TSC Offshore Group Limited

Stock Code: 8149

2008 ANNUAL REPORT

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Corporate Profile

Corporate Profile

TSC Offshore Group Limited (the "Company") is a product and service provider serving both onshore and offshore drilling industries worldwide. The company was incorporated in the Cayman Islands and its shares are listed on the GEM of the Stock Exchange. The Company and its subsidiaries (collectively the "Group") develop, manufacture, market, install and service a comprehensive line of products for onshore and offshore drilling industries. Through its products and services, the Group provides innovative solutions of various rig packages to its global customers.

The Group's product lines include comprehensive drilling equipment, mechanical handling equipment, solid control equipment, rig control & drives, jacking system & rack material, tensioning system, compensation systems, and drilling cabin for various offshore rigs, including jack up rigs, semi-submersible rigs, drill ships, fixed platform rigs, and TLP platform rigs. The Group provides comprehensive turnkey solutions for both new build and upgrade rigs. The Group's oilfield supply chain solution provides rig expendables and MRO (Maintenance, Repair and Operation) supplies for both onshore and offshore rig operations.

The Group also designs and builds offshore deck cranes for both drilling rigs and production platforms.

In July 2008, the Group completed the acquisition of Global Marine Energy, Plc. ("GME"), a company previously listed in Alternative Investment market ("AIM") of the London Stock Exchange and renamed it as TSC Offshore (UK) Limited ("TSCUK"). Through this acquisition, the Group expended its product lines to cover all mechanical handling equipment and marine deck cranes used in the offshore and marine industries. In November 2008, the Group completed the acquisition of Center Mark International Limited that owns Zhengzhou Gear King Co., Ltd. ("TSC Gear") in Zhengzhou, China. This acquisition enabled the Group to offer the complete jacking systems and rack material for jack up rigs. The Group has production, storage and engineering facilities in several strategic locations in Brazil, China, the United Arab Emirates ("U.A.E.") , United Kingdom ("U.K."), United States of America ("U.S.A.") and Singapore, which enable the Group to provide efficient services to its customers worldwide.

TSC Offshore Worldwide Locations

GLOBAL SOLUTIONS

Designing, Manufacturing and Packaging
For The Offshore Industry

Executive Chairman and Chief Executive Officer's Statement

Dear Fellow Shareholders:

Despite the severe global economic downturn and unprecedented turbulent drop in oil price happened in 2008, we are pleased to report that TSC Offshore Group enjoyed a healthy growth and a record high revenue for the year of 2008 (the "Year"). This was of particular significance in view of the poor financial performance of the business units that we acquired in 2008.

The Group's overall successful performance in 2008 was largely due to the timely adjustment of our corporate strategy in the middle of 2008 by the Board, from "aggressive growth" to "build a solid foundation for further growth in future, with a focus on high technology equipment and capabilities for deepwater operations". Recent developments in our industry confirm that our revised corporate strategy was indeed the best way for the Group to move forward.

HIGHLIGHTS FOR THE YEAR:

1. Sales increased 366% from around US$34.3 million in 2007 to US$160.1 million in 2008.

2. Net profit increased from US$3.9 million in 2007 to approximately US$10.3 million in 2008, realizing an increase of 163% despite the losses incurred in the Year from certain acquired business units.

Executive Chairman and Chief Executive Officer's Statement

3. Completed the acquisition of GME and expanded our product lines to include rig mechanical handling systems and deck cranes:

   In January 2008 TSC owned about 29% of GME, a London listed company and its subsidiaries located in the U.K., U.S.A., Brazil and Singapore. On 4 July 2008, our company officially acquired all of GME's shares. Subsequently, GME was de-listed from the AIM market on the London Stock Exchange and became a 100% owned subsidiary of the Group.

4. Completed the acquisition of TSC Gear and expanded our product lines to include jacking systems and rack material cutting capabilities for new build jack-ups and old jack-ups upgrading.

5. Became one of the few companies in the world which has both capability and track records to offer a complete line of rig products and systems as well as rig equipment packages for both onshore and offshore rigs.

6. Completed the construction and/or upgrading of manufacturing, engineering and service facilities in strategic locations to serve the world's major oil and gas producing regions. During 2008, the Group added and/or expanded nine additional manufacturing, sales and service facilities:

   a. TSC Engineering facility – Shipley, U.K.

   b. TSC Service & Distribution center in Silsden, U.K.

   c. TSC Winches facility in Newcastle, U.K.

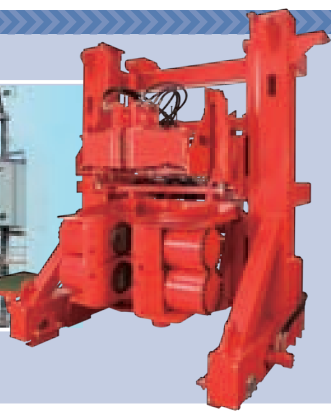
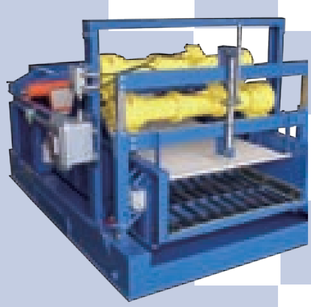
   d. Ansell Jones facility in Birmingham, U.K.

   e. TSC Offshore Corporation ("TSC Corp") manufacturing facility in Golden Spike, Houston, Texas

   f. TSC Gear facility in Zhengzhou, China

   g. TSC Dalian facility in Dalian, China



Executive Chairman and Chief Executive Officer's Statement

h. TSC Technology & Engineering Center in Qingdao, China

i. TSC-HHCT (Xi'an) Control Technologies Limited ("TSC-HHCT") Research and Laboratory Building for Control & Drive Systems in Xi'an, China

7. Achieved a record high in delivery of products and sales.

8. Added approximately 150,000 sq. ft. of covered fabrication facilities in Zhengzhou with rack material cutting and heat treating capabilities which enable the Group to manufacture its own proprietary jacking systems as well as to upgrade other brand jacking systems.

9. Acquired the remaining interest held by a partner in TSC Corp's Houston facility, which has about 80,000 sq. ft. of manufacturing space and adequate lifting equipment. This added manufacturing and handling area capability enables the Group to meet its current delivery schedules as well as future delivery requirements.

10. Construction of our new research and development facility in Xi'an, China, was completed in the Fall of 2008. This 89,000 sq. ft. eight-story building, with its state of the art design and testing equipment, gives TSC's highly trained staff the space, tools and environment to develop new products and to refine our existing lines of products.

11. Construction of a new manufacturing plant in Qingdao, China, was started in May 2008 and is scheduled for completion in June 2009. The new facility will enable the Group to manufacture majority of its products in house, rather than farming them out to sub-contractors. The completion of this new plant in 2009 is expected to bring financial benefit to our Group by the reduction in processing fees to subcontractors.

12. During the Year we completed the re-structuring of the Group. This included the re-organization of GME and its subsidiaries into a more cohesive and productive entity. We established a wholly-owned subsidiary, Patriot Crane, LLC., to specialize in the deck crane product line to serve both drilling and production sectors. We re-named Patriot Mechanical Handling Inc. to TSC Corp in order to offer a complete equipment line, including all drilling and mechanical handling equipment, jacking systems, SCR/VFD systems, solids control systems and driller's cabins. We de-listed GME from the AIM market on the London Stock Exchange and saved a considerable amount of expenses that would have to be expensed should GME still be listed on AIM market.

13. The Group's work force grew from 430 to 1,000 worldwide. Many of the new employees bring a great deal of experience and additional technical expertise to the Group. We will continue to invest in our people during the down turn and prepare for coming boom.

Executive Chairman and Chief Executive Officer's Statement

APPRECIATIONS

During the Year, the Group has made tremendous progresses in many areas over the previous year. We would like to express our sincere appreciation to our investors, loyal customers and clients, suppliers, employees, bankers, professionals, advisers and friends for their generous supports to the Group during the Year.

We would like to especially thank our excellent team of all employees of our Group who worked so hard to make the Group's excellent growth possible.

Jiang Bing Hua
Executive Chairman

Zhang Menggui
Chief Executive Officer

Hong Kong, 26 March 2009

Management Discussion and Analysis

A. OVERVIEW

The Group is a product and service provider to the drilling industry, offering comprehensive product lines and various customer-focused solutions for both onshore and offshore rigs. The business can be divided into the following major business lines: (i) Rig Products and Technology; (ii) Rig Turnkey Solutions; (iii) Oilfield Expendables and Supplies; and (iv) Consultancy Services.

Under Rig Product and Technology segment, the Group develops, manufactures, markets and services a full line of equipment and systems used on drilling rigs. These include drilling equipment (such as mud pumps, drawworks, rotary tables, derricks/mast, and substructures etc.), mechanical handling systems (such as pipe handling system, BOP handling system, and riser handling system), solid control equipment (such as shale shaker, desander, desilter, degaser, and the complete tank system), rig electric control and drives (such as SCR, VFD, engine control systems, motor control center, and driller's console etc.); driller control cabin, tensioning and compensation systems, skidding systems and jacking systems. This product line also include various deck cranes for different platforms and FPSOs.

Management Discussion and Analysis

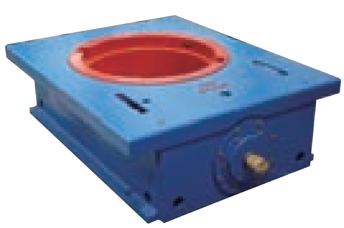
Under the Rig Turnkey Solutions business, the Group offers various customer-focused solutions and equipment packages for offshore rigs to cut delivery time and achieve saving for its clients by offering additional engineering and designing services.

