for trade and other receivables

The Group's management determines the allowance for receivables based on assessments of the recoverability of the trade and other receivables, including the creditworthiness, the past collection history of each debtor and the current market condition. Management will reassess the allowance made at the end of each reporting period.

(f) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

(g) Share-based payment expenses

The fair value of the share options granted to the directors, employees and other participants 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 granted in the year, the Binomial Option Pricing Model (the "Binomial Model") was used. The Binomial Model is one of the generally accepted methodologies used to calculate the fair value of the share options. The Binomial 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 RMB, Hong Kong dollars ("HK$") and United States dollars ("US$"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Foreign currency risk (cont'd)

At 31 December 2011, if the US$ had weakened 10 per cent against RMB with all other variables held constant, consolidated profits after tax for the year would have been approximately RMB551,000 (2010: RMB142,000) lower, arising mainly as a result of the foreign exchange loss on bank deposits and net position of trade and bills receivables and other receivables and trade and bills payables denominated in US$. If the US$ had strengthened 10 per cent against RMB with all other variables held constant, consolidated profits after tax for the year would have been approximately RMB551,000 (2010: RMB142,000) higher, arising mainly as a result of the foreign exchange gain on bank deposits and net position of trade and bills receivables and other receivables and trade and bills payables denominated in US$.

(b) Credit risk

The carrying amount of the cash and bank balances, trade and other receivables included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has no significant concentrations of credit risk.

It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The credit risk on cash and bank balances 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.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2011				
Trade and bills payables	**65,704**	–	–	–
Accruals and other payables	**40,134**	–	–	–
Bank loans	**100,845**	–	–	–
At 31 December 2010				
Trade and bills payables	68,654	–	–	–
Accruals and other payables	34,540	–	–	–
Bank loans	38,905	–	–	–

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(d) Interest rate risk

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

At 31 December 2011, if interest rates at that date had been 100 basis points lower with all other variables held constant, consolidated profit after tax for the year would have been RMB24,000 lower (2010: RMB445,000 lower), arising mainly as a result of lower interest income from bank deposits. If interest rates had been 100 basis points higher, with all other variables held constant, consolidated profit after tax for the year would have been RMB24,000 higher (2010: RMB445,000 higher), arising mainly as a result of higher interest income from bank deposits.

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

(e) Categories of financial instruments at 31 December

	2011	2010
	RMB'000	RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**154,156**	172,997
Financial liabilities:		
Financial liabilities at amortised cost	**201,017**	138,122

(f) Fair values

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

6. TURNOVER

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

	2011 RMB'000	2010 RMB'000
Sales of goods	**24,934**	24,607
Vessel leasing	**–**	2,410
Revenue from construction contracts and other services rendered	**468,414**	401,049
	493,348	428,066

7. OTHER INCOME

	2011 RMB'000	2010 RMB'000
Compensation income	**–**	3,436
Finance income from finance lease	**195**	282
Gain on disposals of property, plant and equipment	**–**	11,114
Interest income	**676**	568
Net foreign exchange gains	**1,466**	683
Reversal of allowance for trade and other receivables	**–**	380
Reversal of allowance for inventories	**–**	66
Sundry income	**86**	2,519
	2,423	19,048

8. SEGMENT INFORMATION

The Group has four reportable segments as follows:

(a) Provision of technical supporting and related services for oil and gas industry and sales of equipment and materials.

(b) Fabrication of oil and gas facilities and oil and gas processing skid equipment.

(c) Civil engineering business.

(d) Provision of technical support services for shipbuilding industry.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

8. SEGMENT INFORMATION (CONT'D)

The accounting policies of the operating segments are the same as those described in note 3 to the financial statements. Segment profits or losses do not include other income, administrative expenses, other operating expenses, finance costs and share of profits of an associate. Segment assets do not include goodwill, investment in an associate, finance lease receivables, deferred tax assets, current tax assets, pledged bank deposits, bank and cash balances and other corporate assets. Segment liabilities do not include bank loans, current tax liabilities, deferred tax liabilities and other corporate liabilities.

Information about reportable segment profit or loss, assets and liabilities:

	Provision of technical supporting and related 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	Total RMB'000
Year ended 31 December 2011					
Revenue from external customers	**89,532**	**330,456**	**–**	**73,360**	**493,348**
Segment profit/(loss)	**34,790**	**55,792**	**(50)**	**9,660**	**100,192**
Depreciation and amortisation	**2,529**	**7,908**	**–**	**1,287**	**11,724**
Other material non-cash items:					
Allowance for trade and other receivables	**155**	**420**	**–**	**107**	**682**
Additions to segment non-current assets	**3,167**	**221,515**	**–**	**792**	**225,474**
As at 31 December 2011					
Segment assets	**32,678**	**436,044**	**–**	**34,148**	**502,870**
Segment liabilities	**14,981**	**54,913**	**–**	**20,642**	**90,536**
Year ended 31 December 2010					
Revenue from external customers	82,084	277,962	1,680	66,340	428,066
Segment profit	23,088	55,858	577	16,308	95,831
Depreciation and amortisation	7,816	5,948	5	1,263	15,032
Other material non-cash items:					
Allowance for trade and other receivables	162	680	–	18	860
Additions to segment non-current assets	1,261	12,853	2	903	15,019
As at 31 December 2010					
Segment assets	30,932	190,699	2,057	20,592	244,280
Segment liabilities	11,159	60,038	433	16,496	88,126