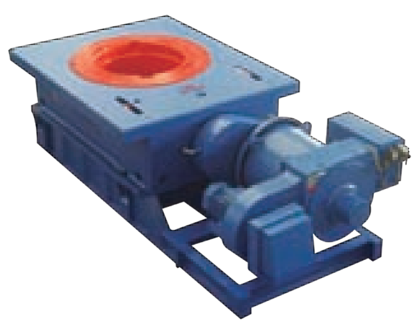
The Group's Oilfield Expendables and Supplies division offers several thousand different expendable items such as liners, pistons, valve and seats, butter fly valves, and gate valves etc. used in the daily operations of both onshore and offshore rigs.

The Group's Consultancy Services business include rig inspection, engineering consulting, marketing consulting, and maintenance and repair services.

During the Year, the Group achieved approximately US$160.1 million in total sales and approximately US$10.3 million in profit for the Year. With the efforts of the whole Group, the number of customers and clients increased rapidly.

For more detailed analysis, please refer to segment information by business segments.





Management Discussion and Analysis

B. FINANCIAL REVIEW

Financial Highlights

	Year ended 31 December 2008 US$000	Year ended 31 December 2007 (restated) US$000	Percentage of year-to-year increase %
Total revenue	**160,994**	35,726	350.6
Gross profit	**45,643**	13,833	230.0
Profit for the Year	**10,327**	3,933	162.6
Basic earnings per share (US cents)	**2.23**	1.16	92.2

Turnover and Other Revenue

During the Year, the Group recorded a total revenue of approximately US$161.0 million, representing an increase of approximately 350.6% from US$35.7 million for 2007. Turnover from the Group's all business segments reached approximately US$160.1 million, representing a 366.4% increase compared with 2007. Other revenue decreased to approximately US$881,000 which represented a decrease of approximately 37% from 2007.

The increase in the Group's turnover in 2008 was mainly attributable to the increase in sales from rig products and rig turnkey solutions resulting from the expansion of customers base and the product line expansion.

Segment Information By Business Segments

Turnover by business segments

	Year ended 31 December 2008 US$'000	**Percentage %**	Year ended 31 December 2007 US$'000	Percentage %	Percentage of year-to-year increase %
Rig Products and Technology	**95,525**	**59.7**	19,652	57.3	386.1
Rig Turnkey Solutions	**46,488**	**29.0**	–	–	N/A
Oilfield Expendables and Supplies	**17,276**	**10.8**	13,944	40.6	23.9
Consultancy Services	**824**	**0.5**	731	2.1	12.7
Total	**160,113**	**100.0**	34,327	100.0	366.4

B. FINANCIAL REVIEW *(continued)*

Segment Information By Business Segments *(continued)*

Turnover by business segments *(continued)*

Rig Products and Technology

The Group's Rig Products and Technology business includes the provision of a comprehensive line of capital equipment used on onshore and offshore drilling rigs. For the Year, sales derived from this business segment was approximately US$95.5 million, representing an increase of approximately 386.1% over 2007. The increase was mainly attributable to the increased sales of handling equipment, deck cranes and control systems to new and existing customers.

Rig Turnkey Solutions

The sales of approximately US$46.5 million derived from the six contracts for the sale of cantilever and drilling turnkey packages were recognised in the financial statements for the year ended 31 December 2008. Based on the latest agreement with the customer, it is expected that the packages will be delivered in 2009.

Oilfield Expendables and Supplies

The Group's Oilfield Expendables and Supplies business offers several thousands of expendable items used in the daily operations of both onshore and offshore rigs. Turnover from this business segment amounted to approximately US$17.3 million in 2008, representing a rise of approximately 23.9% over 2007. The relatively flat growth rate was because of price competition from other suppliers.

Consultancy Services

This line of business was small in size compared to other three lines of business, but still realised 12.7% growth in the year of 2008.

B. FINANCIAL REVIEW *(continued)*

Segment Information By Geography

Turnover by geographic locations

	Year ended 31 December 2008 US$'000	**Percentage %**	Year ended 31 December 2007 US$'000	Percentage %	Percentage of year-to-year increase %
Mainland China	**56,507**	**35.3**	13,124	38.2	330.6
North America	**36,635**	**22.9**	16,548	48.2	121.4
South America	**14,055**	**8.8**	2,028	5.9	593.0
Europe	**11,118**	**6.9**	1,664	4.8	568.1
Singapore	**36,838**	**23.0**	–	N/A	N/A
Others	**4,960**	**3.1**	963	2.9	415.1
Total	**160,113**	**100.0**	34,327	100.0	366.4

For the Year, the Group's sales derived from the North America and South America markets, accounted for approximately 22.9% and 8.8% of total turnover respectively while about 35.3%, 6.9% and 23% of sales were realised in Mainland China, Europe and Singapore respectively. Sales increase in Singapore was mainly due to the sales from Rig Turnkey Solutions and Rig Products and Technology.

B. FINANCIAL REVIEW *(continued)*

Cost of Sales and Gross Profit Margin

The Group's cost of sales for 2008 and 2007 amounted to approximately US$114.5 million and US$20.5 million respectively, resulting in a gross profit margin of approximately 28.5% and 40.3% respectively. The decrease in gross profit margin was mainly attributable to low or negative margin sales contracts carried from TSCUK. The management expect that gross margin shall be improved in future with cost control measures implemented.

Operating Costs and Profit Attributable to Equity Shareholders of the Company

During the Year, the Group's general and administrative expenses surged to approximately US$18.4 million, representing approximately 11.5% of the Group's total sales, as compared to that of approximately 23.3% for 2007. The increase in general and administrative expenses was mainly due to the increase in staff costs, employee option expenses, office rents, insurance expenses and professional fees.

During the Year, the Group's selling and distribution expenses also increased by approximately 250.0% to US$8.9 million from that of approximately US$2.6 million in 2007. The increase in selling and distribution expenses was due to the increase in sales engineers and marketing expenses to promote the Group's business in major oil producing regions.

During the Year, the Group's finance costs amounted to approximately US$500,000, as compared to approximately US$296,000 for 2007. The increase in finance costs was mainly attributable to the Group's interest and financing-related expenses.

During the Year, the Group's other operating expenses which is mainly comprised of amortisation, impairment losses on doubtful debts and net foreign exchange loss, etc amounted to approximately US$4.6 million as compared the US$755,000 for 2007.

During the Year, the Group achieved profit attributable to equity shareholders of the Company of approximately US$10.3 million, the increase of approximately 162.8% from approximately US$3.9 million in 2007. Net profit margin for the Group in the Year was approximately 6.4% which was lower than a net profit margin of 11.5% for 2007. The drop in net profit margin was mainly due to lower gross margin and a rapid increase in selling, general and administrative expenses.

Group's Liquidity and Capital Resources

As at 31 December 2008, the Group had other intangible assets of approximately US$17.8 million.

As at 31 December 2008, the Group carried fixed assets of approximately US$24.2 million being property, plant and equipment, property under development and interest in leasehold land held for own use under operating leases.

As at 31 December 2008, the Group had an interest in associates of approximately US$9.1 million.

B. FINANCIAL REVIEW *(continued)*

Group's Liquidity and Capital Resources *(continued)*

As at 31 December 2008, the Group had current assets of approximately US$115.9 million. Current assets mainly comprised cash and bank balances of approximately US$16.2 million, and pledged bank deposits of approximately US$0.9 million, inventories of approximately US$31.3 million, trade and other receivables of approximately US$67.4 million, amount due from a related company of approximately US$85,000, and tax recoverable approximately US$72,000.

As at 31 December 2008, current liabilities amounted to approximately US$71.4 million, mainly comprising trade and other payables of approximately US$59.9 million, bank loans of approximately US$7.8 million, current tax payables of approximately US$1.1 million, and provisions of approximately US$2.6 million.

As at 31 December 2008, the Group had a non-current liabilities of approximately US$9.7 million, comprising bank loans of approximately US$2.7 million, loan from a Director of approximately US$2.1 million and deferred tax liabilities of approximately US$4.9 million.

Gearing ratio, total liabilities to equity shareholders' fund was 70.3%, as compared to 54.9% in 2007.

During the Year, the Company made one placement of new shares to raise funds. The placement of 155,000,000 new shares of HK$0.10 each in the capital of the Company with aggregate nominal value of the placing shares was HK$15,500,000, to 5 placees, in which one of the placees, Keywise Greater China Opportunities Master Fund was a substantial shareholder of the Company, was made in June 2008 at the placing price at HK$1.88 per share (net price per share at approximately HK$1.84) to raise approximately HK$286 million net of expenses and the net proceeds were used as general working capital of the Group and acquisition and capital injection into U.K., U.S.A. and PRC subsidiaries of the Group.

Significant Investments and Disposals

In July 2008, the Group completed the acquisition of all issued share capital of GME, which was delisted from the London Stock Exchange and subsequently was renamed as TSCUK. The total costs in acquiring GME was approximately US$26.2 million.

B. FINANCIAL REVIEW *(continued)*

Significant Investments and Disposals *(continued)*

On 18 November 2008, the Group completed the acquisition of all issued share capital of Center Mark International Limited which in turn holds 100% equity interest of TSC Gear that provides synergies in terms of expansion of its product lines and penetration into the booming offshore drilling equipment sector. TSC Gear is principally engaged in research and development, manufacturing and sale of equipment for offshore drilling platforms and offshore projects such as gear boxes for jacking systems.

Save as the above on which separate announcements were made during the Year, there were no other significant investments and disposals.

Capital Structure

As at 31 December 2007, there were 391,804,804 shares in issue (the "Shares") and the Company carried a share capital of approximately US$5,041,000.

During the Year, the Company issued 4,932,800 Shares to Pre-IPO option holders and other option holders who exercised their options, and issued 165,000,000 Shares for placements and acquisitions. As at 31 December 2008, the Company carried 561,737,604 Shares in issue, and a capital of approximately US$7,225,000.

Charges on Assets

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

(i) Interest in leasehold land held for own use under operating leases, buildings, plant and machinery, inventories and trade receivables of four subsidiaries namely TSC (Qingdao), TSCMS, TSCUK and TSC-HHCT. The aggregate net book value of assets pledged amounted to US$19,908,000 (2007: US$5,324,000).