8. SEGMENT INFORMATION (CONT'D)

Reconciliations of reportable segment profit or loss, assets and liabilities:

	2011 RMB'000	2010 RMB'000
Profit or loss		
Total profit or loss of reportable segments	**100,192**	95,831
Unallocated amounts:		
Finance costs	**(4,269)**	(4,640)
Other income	**2,423**	19,048
Other corporate expenses	**(83,583)**	(70,596)
Share of profit of an associate	**2,289**	42,046
Consolidated profit before tax for the year	**17,052**	81,689
Assets		
Total assets of reportable segments	**502,870**	244,280
Unallocated amounts:		
Bank and cash balances	**69,347**	87,989
Pledged bank deposits	**1,770**	3,234
Current tax assets	**222**	606
Deferred tax assets	**2,469**	–
Finance lease receivables	**1,351**	2,608
Investment in an associate	**265,442**	263,153
Goodwill	**182,135**	191,129
Other corporate assets	**33,953**	30,263
Consolidated total assets	**1,059,559**	823,262
Liabilities		
Total liabilities of reportable segments	**90,536**	88,126
Unallocated amounts:		
Bank loans	**97,000**	38,000
Current tax liabilities	**3,436**	4,291
Deferred tax liabilities	**22,575**	18,336
Other corporate liabilities	**20,950**	18,117
Consolidated total liabilities	**234,497**	166,870

8. SEGMENT INFORMATION (CONT'D)

Geographical information:

	Revenue		Non-current assets	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC except Hong Kong and Macau	**431,210**	376,210	**759,134**	553,610
Hong Kong	**2,845**	7,747	**34**	48
Macau	**–**	213	**7**	9
Other Asian Countries	**33,788**	31,086	**–**	–
Others	**25,505**	12,810	**–**	–
Consolidated total	**493,348**	428,066	**759,175**	553,667

In presenting the geographical information, revenue is based on the locations of the customers.

Revenue from major customers:

		2011	2010
		RMB'000	RMB'000
Fabrication of oil and gas facilities and oil and gas processing skid equipment			
Customer	A	**37,422**	26,267
	B	**35,613**	43,839
	C	**19,549**	77,404
	D	**5,371**	3,000
	E	**98,567**	6,217
Provision of technical support services for shipbuilding industry			
Customer	A	**73,228**	63,972
	C	**132**	2,368
Provision of technical supporting and related services for oil and gas industry and sales of equipment and materials			
Customer	A	**3,314**	4,120
	B	**23,290**	9,718
	D	**41,780**	53,920
	E	**5**	494

9. FINANCE COSTS

	2011 **RMB'000**	2010 RMB'000
Interest on bank loans	**3,243**	3,443
Others	**1,026**	1,197
	4,269	4,640

10. INCOME TAX EXPENSE

	2011 **RMB'000**	2010 RMB'000
Current tax – PRC Enterprise Income Tax		
Provision for the year	**5,744**	8,025
(Over)/under-provision in prior years	**(325)**	529
	5,419	8,554
Deferred tax (Note 31)	**2,327**	3,502
	7,746	12,056

(a) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made for the years as the Group did not generate any assessable profits arising in Hong Kong.

10. INCOME TAX EXPENSE (CONT'D)

(b) PRC Enterprise Income Tax

Pursuant to relevant laws and regulations in the PRC, the applicable PRC enterprise income tax rates of the Group's PRC subsidiaries are as follows:

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

Shenzhen Jutal is a wholly-owned foreign enterprise operated in Shenzhen Special Economic Zone. The tax rate applicable to Shenzhen Jutal for the year ended 31 December 2011 is 24% (2010: 22%). The applicable tax rate of Shenzhen Jutal will increase to 25% for the year ended 31 December 2012 and thereafter.

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

Dalian Jutal is a sino-foreign equity joint venture operated in Dalian Economic and Technological Development Area and is exempted from PRC enterprise income tax for the two years from its first profit-making year and thereafter are entitled to a 50% relief from PRC enterprise income tax for the following three years. Dalian Jutal was in its forth profit-making year for the financial year ended 31 December 2011 and was therefore entitled to a 50% relief from PRC enterprise income tax. The tax rate applicable to Dalian Jutal for the year ended 31 December 2011 is 12% (2010: 11%).

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

Zhuhai Jutal is a domestic enterprise established in the PRC. Zhuhai Jutal was approved to recognise as a new and high technology enterprise in year 2010 and is entitled to a preferential treatment to allow Zhuhai Jutal to enjoy a reduced income tax rate of 15% from the year 2010 till year 2012.

(iv) The tax rate applicable to other PRC subsidiaries in the Group were 25% during the year.

10. INCOME TAX EXPENSE (CONT'D)

(c) 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.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC enterprise income tax rate is as follows:

	2011 RMB'000	2010 RMB'000
Profit before tax (excluding share of profits of an associate)	**14,763**	39,643
Tax at the PRC enterprise income tax rate of 25% (2010: 25%)	**3,691**	9,911
Tax effect of income that is not taxable	**(531)**	(1,887)
Tax effect of expenses that are not deductible	**4,444**	2,845
Tax effect of tax losses not recognised	**4,052**	1,215
Tax effect of utilisation of tax losses not previously recognised	**–**	(23)
Tax effect of temporary differences not recognised	**(542)**	(505)
Increase in deferred tax liability resulting from change in tax rate enacted	**376**	438
Deferred tax on undistributed earnings of the PRC subsidiaries and an associate	**582**	2,484
PRC dividend withholding tax	**17**	–
(Over)/under-provision in prior years	**(325)**	529
Effect of different tax rates of subsidiaries	**(4,018)**	(2,951)
Income tax expense	**7,746**	12,056

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.