(ii) Corporate guarantees given by the Company and a subsidiary to the extent of banking facilities outstanding of US$1,897,000 (2007: US$3,703,000) as at 31 December 2008.

Foreign Currency Exchange Exposure

Most of the Group's production was carried out by the Group's entities in China which use Renminbi while over 50% of the Group's sales were made in United States dollars, therefore, the Group has foreign exchange exposure. As at 31 December 2008, no related hedges were made by the Group. The Group will actively explore ways to hedge or reduce currency exchange risk in future.

B. FINANCIAL REVIEW *(continued)*

Contingent Liability

As at the balance sheet date, the Company has issued guarantees to banks in respect of banking facilities granted to a subsidiary.

As at the balance sheet date, the Directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued is the facilities drawn down by a subsidiary of US$438,000 (2007: US$2,351,000).

Connected Transactions and Continuing Connected Transactions

Exempt Connected Transaction

On 23 October 2008, the Company entered into a loan agreement with Mr. Jiang Bing Hua ("Mr. Jiang"), a Director of the Company. Pursuant to such agreement, Mr. Jiang advanced a loan of HK$16 million to the Company for short term bridging financing purpose. The loan is guaranteed by another Director, Mr. Zhang Menggui. The loan is unsecured, interest-free and shall be repaid in full on or before 30 December 2008 (the "Latest Repayment Date").

On 30 December 2008, Mr. Jiang agreed with the Company to extend the Latest Repayment Date for the loan agreement from 30 December 2008 to 1 March 2010 (the "Revised Latest Repayment Date"), but the Company has the right to pay back any time on or before 1 March 2010 the whole or part of the loan to Mr. Jiang. Except for the Revised Latest Repayment Date, all other terms and conditions set out in the loan agreement dated 23 October 2008 remain unchanged.

On 3 March 2009, the Company paid HK$10,000,000 to Mr. Jiang. The balance of the loan due to Mr. Jiang is HK$6,000,000 payable on 1 March 2010 and the Company has the option to repay the whole balance on or before 1 March 2010.

Non-exempt Connected Transaction and Continuing Connected Transactions

During the Year, the Group conducted the following connected transaction and containing connected transactions with connected parties of the Company, namely Yantai Raffles Offshore Limited ("YRO") and Yantai Raffles Shipyard Limited ("YRS"). YRS owned over 80% equity interest of YRO during the Year, and YRS wholly owned YRS Investments Limited ("YRSI") during the Year. YRSI became a substantial shareholder of the Company since May 2007. Accordingly, YRS is deemed to be interested in 42,800,000 Shares held by YRSI. YRS is owned as to approximately 34% by Mr. Brian Chang and his associates. Mr. Brian Chang is deemed to be interested in 42,800,000 Shares held by YRSI as he holds more than one-third interest of the issued share capital of YRSI. Mr. Brian Chang is also deemed to be interested in 16,072,800 Shares and 50,000,000 Shares held by his wholly-owned companies, Asian Infrastructure Limited ("AIL") and Windmere International Limited ("WIL"), respectively. In accordance with the GEM Listing Rules, Mr. Brian Chang, YRS, YRO, YRSI, AIL and WIL are connected persons of the Company and the Group, which in turn totally held over 19% issued share capital of the Company during the Year.

B. FINANCIAL REVIEW *(continued)*

Connected Transactions and Continuing Connected Transactions *(continued)*

Non-Exempt Connected Transaction and Continuing Connected Transactions *(continued)*

(i) Sale of BOP handling and transport system

Category of transaction	Connected Transaction
Transaction Date	29 February 2008
Transaction with	YRO
Purpose of Transaction	The supply agreement with YRO in respect of the sale of BOP handling and transport system to YRO of which the Group will fabricate pieces of main structure of one semi-submersible upon request by YRO.
Contract Values and Other Details	Total value for the sub-contract price for the sub-contract works was in the sum of RMB19.6 million. The Group shall obtain payments from YRO by 5 production sequential milestone payments. The sub-contract price will be fully paid upon delivery of the sub-contract work.
Detailed Announcements and Shareholder Approval	Details of the transaction were announced on 4 March 2008 and in the circular dated 20 March 2008 which were all published on the website of www.hkgem.com and www.tscoffshore.com. The supply agreement was approved by independent shareholders at extraordinary general meeting on 8 April 2008.

The actual sales amount of this non-exempted connected transaction between the Group and YRO was approximately RMB10,556,000 for the year ended 31 December 2008.

B. FINANCIAL REVIEW *(continued)*

Connected Transactions and Continuing Connected Transactions *(continued)*

Non-Exempt Connected Transaction and Continuing Connected Transactions *(continued)*

(ii) Sale of the equipment used on offshore platforms including but not limited to power control package, jacking control system, BOP handling and transport, burner boom, etc. (the "Equipment") and the project(s) related to offshore platforms including (i) cantilever and drill floor projects, (ii) rack material cutting projects, (iii) other material processing projects; and (iv) design, engineering and consulting service projects (the "Turnkey Projects").

Category of transaction	Continuing Connected Transactions
Transaction Date	4 June 2008
Transaction with	YRS
Purpose of Transaction	The master agreement with YRS by which the Group can provide the Equipment under the Turnkey Project(s) to YRS for two years ending 31 December 2009.
Contract Values and Other Details	The annual caps under the master agreement for two years ending 31 December 2009 are approximately RMB589 million and RMB1,028 million respectively.
Detailed Announcements and Shareholder Approval	Details of the transactions were announced on 4 June 2008 and in the circular dated 24 June 2008 which were all published on the website of www.hkgem.com and www.tscoffshore.com. The master agreement was approved by independent shareholders at extraordinary general meeting on 18 July 2008.

During the Year, the Group transacted four supply contracts with YRS under the continuing connected transactions mandate approved by the Company's independent shareholders at extraordinary general meeting held on 18 July 2008. The above-mentioned four contracts cover the supply of two burner booms and three bulk handling systems with a total contract value of RMB8 million, which is within the cap of RMB589 million for the Year approved by the independent shareholders of the Company. The actual sales amount of these continuing connected transactions between the Group and YRS was approximately RMB3,766,000 for the year ended 31 December 2008.

Employees and Remuneration Policy

As at 31 December 2008, the Group had approximately 1,000 full-time staff in U.S.A., U.K., Brazil, Singapore, the PRC and other regions. The Group's remuneration policy is basically determined by the performance of individual employee and the market condition. The Group also provides other benefits to its employees, including medical schemes, pension contributions and share option schemes.

C. BUSINESS REVIEW

Rig Products and Technology

In the Year, significant progress has been made in this business line. As the results of internal growth and through acquisition, the Group is able to offer to the market a comprehensive product line used on onshore and offshore rigs. On the drilling equipment sector, new 3000 HP drawworks, 49.5" rotary table, 2000 HP mud pumps, digital driller control cabin, new offshore rig control and drive systems have been passed Factory Acceptance Test ("FAT") and delivered to clients. A full line of mud pumps from 340 HP to 2200 HP have been developed and started offering to the market. On the mechanical handling product line, the acquisition of TSCUK enabled the Group to offer pipe handling equipment, BOP/tree handling equipment, riser handling equipment, iron roughneck, and other related components and floor tools. On the solid control product line, the Group has developed the new generation of solid control equipment such as new vacuum degaser. Through acquiring TSC Gear in later part of the Year, the Group is able to offer to the market its own proprietary jacking system for new build jack-up rigs and has the capability of offering to the upgrade market for other brand jacking systems. The Group's flame cutting technology and new heat treatment facilities also enable the Group to offer rack material for jack up rigs. The addition of jacking system and rack material is significant to the Group and to the market as these product lines have been controlled by a few companies in the world. Tensioning system and compensation systems for semisubmersible rigs and drill ships have been added. This strengthens the Group's position in the deep water rig market. Conductor Tensioning Unit ("CTU") for deep water jack up rigs was also added to the product lines through the acquisition of TSCUK. The Group has been very successful in securing multiple orders for this unique product of the Group.

It is worth a special discussion on the Patriot brand offshore deck crane product line which was bought into the Group through the acquisition of TSCUK. The Patriot brand deck crane has been known for over 20 years, being famous for Patriot kingpost cranes and other type of cranes for drilling rigs and production platforms. Many drilling rigs and platforms have been equipped with Patriot kingpost cranes that were manufactured and installed by TSCUK. In the Year, the Group made this product line be solely marketed by Patriot Crane, LLC. in order to better serve the needs for kingpost cranes from both oil companies and drilling contractors. Although the Group had to absorb a sizable losses from the old sales contracts for offshore cranes carried forward by TSCUK, we expect that this product line will contribute positively in future to the Group's performance once the undergoing measures for cost control and sales price adjustments being implemented.

With all the newly added product lines, the Group has become one of the few companies in the world who can offer such a comprehensive product lines for any type of drilling rigs being used today. The comprehensive product lines and engineering capability have also enabled the Group to undertake to supply complete rig equipment packages.

C. BUSINESS REVIEW *(continued)*

Rig Turnkey Solutions

Remarkable progress has been made in the execution of the existing contracts signed with Yantai Raffles Group for turn keying the complete cantilever and drilling system for three jack up rigs which was announced on 13 July 2007. Due to the delay by the Group's suppliers and certain schedule changes by the client, a new delivery schedule has been renegotiated and agreed by the client and the Group. No liquidation damage was imposed to the Group due to the changes of the schedule on part of the client. It is now planned that the three packages shall be delivered in the year of 2009.

With the complete product lines and the experiences of undertaking the turnkey contracts by the Group, several new innovative turnkey solutions have been proposed to the market for upgrading aged jack up rigs and semisubmersible rigs. With the slowdown of the demand for new build rigs, we believe that the Group is in very unique and competitive position in addressing the needs from rig upgrading business which by the management's experience shall be strong when new build rig business is showing down.