11. PROFIT FOR THE YEAR

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

	2011 RMB'000	2010 RMB'000
Amortisation of intangible assets	**797**	664
Depreciation	**10,927**	14,368
Directors' emoluments (Note 12)	**4,806**	5,430
Loss on disposal of property, plant and equipment	**16**	–
Operating lease charges		
– Hire of plant and equipment	**791**	239
– Land and buildings	**8,614**	7,814
Auditor's remuneration	**1,079**	1,156
Cost of inventories sold	**128,610**	62,814
Allowance for trade and other receivables	**682**	860
Staff costs including directors' emoluments		
– Salaries, bonuses and allowances	**158,302**	129,969
– Retirement benefits scheme contributions	**5,038**	3,614
– Share-based payments	**3,099**	1,797
	166,439	135,380

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 scheme benefit contributions RMB'000	Total RMB'000
Executive directors						
Wang Lishan	**–**	**1,302**	**–**	**–**	**16**	**1,318**
Cao Yunsheng	**–**	**1,192**	**–**	**116**	**16**	**1,324**
Chen Guocai	**–**	**1,192**	**–**	**116**	**16**	**1,324**
Tian Huiwen	**–**	**352**	**–**	**8**	**–**	**360**
	–	**4,038**	**–**	**240**	**48**	**4,326**
Independent non-executive directors						
Su Yang	**120**	**–**	**–**	**–**	**–**	**120**
Lan Rong	**120**	**–**	**–**	**–**	**–**	**120**
Xiang Qiang	**120**	**–**	**–**	**–**	**–**	**120**
Gao Liangyu	**120**	**–**	**–**	**–**	**–**	**120**
	480	**–**	**–**	**–**	**–**	**480**
Total for 2011	**480**	**4,038**	**–**	**240**	**48**	**4,806**
Executive directors						
Wang Lishan	–	1,301	–	29	15	1,345
Cao Yunsheng	–	1,442	–	152	15	1,609
Chen Guocai	–	1,442	–	152	15	1,609
Tian Huiwen	–	351	–	36	–	387
	–	4,536	–	369	45	4,950
Independent non-executive directors						
Su Yang	120	–	–	–	–	120
Lan Rong	120	–	–	–	–	120
Xiang Qiang	120	–	–	–	–	120
Gao Liangyu	120	–	–	–	–	120
	480	–	–	–	–	480
Total for 2010	480	4,536	–	369	45	5,430

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONT'D)

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 3 (2010: 3) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 2 (2010: 2) individuals are set out below:

	2011 **RMB'000**	2010 RMB'000
Basic salaries and allowances	**2,221**	2,037
Discretionary bonus	**–**	–
Share-based payments	**367**	285
Retirement benefit scheme contributions	**16**	15
	2,604	2,337

The emoluments fell within the following band:

	Number of individuals	
	2011	2010
HK$1,000,001 to HK$1,500,000	**2**	2

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

	2011 **RMB'000**	2010 RMB'000
Proposed final of HK$Nil (2010: HK$0.03) per ordinary share	**–**	12,699

14. EARNINGS PER SHARE

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

	2011	2010
	RMB'000	RMB'000
Earnings		
Earnings for the purpose of calculating basic and diluted earnings per share	**9,306**	67,472

	2011	2010
Number of shares		
Issued ordinary shares at 1 January	**498,000,000**	498,000,000
Effect of consideration shares issued	**53,979,413**	–
Effect of shares issued under share option scheme	**58,904**	–
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**552,038,317**	498,000,000
Effect of dilutive potential ordinary shares arising from share options outstanding	**–**	590,000
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**552,038,317**	498,590,000

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

Diluted earnings per share attributable to owners of the Company is calculated by dividing the profit attributable to owners of the Company for the year by 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 dilutive potential ordinary shares for the year ended 31 December 2011.

15. PROPERTY, PLANT AND EQUIPMENT

	Vessel RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Leasehold land RMB'000	Construction in progress RMB'000	Total RMB'000
Cost								
At 1 January 2010	125,364	66,064	31,663	5,534	12,179	–	3,013	243,817
Additions	–	–	2,726	1,324	804	–	6,182	11,036
Reclassification	–	225	152	4,564	–	–	(4,941)	–
Disposals	(125,364)	–	(285)	(410)	(191)	–	–	(126,250)
Exchange differences	–	–	(11)	(8)	–	–	–	(19)
At 31 December 2010 and 1 January 2011	–	66,289	34,245	11,004	12,792	–	4,254	128,584
Additions	–	–	5,332	1,228	1,622	–	24,519	32,701
Acquisition of a subsidiary (note 33)	–	–	–	–	–	192,773	–	192,773
Reclassification	–	867	–	–	–	–	(867)	–
Disposals	–	–	(38)	(117)	(240)	–	–	(395)
Exchange differences	–	–	(15)	(11)	–	–	–	(26)
At 31 December 2011	–	67,156	39,524	12,104	14,174	192,773	27,906	353,637
Accumulated depreciation								
At 1 January 2010	8,350	7,182	9,454	3,075	7,303	–	–	35,364
Charge for the year	6,233	2,183	3,270	896	1,786	–	–	14,368
Disposals	(14,583)	–	(67)	(312)	(75)	–	–	(15,037)
Exchange difference	–	–	(10)	(7)	–	–	–	(17)
At 31 December 2010 and 1 January 2011	–	9,365	12,647	3,652	9,014	–	–	34,678
Charge for the year	–	2,178	3,456	1,904	1,604	1,785	–	10,927
Disposals	–	–	(24)	(87)	(167)	–	–	(278)
Exchange differences	–	–	(14)	(10)	–	–	–	(24)
At 31 December 2011	–	11,543	16,065	5,459	10,451	1,785	–	45,303
Carrying amount								
At 31 December 2011	–	55,613	23,459	6,645	3,723	190,988	27,906	308,334
At 31 December 2010	–	56,924	21,598	7,352	3,778	–	4,254	93,906

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

16. PREPAID LAND LEASE PAYMENTS

	2011 **RMB'000**	2010 RMB'000
At 1 January	**809**	877
Amortisation of prepaid land lease payments	**(67)**	(68)
At 31 December	**742**	809

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 1 January 2010	197,874
Exchange difference	(6,745)
At 31 December 2010 and 1 January 2011	191,129
Exchange difference	(8,994)
At 31 December 2011	182,135

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 CGUs which represents the share of interest in an associate. As at 31 December 2011, no impairment loss on goodwill is identified.

The recoverable amounts of the CGUs 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 CGUs. 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 5%. This rate does not exceed the average long-term growth rate for the relevant markets. The discount rate applied to cash flow projects is 15.86%.

18. INTANGIBLE ASSETS

	Patents and computer software RMB'000
Cost	
At 1 January 2010	–
Additions	3,983
At 31 December 2010, 1 January 2011 and 31 December 2011	3,983
Accumulated amortisation	
At 1 January 2010	–
Amortisation for the year	664
At 31 December 2010 and 1 January 2011	664
Amortisation for the year	797
At 31 December 2011	1,461
Carrying amount	
At 31 December 2011	2,522
At 31 December 2010	3,319

The Group's patents and computer software protect the design and specification of certain type of the Group's products and services. The remaining amortisation period of patents and computer software is 3 years.

19. SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2011 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest/voting power/ profit sharing Direct	Indirect	Principal activities
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 supporting and related services for oil and 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 Service (Tianjin) Company Limited)	PRC	Registered capital of HK$10,000,000	–	100%	Provision of technical supporting and related 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 supporting and related services for oil and gas industry and sale of equipment and materials and provision of technical support services for shipbuilding industry
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 RMB 40,000,000	–	100%	Design and manufacture of oil and gas processing skid equipment

19. SUBSIDIARIES (CONT'D)

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest/voting power/ profit sharing		Principal activities
			Direct	Indirect	
Indirectly held (cont'd):					
巨濤海洋船舶工程服務(大連)有限公司 (Jutal Offshore Shipbuilding Services (Dalian) Company Limited)	PRC	Registered capital of HK$33,330,000	–	100%	Provision of technical support services for 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 RMB5,000,000 (Note a)	–	100%	Vessel leasing
珠海茂盛海洋石油工程有限公司 (Zhuhai Prospering Offshore Oil Engineering Limited)	PRC	Registered capital of USD4,619,724	–	100%	Property holding

Note a: On 18 January 2011, the paid up capital was reduced from RMB80,000,000 to RMB5,000,000.

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

20. INVESTMENT IN AN ASSOCIATE

	2011 RMB'000	2010 RMB'000
Unlisted investments:		
Share of net assets	**265,442**	263,153

Details of the Group's associate at 31 December 2011 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%

20. INVESTMENT IN AN ASSOCIATE (CONT'D)

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 steel formation design, fabrication, installation and repair, offshore back office as well as quayside and warehouse services.

Summarised financial information in respect of Penglai Jutal is set out below:

	2011 **RMB'000**	2010 RMB'000
At 31 December		
Total assets	**1,543,608**	1,093,859
Total liabilities	**(658,800)**	(216,683)
Net assets	**884,808**	877,176
Group's share of associate's net assets	**265,442**	263,153
Year ended 31 December		
Total revenue	**512,898**	583,054
Total profit for the year	**7,630**	140,155
Group's share of associate's profit for the year	**2,289**	42,046

21. INVENTORIES

	2011 **RMB'000**	2010 RMB'000
Raw materials	**7,554**	7,439

22. TRADE AND BILLS RECEIVABLES

The Group's trade receivables mainly represent progress billings receivables from contract customers.

The Group's trading terms with contract customers are mainly on credit. The credit terms other than retentions receivables 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 payment 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 directors.

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

	2011 **RMB'000**	2010 RMB'000
0 to 30 days	**35,900**	27,530
31 to 90 days	**10,270**	40,557
91 to 365 days	**21,402**	3,770
Over 365 days	**2,407**	1,496
	69,979	73,353

As at 31 December 2011, trade and bills receivables aged over 90 days includes retentions receivables which amounted to approximately RMB3,430,000 (2010: RMB1,286,000).