Oilfield Expendables and Supplies

The Group's Oilfield Expendables and Supplies business in the Year has experienced a moderate growth in sales. However, the Group expanded product scope of expendables to include ceramic liners, new fluid end modules for different mud pumps, centrifugal pumps, etc. In addition, the Group has set up a subsidiary in U.A.E. with a sizable warehouse facility, and is prepared to supply expendables and other parts to our existing and new potential customers in the Middle East. Preparation of distribution centers in Silsden of U.K., Macae of Brazil, and Singapore has been initiated to utilize the existing Group's facilities in those countries. The addition of the four distribution centers in U.A.E., Brazil, U.K. and Singapore will expand the Group's the customer base for the product line of expendables and supplies.

In the Year, the Group also signed a master supply agreement with one of the largest rig owner and drilling contractors in the world, by which the Group is on its most favored vendor list for supplying parts and equipment.

Consultancy Services

Since the Group gradually faces out its marketing consultancy business, the Group has expanded its consultancy services business to provide the service of engineering and design, rig inspection, equipment maintenance and repairs for various rig products and cranes. The Group will continue exploring business opportunities in this segment of business.

D. FUTURE PLANS FOR MATERIAL INVESTMENTS, CAPITAL ASSETS AND CAPITAL COMMITMENT

The Company will continue the efforts to improve its in-house manufacturing capability to increase overall competitiveness in delivery, quality and prices. The new manufacturing facility in Qingdao, China is scheduled to be completed and in operation in June 2009.

Because of the economic slowdown and the infavorable financial market in 2009, the Group is not planning to engage any major acquisitions in 2009. However, the Group shall keep its eyes open for those attractive and rewarding merge and acquisition opportunities.

Except the already approved plan of completing manufacturing facility in Qingdao, there is no other capital assets investment plan.

The capital commitments outstanding at the balance sheet date not provided for in the financial statement was approximately US$5,583,000.

E. ORDER BOOK, PROSPECT AND STRATEGY

As of 31 December 2008, the Group as a whole carried an uninvoiced order book valued at approximately US$115 million for rig products & technology, turnkey solutions and expendables. As at the date of this report, the Company holds a master agreement with YRS, by which the Company and YRS can negotiate for possible orders from YRS up to approximately RMB589 million (US$85.9 million) and approximately RMB1,028 million (US$150 million) for the year ended 31 December 2008 and for the year ending 31 December 2009 respectively. The Group is actively bidding for new contracts from other potential customers in China and from other countries. Besides the above, the Group carried an active and live enquiry and quotation log with a value of approximately US$352 million for the equipment and equipment packages of the Group as at 31 December 2008. The value of such log increased to US$631 million as at the date of this annual report, increased by 79% within a period of less than three months in 2009. In fact, the Group secured some US$7 million orders for handling equipment from 1 January 2009 to the date of this annual report already. The management has the confidence that the Group will obtain more contract awards in future.

In responding to the current perceived slowdown in global economy and financial crisis in USA, the Group has adjusted its development strategy from “aggressive growth” to “build solid foundation for further growth in future”. Measures on cost control, new product development and new market development will be implemented. Even though the new build rig market is expected to be slow down in the near future, the management believe that the market for old rig upgrading will grow.

Because of the comprehensive product line expanded by the acquisition undertaken in the Year and past, the Group now is in a very strong and unique competitive position in the world to address the needs of rig upgrade market. The Group is capable of undertaking a wide range of projects, from small pipe handling upgrading jobs to large comprehensive rig turnkey upgrading projects.

The management expect that repair service and expendable business are also expected to be growing due to the added locations in several major oil and gas producing regions by the Group.

The Group will continue to maintain its solid global presences by facilitating the distribution and service capability in North America, South America, Europe and Central Asia, the Middle East, Asia Pacific and South East Asia.

F. SUBSEQUENT EVENTS

1. On 23 October 2008, the Company entered into a loan agreement with Mr. Jiang Bing Hua ("Mr. Jiang"), a Director of the Company. Pursuant to such agreement, Mr. Jiang advanced a loan of HK$16 million to the Company for short term bridging financing purpose. The loan is guaranteed by another Director, Mr. Zhang Menggui. The loan is unsecured, interest-free and shall be repaid in full on or before 30 December 2008 (the "Latest Repayment Date").

   On 30 December 2008, Mr. Jiang agreed with the Company to extend the Latest Repayment Date for the loan agreement from 30 December 2008 to 1 March 2010 (the "Revised Latest Repayment Date"), but the Company has the right to pay back any time on or before 1 March 2010 the whole or part of the loan to Mr. Jiang. Except for the Revised Latest Repayment Date, all other terms and conditions set out in the loan agreement dated 23 October 2008 remain unchanged.

   On 3 March 2009, the Company paid HK$10,000,000 to Mr. Jiang. The balance of the loan due to Mr. Jiang is HK$6,000,000 payable on 1 March 2010 and the Company has the option to repay the whole balance on or before 1 March 2010.

2. In the Directors' meeting held on 26 March 2009, the Board proposed for shareholders' approval the increase in the authorised share capital from HK$100,000,000 divided into 1,000,000,000 Shares to HK$200,000,000 divided into 2,000,000,000 Shares by creating an additional 1,000,000,000 unissued Shares of the Company.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. JIANG Bing Hua, aged 58, is the co-founder of the Group. He is an executive Chairman and an executive Director of the Group. Mr. Jiang is responsible for the Group's overall strategy planning and business development. He obtained his bachelor degree in offshore structure engineering from the Tianjin University (天津大學) in the PRC in 1980 and acquired his master degree in business of administration from the University of Dallas in the U.S.A. in 1993. Mr. Jiang has 35 years of experience in the oil and gas industry. Prior to founding the Group, he worked for the Sinopec group, the CNPC group and China National Offshore Oil Corporation (CNOOC) for various positions such as driller, drilling superintendent, drilling manager, operation manager and company representative.

Mr. ZHANG Menggui, aged 50, is the co-founder of the Group. He is a chief executive officer and an executive Director of the Group. Mr. Zhang is responsible for the Group's overall performance, strategy implementation and day-to-day operations. He obtained his bachelor degree majoring in drilling engineering from the China University of Petroleum (中國石油大學) in 1982 and acquired his master degree in petroleum engineering from the University of Alaska-Fairbanks in the U.S.A. in 1989. Mr. Zhang has 26 years of experience in the oil and gas industry. Prior to founding the Group, he worked for a subsidiary of the CNPC group in China and for Cook Inlet Region Inc. in Alaska as a petroleum operation engineer. Mr. Zhang currently is a member of several oil industry associations and professional organizations including the Society of Petroleum Engineers and the American Drilling Engineers. He is the elder brother of Mr. Zhang Mengzhen, an executive vice president of TSC Manufacturing and Supply, LLC. ("TSCMS"), a subsidiary of the Group.

Mr. ZHANG Hongru, aged 45, is an executive Director, a chief financial officer and a senior vice president of the Group. He also serves as a compliance officer of the Company. He is responsible for financial management, compliance and investors relationship. He is also responsible for managing the Group's office in Hong Kong. Mr. Zhang holds a master degree in geography obtained from the Chinese Academy of Science in 1986 and a master degree in economics of natural resources obtained from University of Alaska-Fairbanks, U.S.A. in 1989. Mr. Zhang has many years of experience in the field of banking, finance and corporate management. Prior to joining the Group in October 2004, Mr. Zhang held various positions in DBS Asia Capital Limited, Grand Generale Asia Limited, Crosby Securities Limited and The Hongkong and Shanghai Banking Corporation Limited. Mr. Zhang once was the chief financial officer and an executive director of a GEM listed company from February 2001 to April 2003 and served as an independent non-executive director of a GEM listed company from September 2004 to November 2005.

Mr. CHEN Yunqiang, aged 43, is an executive Director of the Company and a senior vice president of TSC Offshore China Limited, a subsidiary of the Group. He is also heading China sales of the Group. He is responsible for marketing and sales of the Group's product in China market. Mr. Chen studied industrial enterprise management in Hangzhou University of Electronic Science and Technology (杭州電子科技大學). Mr. Chen joined the Group in August 2001 and held the position of general manager of TSC-HHCT, a subsidiary of the Group, in Xi'an China till 2005. Prior to joining the Group, Mr. Chen worked in Xi'an Petroleum Exploration Instrument Complex (西安石油勘探儀器總廠) for 14 years with various positions including assistant factory head, supervisor of electric driven production line and manager of its sales branch in drilling rigs.

Profiles of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. JIANG Longsheng, aged 64, has been a non-executive Director of the Company since May 2006. Mr. Jiang is a veteran in offshore oil industry in China and has over 36 years of experience in the onshore and offshore oil industry in China. He received a bachelor of science degree from the Beijing Petroleum Institute (北京石油學院) in China in 1969. He was appointed as an executive director of CNOOC Limited ("CNOOC") (a company listed on the Main Board of the Stock Exchange) in 2000 to 2005 and had been the vice president of CNOOC from 1998 to 2005. From 1994 to 1998, he was the general manager of China Offshore Oil Southern Drilling Company. From 1991 to 1994, Mr. Jiang served as the deputy chief drilling engineer and was later appointed as the chief drilling engineer of China Offshore Oil Western South China Sea Corporation. Mr. Jiang has been the independent director of China National Pharmaceutical Group Corporation (中國醫藥集團公司) since December 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. BIAN Junjiang, aged 66, is an independent non-executive Director since October 2005. Mr. Bian presently serves as the chairman of CGC Overseas Construction Company Limited (中地海外建設有限公司責任公司) and an independent director of CITIC Securities Co., Ltd. (中信證券股份有限公司). He has many years of working experience in accounting and economic analysis in petroleum organisations.