As at 31 December 2011, an allowance was made for estimated irrecoverable trade receivables of approximately RMB1,011,000 (2010: RMB363,000). The reconciliation of allowance for trade receivables is as follows:

	2011 **RMB'000**	2010 RMB'000
At 1 January	**363**	675
Allowance for the year	**648**	658
Reversal of allowance	**–**	(361)
Uncollective amounts written off	**–**	(609)
At 31 December	**1,011**	363

22. TRADE AND BILLS RECEIVABLES (CONT'D)

As of 31 December 2011, trade receivables of approximately RMB10,911,000 (2010: RMB7,526,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2011 **RMB'000**	2010 RMB'000
Up to 3 months	**1,684**	3,516
3 to 6 months	**2,997**	1,137
Over 6 months	**6,230**	2,873
	10,911	7,526

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

	2011 **RMB'000**	2010 RMB'000
RMB	**50,651**	63,611
US$	**18,692**	7,795
HK$	**636**	1,839
European dollars	**–**	108
Total	**69,979**	73,353

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

	2011 **RMB'000**	2010 RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	**465,796**	405,200
Less: Progress billings	**(346,604)**	(328,978)
Less: Exchange differences	**(3,142)**	(694)
	116,050	75,528
Gross amount due from customers for contract work	**121,698**	78,577
Gross amount due to customers for contract work	**(5,648)**	(3,049)
	116,050	75,528

23. GROSS AMOUNT DUE FROM/TO CUSTOMERS FOR CONTRACT WORK (CONT'D)

In respect of construction contracts in progress at the end of reporting period, retentions receivables included in trade and bills receivables amounted to approximately RMB4,745,000 (2010: RMB1,286,000). The amount of retentions receivable at 31 December 2011 and 2010 are expected to be recovered within twelve months.

Advances received in respect of construction contracts amounted to approximately RMB1,821,000 at 31 December 2011 (2010: RMB3,072,000) and is included in accruals and other payables.

24. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**1,452**	1,452	**1,351**	1,257
In the second to fifth years, inclusive	**–**	1,452	**–**	1,351
	1,452	2,904	**1,351**	2,608
Less: Unearned finance income	**(101)**	(296)	**N/A**	N/A
Present value of lease	**1,351**	2,608	**1,351**	2,608
Less: Amount due for settlement within 12 months (shown under current assets)			**(1,351)**	(1,257)
Amount due for settlement after 12 months (shown under non-current assets)			**–**	1,351

The Group enters into finance lease arrangement for a levering machine with a related company, Dalian Shipbuilding Industry Offshore Company Limited ("Dalian Shipbuilding Offshore") (formerly known as 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 receivables are denominated in RMB.

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

25. DUE FROM DIRECTORS

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

Name	Terms	**Balance at 31 December 2011 RMB'000**	Balance at 1 January 2011 RMB'000	Maximum amount outstanding during the year RMB'000
Wang Lishan	Unsecured, interest-free and no fixed repayment terms	**704**	540	1,094
Cao Yunsheng	Unsecured, interest-free and no fixed repayment terms	**363**	64	363
Chen Guocai	Unsecured, interest-free and no fixed repayment terms	**7**	26	61
		1,074	630	

26. DUE FROM AN ASSOCIATE

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

27. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group as set out in note 30 to the financial statements. The pledged bank deposits are in RMB, HK$ and US$ and at fixed interest rate of 0.15% to 0.5% per annum (2010: 0.36% to 0.45% per annum) and therefore are subject to foreign currency risk and fair value interest rate risk.

The carrying amounts of the Group's pledged bank deposits and bank and cash balances are denominated in the following currencies:

	2011 RMB'000	2010 RMB'000
RMB	**45,558**	87,527
HK$	**4,951**	944
US$	**20,499**	2,632
Macau Pataca	**109**	120
	71,117	91,223

As at 31 December 2011, the pledged bank deposits and bank and cash balances of the Group denominated in RMB amounted to approximately RMB45,558,000 (2010: RMB87,527,000). 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.

28. TRADE AND BILLS PAYABLES

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

	2011 **RMB'000**	2010 RMB'000
0 to 30 days	**39,751**	31,570
31 to 90 days	**13,168**	26,948
91 to 365 days	**8,638**	9,119
Over 365 days	**4,147**	1,017
	65,704	68,654

Included in the Group's trade and bills payables at end of reporting period were trade payables due to an associate, Penglai Jutal which amounted to approximately RMB191,000 (2010: RMB26,621,000).

The carrying amounts of the Group's trade and bills payables are denominated in the following currencies:

	2011 **RMB'000**	2010 RMB'000
RMB	**65,361**	67,538
US$	**284**	295
HK$	**59**	816
Macau Pataca	**–**	5
Total	**65,704**	68,654

29. BANK LOANS

	2011 **RMB'000**	2010 RMB'000
Bank loans	**97,000**	38,000
The bank loans are repayable as follows:		
On demand or within one year	**97,000**	38,000
In the second year	**–**	–
	97,000	38,000
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(97,000)**	(38,000)
Amount due for settlement after 12 months	**–**	–

29. BANK LOANS (CONT'D)

The carrying amounts of the Group's bank loans are denominated in the following currencies:

	2011 RMB'000	2010 RMB'000
RMB	**70,000**	38,000
HK$	**8,100**	–
US$	**18,900**	–
Total	**97,000**	38,000

The average interest rate of the Group's bank loans at 31 December 2011 was 6.20% (2010: 5.31%) per annum.

Bank loans of approximately RMB27,000,000 (2010: RMB25,000,000) 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.

30. BANKING FACILITIES

As at 31 December 2011, the Group had banking facilities of approximately RMB257,563,000 (2010: RMB310,604,000) of which approximately RMB118,190,000 (2010: RMB70,289,000) were utilised.

As at 31 December 2011, the Group had obtained bank guarantees under performance bonds for construction contracts of approximately RMB19,058,000 (2010: RMB26,311,000).

As at 31 December 2011, the Group's banking facilities are secured by:

(a) Pledges of the Group's bank deposits of approximately RMB1,770,000 (2010: RMB3,234,000).

(b) Corporate guarantees with an aggregate amount of approximately RMB130,000,000 (2010: RMB310,000,000) executed by the Company.

(c) Corporate guarantees with an aggregate amount of approximately RMB110,000,000 (2010: Nil) jointly executed by the Company and two of its subsidiaries.

(d) Corporate guarantees with an aggregate amount of approximately RMB16,200,000 (2010: Nil) executed by a subsidiary of the Company.

31. DEFERRED TAX

The following are the major deferred tax liabilities and assets 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 2010	3,146	13,622	(2,661)	1,049	(322)	14,834
Charge to profit or loss for the year (note 10)						
– Changes in temporary differences	(862)	2,141	1,833	343	(391)	3,064
– Effect of change in tax rate	(111)	–	523	–	26	438
At 31 December 2010 and 1 January 2011	**2,173**	**15,763**	**(305)**	**1,392**	**(687)**	**18,336**
Charge to profit or loss for the year (note 10)						
– Changes in temporary differences	**639**	**295**	**1,296**	**287**	**(566)**	**1,951**
– Effect of change in tax rate	**76**	**–**	**288**	**–**	**12**	**376**
Acquisition of a subsidiary (note 33)	**(366)**	**–**	**–**	**–**	**–**	**(366)**
Transfer to withholding tax payable included in accruals and other payables	**–**	**–**	**–**	**(191)**	**–**	**(191)**
At 31 December 2011	**2,522**	**16,058**	**1,279**	**1,488**	**(1,241)**	**20,106**

The following is the analysis of the deferred tax balances (after offset) for statement of financial position purposes:

	2011 RMB'000	2010 RMB'000
Deferred tax liabilities	**22,575**	18,336
Deferred tax assets	**(2,469)**	–
	20,106	18,336

At the end of reporting period the Group has unused tax losses of RMB35,234,000 (2010: RMB22,624,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognized tax losses are losses of approximately RMB20,198,000 (2010: RMB4,416,000), RMB952,000 (2010: RMB3,925,000) and RMB385,000 (2010: RMB416,000) that can be carried forward by five years, four years and two years respectively. Other tax losses may be carried forward indefinitely.

32. NON-CONTROLLING INTERESTS

	2011 RMB'000	2010 RMB'000
Balance at 1 January	**–**	41,939
Share of profit for the year	**–**	2,161
Purchase of non-controlling interests (Note a)	**–**	(44,100)
Balance at 31 December	**–**	–

Note a: On 22 October 2010, the Group acquired the remaining 45% interests in a subsidiary – Tianjin Jutal Marine Services Limited from the non-controlling equity holder – Hefei Hongzhou Shipping Engineering Company Limited at a cash consideration of RMB44,100,000.

As at 31 December 2010, RMB43,510,000 of the consideration was paid and the balance of RMB590,000 was paid during the year 2011.

33. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

The Group entered into an acquisition agreement dated 5 January 2011 with Firstachieve Group Limited ("Firstachieve") (a company incorporated in the British Virgin Islands with limited liability and wholly owned by Ms. Wang Wei, spouse of Mr. Wang Lishan, who is the chairman of the Company, an executive director and is the ultimate controlling party of the Company), of which the Group acquired the entire equity interests in Zhuhai Prospering Offshore Oil Engineering Limited ("Zhuhai" Prospering"). The acquisition was completed on 26 July 2011 (the "completion date").

Zhuhai Prospering is a company established in the PRC with limited liability. It's sole business was holding a piece of industrial land in Zhuhai City, the PRC with an area of approximately 400,000 square meters (the "Leasehold land") and had not carried any other significant business transactions since its incorporation.

In the opinion of the directors, the acquisition is in substance acquisition of the Leasehold land, instead of an acquisition of business and therefore is excluded from the scope of HKFRS 3 "Business Combinations". Therefore, the acquisition was not disclosed as a business combination in accordance with the requirements of HKFRS 3.

33. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY (CONT'D)

The net assets acquired in the transaction are as follows:

	RMB'000
Net assets acquired:	
Leasehold land (at fair value) (Note a)	192,773
Trade receivables	838
Deferred tax assets	366
Bank and cash balances	5,075
Accruals and other payables	(234)
Current tax liabilities	(174)
	198,644
Total consideration satisfied by:	
Cost directly attributable to the acquisition	773
Cash consideration paid	16,100
124,699,278 consideration shares issued	181,771
	198,644
Net cash outflow arising on acquisition:	
Cash consideration paid	(16,100)
Cash paid for cost directly attributable to the acquisition	(773)
Bank and cash balances acquired	5,075
	(11,798)

Note a: The fair value of the Leasehold land at the completion date was determined with reference to valuation carried out by RHL Appraisal Limited, an independent company of professional valuers.