Mr. CHAN Ngai Sang, Kenny, aged 44, is an independent non-executive Director since October 2005. Mr. Chan holds a bachelor degree in commerce from the University of New South Wales in Australia and is a member of the Institute of Chartered Accountants of New Zealand, the Association of International Accountants, CPA Australia, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. Mr. Chan currently also serves as the Committee Member of the Association of International Accountants Hong Kong Branch. He is a partner and founder of Kenny Chan & Co., a firm of Certified Public Accountants and holds position as an independent non-executive director of Goldmond Holdings Limited and China Best Group Holding Limited which are listed on GEM and the Main Board of the Stock Exchange in Hong Kong respectively.

Mr. GUAN Zhichuan, aged 50, is an independent non-executive Director since October 2005. Mr. Guan obtained a doctorate in engineering from the University of Petroleum (Beijing) (石油大學) in 1995 and pursued his research in the field of oil and gas drilling engineering and fluid mechanic. He presently serves as the vice president of the College of Petroleum Engineering of the China University of Petroleum (中國石油大學石油工程學院).

SENIOR MANAGEMENT

Mr. ZHANG Menggui, aged 50, is the co-founder of the Group. He is a chief executive officer and an executive Director of the Group. Mr. Zhang is responsible for the Group's overall performance, strategy implementation and day-to-day operations. He obtained his bachelor degree majoring in drilling engineering from the China University of Petroleum (中國石油大學) in 1982 and acquired his master degree in petroleum engineering from the University of Alaska-Fairbanks in the U.S.A. in 1989. Mr. Zhang has 26 years of experience in the oil and gas industry. Prior to founding the Group, he worked for a subsidiary of the CNPC group in China and for Cook Inlet Region Inc. in Alaska as a petroleum operation engineer. Mr. Zhang currently is a member of several oil industry associations and professional organizations including the Society of Petroleum Engineers and the American Drilling Engineers. He is the elder brother of Mr. Zhang Mengzhen, an executive vice president of TSCMS, a subsidiary of the Group.

Mr. Robert Allen SLIVA, aged 49, joined the Group as a senior vice president of TSCMS, a wholly-owned subsidiary of the Company in April 2007 and was promoted to Group president and chief operating officer in May 2008. He is responsible for the overall operations for the Company's divisions. Mr. Sliva received his bachelor degree in mechanical engineering from the University of Houston in 1982 with master courses at the University of Houston, and has since working in the oil and gas industry. Prior to joining the Company, Mr. Sliva worked in Bear Equipment as vice president, National Oilwell as manager of marketing and engineering, FMC as area manager and Mission Division of TRW as product line manager. He is registered PE in the State of Texas, U.S.A.

Mr. ZHANG Hongru, aged 45, is an executive Director, a chief financial officer and a senior vice president of the Group. He also serves as a compliance officer of the Company. He is responsible for financial management, compliance and investors relationship. He is also responsible for managing the Group's office in Hong Kong. Mr. Zhang holds a master degree in geography obtained from the Chinese Academy of Science in 1986 and a master degree in economics of natural resources obtained from University of Alaska-Fairbanks, U.S.A. in 1989. Mr. Zhang has many years of experience in the field of banking, finance and corporate management. Prior to joining the Group in October 2004, Mr. Zhang held various positions in DBS Asia Capital Limited, Grand Generale Asia Limited, Crosby Securities Limited and The Hongkong and Shanghai Banking Corporation Limited. Mr. Zhang once was the chief financial officer and an executive director of a GEM listed company from February 2001 to April 2003 and served as an independent non-executive director of a GEM listed company from September 2004 to November 2005.

Mr. Robert James REAM, aged 61, is a vice president of the Group since 2008 and a president of Patriot Crane, LLC., a subsidiary of the Group. Mr. Ream is responsible for the Group's offshore crane division. Mr. Ream holds a bachelor of science in mechanical engineering and a masters in business administration from Marquette University. Mr. Ream has 36 years of working experiences, of which 32 years is in the offshore crane business working in various positions in engineering, senior management and sales. Prior to join the Group, Mr. Ream had worked for UNIT Mariner Crane, AmClyde and NOV.

Report of the Directors

The board of the Directors (the "Board") is pleased to present their report and the audited financial statements of the Group for the Year.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at an extraordinary general meeting held on 22 January 2008, the name of the Company was changed from "EMER International Group Limited" to "TSC Offshore Group Limited".

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2008 is set out in the financial statements on pages 51 to 131.

The Directors do not recommend the payment of any dividends in respect of the Year.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the five financial years ended 31 December 2008, are extracted from the audited financial statements of the Prospectus and the relevant annual reports of the Company, and are set out on page 132. This summary does not form part of the audited financial statements of the Group for the Year.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

The movements in the Company's authorised and issued share capital during the Year are set out in note 34 to the financial statements. Details of the Company's share option schemes are set out in note 33 to the financial statements.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

The Directors propose for shareholders' approval the increase in the authorised share capital from HK$100,000,000 divided into 1,000,000,000 Shares to HK$200,000,000 divided into 2,000,000,000 Shares by creating an additional 1,000,000,000 unissued Shares of the Company.

The increase in authorised share capital is conditional upon the approval of the shareholders of the Company at the forthcoming annual general meeting to be held on 18 May 2009.

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, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year.

RESERVES

Details of movements in the reserves of the Company and of the Group during the Year are set out in note 34 to the financial statements and in the consolidated statement of changes in equity on page 55 to 56, respectively.

DISTRIBUTABLE RESERVES

The Company had of approximately US$214,000 (2007: US$3,577,000) reserves available for cash distribution and/or distribution in species to shareholders of the Company as at 31 December 2008, as computed in accordance with the Companies Law of the Cayman Islands. The details are set in note 34 to the financial statements. The Company's share premium account, with a balance of approximately US$89,087,000, may be distributed in the form of fully paid bonus Shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the Year under review, sales to the Group's five largest customers accounted for approximately 55.0% of the Group's total sales for the Year and sales to the largest customer included therein accounted for approximately 32.7% of the Group's total sales.

In the Year under review, the sales to Yantai Raffles Group amounted to US$52.3 million, accounting for approximately 32.7% of the total sales of the Group.

Purchases from the Group's five largest suppliers accounted for approximately 21.2% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 4.8% of the Group's total purchases.

None of the Directors, or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

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

Executive Directors:

Mr. Jiang Bing Hua
Mr. Zhang Menggui
Mr. Zhang Hongru
Mr. Chen Yunqiang

Non-executive Director:

Mr. Jiang Longsheng

Independent non-executive Directors:

Mr. Chan Ngai Sang, Kenny
Mr. Bian Junjiang
Mr. Guan Zhichuan

In accordance with Article 87 of the Company's articles of association (the "Articles"), Mr. Zhang Menggui, Mr. Chen Yunqiang and Mr. Jiang Longsheng will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

COMPANY SECRETARY

The company secretary of the Group, Ms. Cheung Wai Sze, is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Director has entered into a service contract with the Company for a term of three years commencing from 28 November 2005 and expiring on 27 November 2008, renewable automatically for successive terms of three years from 28 November 2008 unless terminated by giving either party to the other not less than three months' prior written notice.

Each of the independent non-executive Director has entered into a service contract with the Company for a term of three years commencing from 20 October 2005 and expiring on 19 October 2008, renewable automatically for successive terms of three years from 20 October 2008 unless terminated by giving either party to the other not less than three months' prior written notice.

The non-executive Director, Mr. Jiang Longsheng, has entered into a service contract with the Company for a term of three years commencing from 1 May 2006 and expiring on 30 April 2009 unless terminated by giving either party to the other not less than three months' prior written notice.

Save as disclosed in note 7 to the financial statements, there were no other emoluments, pension and any compensation arrangements for the Directors and past Directors as are specified on Sections 161 and 161A of the Companies Ordinance.

The Company confirms that it has received from each of its independent non-executive Directors a confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive Directors to be independent.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the loan agreement with Mr. Jiang on 23 October 2008 as mentioned in the section of "Connected Transactions and Continuing Connected Transactions" on pages 18 and 39, no Director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party during or at the end of the Year under review.

SHARE OPTION SCHEMES

Pursuant to written resolutions of all shareholders of the Company on 19 and 20 October 2005, the Company adopted a Pre-IPO Share Option Scheme (the "Pre-IPO Scheme") and another share option scheme (the "Share Option Scheme") respectively. Particulars of the Pre-IPO Scheme and the Share Option Scheme are set out in note 33 to the financial statements.

The Pre-IPO Scheme ceased to be effective on 21 November 2005 save for the unexercised portion of the options granted and accepted during its life time, of which a total of 8,121,600 share options remain valid and outstanding as at 31 December 2008.

Details of the movement of options under the Pre-IPO Scheme during the year ended 31 December 2008 were as follows:

				Number of share options				
Name or category of participant	**Date of grant** (Notes 1 & 2)	**Exercisable period** (Notes 1, 2 & 3)	**Exercise price per share** HK$	**Balance as at 1.1.2008**	**Exercised during the period** (Notes 4 & 5)	**Cancelled during the period** (Note 5)	**Lapsed during the period** (Note 5)	**Balance as at 31.12.2008**
Directors:								
Mr. Zhang Menggui	19.10.2005	29.11.2005 to 18.10.2015	0.2383	3,024,000	1,296,000	–	–	1,728,000
Mr. Jiang Bing Hua	19.10.2005	29.11.2005 to 18.10.2015	0.2383	3,024,000	1,296,000	–	–	1,728,000
Mr. Zhang Hongru	19.10.2005	29.11.2005 to 18.10.2015	0.2383	1,814,400	777,600	–	–	1,036,800
Mr. Chen Yunqiang	19.10.2005	29.11.2005 to 18.10.2015	0.2383	1,965,600	280,800	–	–	1,684,800
				9,828,000	3,650,400	–	–	6,177,600
Employees	19.10.2005	29.11.2005 to 18.10.2015	0.2383	2,948,400	1,004,400	–	–	1,944,000
Total				12,776,400	4,654,800	–	–	8,121,600

Notes:

1. All dates are shown day, month, year.
2. The vesting period of the options is 5 years and starts from the date of grant and become vested at stepped semi-annual increments of 10% of the total options originally granted subject to any adjustment due to the bonus issue, for a period of 5 years from the date of grant.
3. These grants are exercisable, starting from the first anniversary of the listing date at stepped semi-annual increments of 10% of the total options originally granted subject to any adjustment due to the bonus issue, for a period not later than 10 years from the date of grant.
4. 4,654,800 share options were exercised at an exercise price of HK$0.2383 per share and the weighted average closing price at the dates of exercise of options was HK$2.32.
5. The period refers to the twelve months ended 31 December 2008.

SHARE OPTION SCHEMES *(continued)*

Pursuant to the Share Option Scheme, the Directors granted (i) 7,280,000 share options at HK$2.43 each to 14 employees of the Group on 10 May 2007, granted (ii) 9,700,000 share options at HK$5.60 each to 51 employees and 2 consultants of the Group on 12 November 2007, granted (iii) 2,000,000 share options at HK$5.23 each to 3 employees of the Group on 15 January 2008, and granted (iv) 5,000,000 share options at HK$2.32 each to 6 employees of the Group at 12 August 2008.

Based a valuation report done by an independent valuer of Jones Lang LaSalle Sallmanns, the value of the option granted on 10 May 2007, 12 November 2007, 15 January 2008, and 12 August 2008 were HK$7,252,000, HK$21,812,000, HK$4,166,000 and HK$4,736,000 respectively.

The closing prices of the Company's Shares on the preceding option granted date 9 May 2007, 9 November 2007, 14 January 2008 and 11 August 2008 were HK$2.50, HK$5.58, HK$5.18 and HK$2.22 respectively.

Details of movement of options under the Share Option Scheme during the year ended 31 December 2008 were as follows:

				Number of share options					
Name or category of participant	Date of grant (Notes 1 & 2)	Exercisable period (Notes 1, 2 & 3)	Exercise price per share HK$	Balance as at 1.1.2008	Granted during the period (Note 4)	Exercised during the period (Note 4)	Cancelled during the period (Note 4)	Lapsed during the period (Note 4)	Balance as at 31.12.2008
(i) Employees	10.05.2007	10.11.2007 to 09.05.2017	2.43	7,280,000	–	278,000	–	200,000	6,802,000
Total				7,280,000	–	278,000	–	200,000	6,802,000
(ii) Employees	12.11.2007	12.05.2008 to 11.11.2017	5.60	9,500,000	–	–	–	650,000	8,850,000
Consultants	12.11.2007	12.05.2008 to 11.11.2017	5.60	200,000	–	–	–	–	200,000
Total				9,700,000	–	–	–	650,000	9,050,000
(iii) Employees	15.01.2008	15.07.2008 to 14.01.2018	5.23	–	2,000,000	–	–	–	2,000,000
Total				–	2,000,000	–	–	–	2,000,000
(iv) Employees	12.08.2008	12.02.2009 to 11.08.2018	2.32	–	5,000,000	–	–	1,000,000	4,000,000
Total				–	5,000,000	–	–	1,000,000	4,000,000

SHARE OPTION SCHEMES *(continued)*

On 4 November 2008, the refreshed scheme mandate limit of 54,890,800 Shares in respect of the granting of share options under the Share Option Scheme (the "Refreshment") was approved at the extraordinary general meeting duly convened and held. On 13 November 2008, the Stock Exchange has granted the listing of, and permission to deal in, the Shares which may fall to be issued and allotted upon the exercise of any options that may be granted under the Refreshment. On 29 December 2008, the board of Directors granted 16,050,000 share options at HK$0.54 each to 8 Directors of the Company and 38 employees of the Group.

Based on valuation report done by an independent valuer of Jones Lang LaSalle Sallmanns, the value of the option granted on 29 December 2008 was HK$3,499,200.

The closing price of the Company's Shares on the preceding option granted date on 24 December 2008 was HK$0.50.

Details of movement of options under the Refreshment of the Share Option Scheme during the year ended 31 December 2008 were as follows:

				Number of share options					
Name or category of participant	Date of grant (Notes 1 & 2)	Exercisable period (Notes 1, 2 & 3)	Exercise price per share HK$	Balance as at 01.01.2008	Granted during the period (Note 4)	Exercised during the period (Notes 4)	Cancelled during the period (Note 4)	Lapsed during the period (Note 4)	Balance as at 31.12.2008
Directors:									
Mr. Zhang Menggui	29.12.2008	29.06.2009 to 28.12.2018	0.54	–	1,200,000	–	–	–	1,200,000
Mr. Jiang Bing Hua	29.12.2008	29.06.2009 to 28.12.2018	0.54	–	1,200,000	–	–	–	1,200,000
Mr. Zhang Hongru	29.12.2008	29.06.2009 to 28.12.2018	0.54	–	800,000	–	–	–	800,000
Mr. Chen Yunqiang	29.12.2008	29.06.2009 to 28.12.2018	0.54	–	800,000	–	–	–	800,000
Mr. Jiang Longsheng	29.12.2008	29.06.2009 to 28.12.2018	0.54	–	400,000	–	–	–	400,000
Mr. Chan Ngai Sang, Kenny	29.12.2008	29.06.2009 to 28.12.2018	0.54	–	500,000	–	–	–	500,000
Mr. Bian Junjiang	29.12.2008	29.06.2009 to 28.12.2018	0.54	–	350,000	–	–	–	350,000
Mr. Guan Zhichuan	29.12.2008	29.06.2009 to 28.12.2018	0.54	–	300,000	–	–	–	300,000
				–	5,550,000	–	–	–	5,550,000
Employees	29.12.2008	29.06.2009 to 28.12.2018	0.54	–	10,500,000	–	–	–	10,500,000
Total				–	16,050,000	–	–	–	16,050,000

Notes:

1. All dates are shown day, month, year.

2. The vesting period of the options is 5 years and starts from the date of grant and become vested at stepped semi-annual increments of 10% of the total options granted for a period of 5 years from the date of grant.

3. These grants are exercisable, starting from the first anniversary of the listing date at stepped semi-annual increments of 10% of the total options granted, for a period not later than 10 years from the date of grant.

4. The period refers to the twelve months ended 31 December 2008.

Save as disclosed above, none of the Directors or their spouses and children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the Year.

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

As at 31 December 2008, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to the required standard of dealings by the Directors as referred to in Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Interests in Shares

	Number of issued ordinary Shares of HK$0.10 each in the Company (long position)					Number of underlying Shares (in respect of share options granted under the Pre-IPO Scheme) (Note 3)	Number of underlying Shares (in respect of share options granted under the Refreshment of the Share Option Scheme) (Note 3)	Approximate percentage of the Company's issued share capital
Name of Directors	Personal interests	Family interests	Corporate interests	Other interests	Total			
Mr. Zhang Menggui (Note 1)	1,728,000	–	136,871,200	–	138,599,200	1,728,000	1,200,000	25.19%
Mr. Jiang Bing Hua (Note 1)	1,728,000	–	136,871,200	–	138,599,200	1,728,000	1,200,000	25.19%
Mr. Zhang Hongru (Note 2)	5,209,200	–	16,228,800	–	21,438,000	1,036,800	800,000	4.14%
Mr. Chen Yunqiang	1,123,200	–	–	–	1,123,200	1,684,800	800,000	0.64%
Mr. Jiang Longsheng	–	–	–	–	–	–	400,000	0.07%
Mr. Chan Ngai Sang, Kenny	–	–	–	–	–	–	500,000	0.09%
Mr. Bian Junjiang	–	–	–	–	–	–	350,000	0.06%
Mr. Guan Zhichuan	–	–	–	–	–	–	300,000	0.05%

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

(continued)

Notes:

1. Global Energy Investors, LLC. is the beneficial owner of 136,871,200 Shares. The entire shares capital of Global Energy Investors, LLC, is beneficially owned as to 50% each by Mr. Zhang Menggui and Mr. Jiang Bing Hua, both are the executive Directors of the Company. Accordingly, both Mr. Zhang Menggui and Mr. Jiang Bing Hua are deemed to be interested in the 136,871,200 Shares beneficially owned by Global Energy Investors, LLC. under Part XV of the SFO.

2. Mr. Zhang Hongru personally holds 5,209,200 Shares and indirectly holds 16,228,800 Shares through Osbeck Investments Limited which is an investment holding company wholly owned by him. He is deemed to be interested in the shares held by Osbeck Investments Limited under Part XV of the SFO.