34. SHARE CAPITAL

	Note	Number of Shares	Amount HK$'000
Authorised:			
Ordinary shares of HK$0.01 (2010: HK$0.01) each			
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011		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 (2010: HK$0.01) each				
At 1 January 2010, 31 December 2010, 1 January 2011		498,000,000	4,980	5,048
Issue of shares for acquisition of a subsidiary	*(a)*	124,699,278	1,247	1,035
Exercise of share option	*(b)*	100,000	1	1
At 31 December 2011		622,799,278	6,228	6,084

Note:

a. Pursuant to an acquisition agreement dated 5 January 2011, the Company issued 124,699,278 consideration shares of HK$1.16 each to Cheung Hing Investment Limited, which is wholly-owned by Mr. Wang Lishan at the direction of the vendor – Firstachieve as part of the purchase consideration for the acquisition of the entire equity interests in Zhuhai Prospering.

b. Share options were exercised by option holders during the year ended 31 December 2011 to subscribe for a total of 100,000 ordinary shares in the Company at a consideration of HK$92,000, equivalent to approximately RMB76,000 of which RMB1,000 was credit to share capital and the balance of RMB75,000 was credited to the share premium account. RMB19,000 has been transferred from the share-based payment reserve to the share premium account.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximize the return to the shareholders through the optimization of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital using a gearing ratio, which is bank loans divided by total equity of the Group. The Group's policy is to keep the gearing ratio at a reasonable level.

34. SHARE CAPITAL (CONT'D)

The gearing ratios at 31 December 2011 and at 31 December 2010 were as follows:

	2011 RMB'000	2010 RMB'000
Bank loans	**97,000**	38,000
Total equity	**825,062**	656,392
Gearing ratio	**11.76%**	5.79%

The increase in bank loans and the gearing ratio from year ended 31 December 2010, mainly due to the Group raised additional bank loans to finance the construction of the port and skid way in the fabrication site located in Zhuhai and to use as working capital of the Group.

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 the share. 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 2011, 32.73% (2010: 40.92%) of the shares were in public hands.

35. 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.

35. SHARE-BASED PAYMENTS (CONT'D)

Equity-settled share option scheme (cont'd)

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.

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
2009A	14 August 2009	14 August 2009 to 13 August 2010	14 August 2010 to 13 August 2019	0.92
2009B	14 August 2009	14 August 2009 to 13 August 2011	14 August 2011 to 13 August 2019	0.92
2010A	27 May 2010	27 May 2010 to 26 May 2013	27 May 2013 to 26 May 2020	0.93
2010B	27 May 2010	27 May 2010 to 26 May 2014	27 May 2014 to 26 May 2020	0.93

35. SHARE-BASED PAYMENTS (CONT'D)

Equity-settled share option scheme (cont'd)

	Date of grant	Vesting period	Exercise period	Exercise price HK$
2010C	27 May 2010	27 May 2010 to 26 May 2015	27 May 2015 to 26 May 2020	0.93
2011A	23 May 2011	23 May 2011 to 22 May 2013	23 May 2013 to 22 May 2021	1.06
2011B	23 May 2011	23 May 2011 to 22 May 2015	23 May 2015 to 22 May 2021	1.06

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:

	2011		2010	
	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	**42,480,000**	**1.34**	40,780,000	1.41
Granted during the year	**31,750,000**	**1.06**	6,500,000	0.93
Forfeited during the year	**(2,550,000)**	**1.41**	(4,800,000)	1.41
Exercised during the year	**(100,000)**	**0.92**	–	
Outstanding at the end of the year	**71,580,000**	**1.21**	42,480,000	1.34
Exercisable at the end of the year	**33,980,000**	**1.41**	30,250,000	1.50

The options outstanding at the end of the year have a weighted average remaining contractual life of 7.9 years (2010: 7.4 years) and the exercise price ranges from HK$0.92 to HK$1.68 (2010: HK$0.92 to HK$1.68). In 2011, options were granted on 23 May 2011. The estimated fair value of these share options is approximately HK$13,001,000. In 2010, options were granted on 27 May 2010 and the estimated fair value of the options granted is approximately HK$2,877,000.

35. SHARE-BASED PAYMENTS (CONT'D)

Equity-settled share option scheme (cont'd)

These fair values were calculated using the Binomial Model. The inputs into the model were as follows:

	2011	2010
Grant date share price	**HK$1.02**	HK$0.91
Exercise price	**HK$1.06**	HK$0.93
Expected volatility	**63.54%**	68.54%
Expected life	**2-4 years**	3-5 years
Risk free rate	**2.42%**	2.42%
Expected dividend yield	**3%**	3%

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. The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2011 **RMB'000**	2010 RMB'000
Investment in a subsidiary	**285,666**	94,918
Prepayments, deposits and other receivables	**358**	38
Due from subsidiaries	**390,284**	393,701
Bank and cash balances	**4,517**	356
Accruals and other payables	**(785)**	(842)
Due to subsidiaries	**(53,136)**	(43,653)
Bank loans	**(8,100)**	–
Financial guarantee contract liability	**(19,764)**	(17,626)
NET ASSETS	**599,040**	426,892
Share capital	**6,084**	5,048
Reserves	**592,956**	421,844
TOTAL EQUITY	**599,040**	426,892