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

Save as disclosed above, as at 31 December 2008, none of the Directors or chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to the required standard of dealings by the Directors as referred to in Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the paragraph headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" above and in the share option scheme disclosures in note 33 to the financial statements, at no time during the Year under review, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company was granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2008, the following persons had interests or short positions in the Shares and underlying Shares of the Company which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

(i) Long positions in ordinary Shares and underlying Shares of the Company:

Name	Capacity and nature of interest	Number of Shares/underlying Shares held	Approximate percentage of the Company's issued share capital
Madam Chen Fengying (Note 1)	Interest of the spouse	138,599,200 Shares and 2,928,000 share options	25.19%
Madam Zhang Jiuli (Note 2)	Interest of the spouse	138,599,200 Shares and 2,928,000 share options	25.19%
Global Energy Investors, LLC. (Note 3)	Corporate	136,871,200 Shares	24.37%
Mr. Brian Chang (Note 4)	Interest in controlled entities	108,872,800 Shares	19.38%
Windmere International Limited (Note 4)	Corporate	50,000,000 Shares	8.90%
YRS Investments Limited (Note 4)	Corporate	42,800,000 Shares	7.62%
Yantai Raffles Shipyard Limited (Note 4)	Corporate	42,800,000 Shares	7.62%
Keywise Greater China Opportunities Master Fund (Note 5)	Corporate	51,488,000 Shares	9.17%
Keywise Capital Management (HK) Limited (Note 5)	Corporate	51,488,000 Shares	9.17%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

(continued)

(i) Long positions in ordinary Shares and underlying Shares of the Company: *(continued)*

Name	Capacity and nature of interest	Number of Shares/underlying Shares held	Approximate percentage of the Company's issued share capital
China International Marine Containers (Group) Co., Ltd. (Note 6)	Corporate	50,000,000 Shares	8.90%
China International Marine Containers (Hong Kong) Ltd. (Note 6)	Corporate	50,000,000 Shares	8.90%
Sharp Vision Holdings Limited (Note 6)	Corporate	50,000,000 Shares	8.90%
Mr. Ou Yaping (Note 7)	Interest in controlled entities	32,000,000 Shares	5.70%
Asia Pacific Promotion Limited (Note 7)	Corporate	32,000,000 Shares	5.70%
Enerchina Holdings Limited (Note 7)	Corporate	32,000,000 Shares	5.70%
Multiwin Corporation (Note 7)	Corporate	32,000,000 Shares	5.70%
Roxy Link Limited (Note 7)	Corporate	32,000,000 Shares	5.70%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

(continued)

(i) Long positions in ordinary Shares and underlying Shares of the Company: *(continued)*

Notes:

1. These interests represent the same block of Shares and share options held by Mr. Zhang Menggui as shown in the above section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES". Since Madam Chen Fengying is the spouse of Mr. Zhang Menggui, she is deemed to be interested in the Shares and share options held by him under Part XV of the SFO.

2. These interests represent the same block of Shares and share options held by Mr. Jiang Binghua as shown in the above section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES". Since Madam Zhang Jiuli is the spouse of Mr. Jiang Binghua, she is deemed to be interested in the Shares and share options held by him under Part XV of the SFO.

3. This interest represents the same block of corporate interest held by Mr. Zhang Menggui and Mr. Jiang Binghua as shown in the above section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES".

4. YRS Investments Limited ("YRSI") is ultimately wholly-owned by Yantai Raffles Shipyard Limited ("YRS"), a company incorporated in Singapore and the shares of which are traded on the Oslo Over-the-Counter Market. Accordingly, YRS is deemed to be interested in 42,800,000 Shares held by YRSI. YRS is owned as to approximately 34% by Mr. Brian Chang and his associates. Mr. Brian Chang is deemed to be interested in 42,800,000 Shares held by YRSI as he holds more than one-third interest of the issued share capital of YRSI. Mr. Brian Chang is also deemed to be interested in 16,072,800 Shares and 50,000,000 Shares held by his wholly-owned companies, Asian Infrastructure Limited and Windmere International Limited, respectively.

5. Keywise Greater China Opportunities Master Fund is an investment fund registered in the Cayman Islands and is wholly-owned by Keywise Capital Management (HK) Limited, a company incorporated in Hong Kong.

6. Sharp Vision Holdings Limited ("Sharp Vision") is the beneficial owner of 50,000,000 Shares. Sharp Vision is a wholly-owned subsidiary of China International Marine Containers (Hong Kong) Limited ("CIMC HK"), which in turn is a wholly-owned subsidiary of China International Marine Containers (Group) Company Limited ("CIMC Group"). Therefore, CIMC HK and CIMC Group are deemed to be interested in the 50,000,000 Shares held by Sharp Vision under Part XV of the SFO.

7. Roxy Link Limited ("Roxy") is the beneficial owner of 32,000,000 Shares. Roxy is a wholly-owned subsidiary of Multiwin Corporation ("Multiwin"), which in turn is a wholly-owned subsidiary of Enerchina Holdings Limited ("Enerchina").

   Asia Pacific Promotion Limited ("Asia Pacific") is wholly-owned by Mr. Ou Yaping ("Mr. Ou"). Enerchina is owned as to approximately 35.5% held by Asia Pacific and approximately 0.17% held by Mr. Ou directly respectively. Therefore, Mr. Ou, Asia Pacific, Enerchina and Multiwin are deemed to be interested in the 32,000,000 Shares held by Roxy under Part XV of the SFO.

(ii) Long positions in Shares of subsidiaries of the Company:

Name of subsidiary	Name of substantial shareholder	Percentage of shareholding
TSC Deep Water System, LLC.	Mr. Dong E. Wheeler	29%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

(continued)

Save as disclosed above, as at 31 December 2008, there was no person (other than the Directors and chief executives of the Company whose interests are set out under the paragraph headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES" above and section headed "SHARE OPTION SCHEMES" below), had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 39 to the financial statements. Save as disclosed therein, there were no other transactions to be disclosed as related party transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Group entered into the following transactions during the year ended 31 December 2008:

Exempt Connected Transaction

On 23 October 2008, the Company entered into a loan agreement with Mr. Jiang Bing Hua ("Mr. Jiang"), a Director of the Company. Pursuant to such agreement, Mr. Jiang advanced a loan of HK$16 million to the Company for short term bridging financing purpose. The loan is guaranteed by another Director, Mr. Zhang Menggui. The loan is unsecured, interest-free and shall be repaid in full on or before 30 December 2008 (the "Latest Repayment Date").

On 30 December 2008, Mr. Jiang agreed with the Company to extend the Latest Repayment Date for the loan agreement from 30 December 2008 to 1 March 2010 (the "Revised Latest Repayment Date"), but the Company has the right to pay back any time on or before 1 March 2010 the whole or part of the loan to Mr. Jiang. Except for the Revised Latest Repayment Date, all other terms and conditions set out in the loan agreement dated 23 October 2008 remain unchanged.

On 3 March 2009, the Company paid HK$10,000,000 to Mr. Jiang. The balance of the loan due to Mr. Jiang is HK$6,000,000 payable on 1 March 2010 and the Company has the option to repay the whole balance on or before 1 March 2010.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Non-exempt Connected Transaction and Continuing Connected Transactions

The Group conducted connected transaction and continuing connected transactions with connected parties of the Company, namely Yantai Raffles Offshore Limited ("YRO") and Yantai Raffles Shipyard Limited ("YRS"). YRS owned over 80% equity interest of YRO during the Year, and YRS wholly owned YRS Investments Limited ("YRSI") during the Year. YRSI became a substantial shareholder of the Company since May 2007. Accordingly, YRS is deemed to be interested in 42,800,000 Shares held by YRSI. YRS is owned as to approximately 34% by Mr. Brian Chang and his associates. Mr. Brian Chang is deemed to be interested in 42,800,000 Shares held by YRSI as he holds more than one-third interest of the issued share capital of YRSI. Mr. Brian Chang is also deemed to be interested in 16,072,800 Shares and 50,000,000 Shares held by his wholly-owned companies, Asian Infrastructure Limited ("AIL") and Windmere International Limited ("WIL"), respectively. In accordance with the GEM Listing Rules, Mr. Brian Chang, YRS, YRO, YRSI, AIL and WIL are connected persons of the Company and the Group, which in turn totally held over 19% issued share capital of the Company during the Year.

(i) *Sale of BOP handling and transport system*

Category of transaction	Connected Transaction
Transaction Date	29 February 2008
Transaction with	YRO
Purpose of Transaction	The supply agreement with YRO in respect of the sale of BOP handling and transport system to YRO of which the Group will fabricate pieces of main structure of one semi-submersible upon request by YRO.
Contract Values and Other Details	Total value for the sub-contract price for the sub-contract works was in the sum of RMB19.6 million. The Group shall obtain payments from YRO by 5 production sequential milestone payments. The sub-contract price will be fully paid upon delivery of the sub-contract work.
Detailed Announcements and Shareholder Approval	Details of the transaction were announced on 4 March 2008 and in the circular dated 20 March 2008 which were all published on the website of www.hkgem.com and www.tscoffshore.com. The supply agreement was approved by independent shareholders at extraordinary general meeting on 8 April 2008.

The actual sales amount of this non-exempt connected transaction between the Group and YRO was approximately RMB10,556,000 for the year ended 31 December 2008.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Non-Exempt Connected Transaction and Continuing Connected Transactions *(continued)*

(ii) Sale of the equipment used on offshore platforms including but not limited to power control package, jacking control system, BOP handling and transport, burner boom, etc. (the "Equipment") and the project(s) related to offshore platforms including (i) cantilever and drill floor projects, (ii) rack material cutting projects, (iii) other material processing projects; and (iv) design, engineering and consulting service projects (the "Turnkey Projects").

Category of transaction	**Continuing Connected Transactions**
Transaction Date	4 June 2008
Transaction with	YRS
Purpose of Transaction	The master agreement with YRS by which the Group can provide the Equipment under the Turnkey Project(s) to YRS for two years ending 31 December 2009.
Contract Values and Other Details	The annual caps under the master agreement for two years ending 31 December 2009 are approximately RMB589 million and RMB1,028 million respectively.
Detailed Announcements and Shareholder Approval	Details of the transactions were announced on 4 June 2008 and in the circular dated 24 June 2008 which were all published on the website of www.hkgem.com and www.tscoffshore.com. The master agreement was approved by independent shareholders at extraordinary general meeting on 18 July 2008.

During the Year, the Group transacted four supply contracts with YRS under the continuing connected transactions mandate approved by the Company's independent shareholders at extraordinary general meeting held on 18 July 2008. The above-mentioned four contracts cover the supply of two burner booms and three bulk handling systems with a total contract value of RMB8 million, which is within the cap of RMB589 million for the Year approved by the independent shareholders of the Company. The actual sales amount of these continuing connected transactions between the Group and YRS was approximately RMB3,766,000 for the year ended 31 December 2008.

The independent non-executive Directors, who were not interested in any of the above connected transactions and continuing connected transactions, have reviewed and confirmed that the above connected transactions and continuing connected transactions have been entered into by the Company:

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

(b) conducted either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those to be offered to or from independent third parties; and

(c) 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 as a whole.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

Non-Exempt Connected Transaction and Continuing Connected Transactions *(continued)*

The Directors have requested the auditors of the Company to perform certain agreed upon procedures on the continuing connected transactions and have received a letter from the auditors as required under Rule 20.38 of the GEM Listing Rules.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the Year.