37. RESERVES

(a) Group

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

(b) Company

	Share premium account RMB'000	Convertible loan 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 1 January 2010	465,002	2,951	(56,629)	8,601	12,599	–	432,524
Share-based payments	–	–	–	1,797	–	–	1,797
Share options forfeited	–	–	–	(920)	920	–	–
Translation difference	–	–	(14,874)	–	–	–	(14,874)
Profit for the year	–	–	–	–	2,397	–	2,397
2010 proposed final dividend	–	–	–	–	(12,699)	12,699	–
At 31 December 2010 and 1 January 2011	465,002	2,951	(71,503)	9,478	3,217	12,699	421,844
Issue of shares on acquisition of a subsidiary (note 33)	180,736	–	–	–	–	–	180,736
Share-based payments	–	–	–	3,099	–	–	3,099
Shares issued under share option scheme (note 34)	94	–	–	(19)	–	–	75
Share options forfeited	–	–	–	(433)	433	–	–
Translation difference	–	–	(19,363)	–	–	–	(19,363)
Profit for the year	–	–	–	–	19,264	–	19,264
Dividend paid	–	–	–	–	–	(12,699)	(12,699)
At 31 December 2011	645,832	2,951	(90,866)	12,125	22,914	–	592,956

37. RESERVES (CONT'D)

(c) Nature and purpose of reserves

(i) Share premium account

Under the Companies Law 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.

(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 directors and employees of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3(t) 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, are 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(o) to the financial statements

38. CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any significant contingent liabilities (2010: Nil).

39. CAPITAL COMMITMENTS

The Group's capital commitments at the end of reporting period are as follows:

	2011 RMB'000	2010 RMB'000
Property, plant and equipment		
Contracted but not provided for	**26,977**	1,717

40. LEASE COMMITMENTS

At 31 December 2011 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2011 RMB'000	2010 RMB'000
Within one year	**1,944**	1,054
In the second to fifth years, inclusive	**277**	511
After five years	**660**	684
	2,881	2,249

Operating lease payments represent rentals payable by the Group for certain of its office, staff quarters, warehouses and motor vehicles. Leases are negotiated for an average term of 3 years and rentals are fixed over the lease terms and do not include contingent rentals.

41. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

		2011 **RMB'000**	2010 RMB'000
Subcontracting expenses paid/payable to an associate, Penglai Jutal	*(a)*	**9,007**	55,397
Rental expenses paid/payable to a related company, Zhuhai Prospering	*(b)*	**1,173**	2,010
Contract revenue received/receivable from a related company, Dalian Shipbuilding Offshore	*(c)*	**32,463**	21,376

(a) At 31 December 2011, the balance of approximately RMB191,000 (2010: RMB26,621,000) due to Penglai Jutal in relating to the subcontracting expenses was included in the Group's trade and bills payables.

(b) Zhuhai Jutal has entered into a lease agreement with Zhuhai Prospering to lease a piece of land located at the Equipment Manufacture Area of Gaolan Port Economic Zone in Zhuhai with a total site area of approximately 67,000 square meters. The lease term is three years from 1 March 2008 to 28 February 2011. The lease was subsequent extended by three years to 28 February 2014.

The Group acquired the entire equity interests in Zhuhai Prospering on 26 July 2011 and Zhuhai Prospering became a wholly-owned subsidiary of the Company (note 33). Before the acquisition, Zhuhai Prospering is a wholly-owned subsidiary of Firstachieve, which is wholly-owned by Ms. Wang Wei, spouse of Mr. Wang Lishan, who is the chairman of the Company, an executive director and is the ultimate controlling party of the Company.

The rental expenses paid/payable to Zhuhai Prospering of RMB1,173,000 represent rental expenses incurred up to the completion date.

(c) Dalian Shipbuilding Offshore is an associate of Prospering Investments Limited, a company beneficially wholly-owned by Mr. Wang Lishan, who is the chairman of the Company, an executive director and is the ultimate controlling party of the Company.

42. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 23 March 2012.

FINANCIAL SUMMARY

(All amounts in RMB'000 unless otherwise stated)

SUMMARY OF FINANCIAL DATA ANNOUNCED IN PREVIOUS FIVE YEARS

INCOME STATEMENT

	For the year ended 31 December				
	2007	2008	2009	2010	**2011**
Turnover	422,856	364,087	396,111	428,066	**493,348**
Profit for the year attributable to owners of the Company	68,029	29,545	66,706	67,472	**9,306**

ASSETS AND LIABILITIES

	For the year ended 31 December				
	2007	2008	2009	2010	**2011**
Total assets	801,160	687,519	893,128	823,262	**1,059,559**
Total liabilities	(266,633)	(163,034)	(256,627)	(166,870)	**(234,497)**
Total equity	534,527	524,485	636,501	656,392	**825,062**

Note:

1. The results for the year ended 31 December 2007, 31 December 2008, 31 December 2009,31 December 2010 and 31 December 2011 and assets and liabilities as at 31 December 2007, 31 December 2008, 31 December 2009, 31 December 2010 and 31 December 2011 were extracted from the audited consolidated income statement and the audited consolidated statement of financial position.