SUFFICIENT OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2008.

DONATIONS

During the Year, the Group made charitable and other donations amounting to HK$100,000.

AUDITORS

KPMG were first appointed as auditors of the Company in 2007 upon the retirement of CCIF CPA Limited. A resolution to re-appoint the retiring auditors, KPMG, will be proposed at the forthcoming annual general meeting of the Company.

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 43 to 48 of this annual report.

ON BEHALF OF THE BOARD
TSC Offshore Group Limited

Jiang Bing Hua
Executive Chairman

Zhang Menggui
Chief Executive Officer

Hong Kong, 26 March 2009

Corporate Governance Report

The Board of Directors (the "Board") is pleased to present this "Corporate Governance Report" for the Year.

The Company recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the needs of its business, therefore the Company continued to incorporate the essence of corporate governance into its management structure and internal control procedures, as we strove to maintain the highest standard in integrity and ethics in all aspects of our business activities, and to ensure the full compliance of our operations with applicable laws and regulations. By achieving high standards of corporate governance, the Directors believe that sound and reasonable corporate governance practices are essential for the rapid growth of the Group and for safeguarding and maximizing shareholders' interests.

CORPORATE GOVERNANCE PRACTICES

Throughout the Year, the Company applied the principles and complied with all applicable provisions under the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules under the periodical review.

Despite the removal of the requirement for a qualified accountant in the GEM Listing Rules effective 1 January 2009, the Group continues to maintain a qualified accountant to oversee its financial reporting and other accounting-related issues in accordance with the relevant laws, rules and regulations.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the Year.

BOARD OF DIRECTORS

The Board is responsible for managing the Company on behalf of shareholders. The Board is of the view that it is the Directors' responsibilities to create value for shareholders and safeguard the best interests of the Company and the shareholders by discharging its duties in a dedicated, diligent and prudent manner on the principle of good faith. The Board is also responsible for decision in relation to the overall strategic development of the Group's business. Responsibility in relation to daily and execution of the strategic business plans are delegated to each of the executive Directors and management.

The executive chairman of the Board is Mr. Jiang Bing Hua and the Group's chief executive officer is Mr. Zhang Menggui. The roles of the executive chairman and the chief executive officer are distinct and segregated with a clear division of responsibility. The executive chairman plays a leading role and is responsible for effective running of the Board while the chief executive officer is delegated with the authority and responsibility of overall management, business development and implementation of the Group's strategy determined by the Board in achieving its overall commercial objectives.

Corporate Governance Report

Details of backgrounds and qualifications of the executive chairman of the Company and the other Directors are set out under the "Profiles of Directors and Senior Management" of this annual report. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

The Board comprises eight Directors, including four executive Directors, namely Mr. Jiang Bing Hua, Mr. Zhang Menggui, Mr. Zhang Hongru and Mr. Chen Yunqiang; one non-executive Director, namely Mr. Jiang Longsheng; and three independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny, Mr. Bian Junjiang and Mr. Guan Zhichuan. As half of the members of the Board being non-executive and they have not participated into the management of the Company, the Board is therefore able to exercise independent judgment on corporate affairs and provide the management with a diverse and objective perspective on issues. The Board believes that current board size is appropriate based on the Company's present circumstances and will periodically evaluate the need for increasing or decreasing its size.

The Articles have stated clearly the procedures for the appointment of new directors, re-election and removal of directors. The service contracts with the executive and independent non-executive Directors commenced on 28 November 2005 and 20 October 2005 respectively, with a specific term of 3 years, renewable automatically for successive terms of three years from 28 November 2008 and 20 October 2008 respectively, provided that the appointments may be terminated by the Company or respective Director with a written notice of not less than 3 months. The service contract with the non-exective Director commenced on 1 May 2006 with a specific term of 3 years provided that the appointments may be terminated by the Company or respective Director with a written notice of not less than 3 months. Pursuant to Article 87, Mr. Zhang Menggui, Mr. Chen Yunqiang and Mr. Jiang Longsheng will retire, and being eligible for election, offer themselves for re-election at the forthcoming annual general meeting to be held on 18 May 2009.

Members of the Board held a total of thirteen meetings during the Year . The Directors are given sufficient time and information relating to the matters to be discussed in the Board meetings in advance, or except in special circumstances, consent to short notice is sought at times of urgency.

Matters considered and approved by the Board during the Year mainly related to (i) the formulation and approval of the Group's development, business strategies, Group corporate policies, annual budgets and business plans; (ii) the approval of the Group's quarterly, interim and annual results; (iii) significant investments and acquisitions; (iv) the sales of equipment to connected person and (v) issue of new shares.

The Directors have complied with the Code of the Board meeting which should be held at least four times a year at approximately quarterly intervals, relating to review the financial performance, results of each period, material investments and other matters of the Group that require the resolutions of the Board. Simultaneous conference call may be used to improve attendance when individual Director cannot attend the meeting in person.

During the Year, Board, audit committee and remuneration committee meetings were held, with details as follows:

	Meetings attended/held		
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Directors			
Mr. Jiang Bing Hua	13/13		3/3
Mr. Zhang Menggui	11/13		3/3
Mr. Zhang Hongru	13/13		
Mr. Chen Yunqiang	10/13		
Non-executive Director			
Mr. Jiang Longsheng	9/12		
Independent Non-executive Directors			
Mr. Chan Ngai Sang, Kenny	9/12	4/4	3/3
Mr. Bian Junjiang	6/12	2/4	3/3
Mr. Guan Zhichuan	7/12	3/4	3/3

REMUNERATION COMMITTEE

The remuneration committee was established on 20 October 2005 comprising three independent non-executive Directors, namely Mr. Bian Junjiang (being the Chairman), Mr. Chan Ngai Sang, Kenny, Mr. Guan Zhichuan; and two executive Directors, namely, Mr. Jiang Bing Hua and Mr. Zhang Menggui.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of Directors. The remuneration committee will consider and give due regard to both the performance levels of, and a fair reward for, the chairman, executive Directors and the senior management and to the interest of all the shareholders of the Company in light of the financial and commercial circumstances of the Company from time to time. No Director shall be involved in deciding his own remuneration.

During the Year, three meetings of the remuneration committee were held and the remuneration committee of the Company revised Director's salary, reviewed the remuneration policy for 2007/2008 and the remuneration of executive Directors, non-executive Director and independent non-executive Directors. The chairman of the remuneration committee then reported the findings and provided recommendations to the Board after each meeting.

NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of a candidate to act as a director, and approving and terminating the appointment of a director. At present, the Company does not establish a nomination committee as set out in the recommended best practices of Appendix 15 of the GEM Listing Rules.

Currently, the executive chairman and chief executive officer are mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The executive chairman or chief executive officer will propose the appointment of such candidates to the Board for consideration and the members of the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his skills, qualifications, experience, background, leadership and personal integrity. The decision to appoint a director must be approved by majority of the members of the Board. During the Year, no candidate was appointed as a director of the Company, therefore no nomination of director meeting was held.

Additionally, the executive chairman together with members of the Board will consider the past performance, qualification, general market conditions and the Articles in selecting and recommending candidates for directorship during the Year under review. In accordance with Article 87, Mr. Zhang Menggui, Mr. Chen Yunqiang and Mr. Jiang Longsheng will retire, being eligible, offer themselves for re-election at the forthcoming annual general meeting to be held on 18 May 2009.

DIRECTORS RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The Directors ensure that the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in "The Independent Auditor's Report" on page 49 of this annual report.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing non-audit functions (if any) performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the Year under review, the Company has paid an aggregate of approximately US$624,000 (2007: US$189,000) to the external auditor for its audit services. The Company did not have any non-audit service fee in the Year.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules since October 2005. To ensure on-going compliance with the newly amended Code, audit committee's terms of reference have been revised to take into account the Board's responsibility for reviewing the adequacy of staffing of the financial reporting functions and the oversight role of the audit committee. The audit committee comprises a minimum of three members with a majority of independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny (being the chairman), Mr. Bian Junjiang and Mr. Guan Zhichuan, all of them are independent non-executive Directors; and at least one member must have appropriate professional qualifications or accounting or related financial management expertise, namely Mr. Chan Ngai Sang, Kenny, in compliance with Rule 5.28 of the GEM Listing Rules. The Company considers these Directors to be independent under the guidelines set out in Rule 5.09 of the GEM Listing Rules.

The main duties of the audit committee include the followings:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the Company's staff responsible for the accounting and financial reporting functions, compliance officer or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

Throughout the Year, the audit committee held four meetings in considering and reviewing the quarterly, interim and annual results of the Group, and were of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

There is no disagreement between the Board and the audit committee regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2008, has been reviewed by the audit committee.

INTERNAL CONTROL

The Company has conducted review of its system of internal control periodically to ensure the effectiveness and adequacy of the internal control system.

The Company has designated a Group vice president, namely Mr. Zhang Jingyao (張敬堯先生), in addition to other duties, with the responsibility for conducting internal auditing, reviewing the current internal control system and implementing measures to strengthen the implementation of the system. The Company will continue to make efforts in improving its internal control system.

SHAREHOLDER RIGHTS AND INVESTORS RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Articles. Details of such rights to demand a poll and the poll procedures were included in all circulars to shareholders in relation to the holding of 2008 annual general meeting and four extraordinary general meetings in 2008 and explained during the proceedings of meetings. Poll results will be published and posted on the websites of the Stock Exchange and the Company respectively.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The chairman of the Board as well as the chairmen of the remuneration committee and audit committee or, in their absence, and, where applicable other members of the respective committees, are available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated Directors or senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains a website at http://www.tscoffshore.com, where extensive information and updates on the Company's business developments and operations, financial information and other information are posted.

Independent Auditor's Report

KPMG

Independent auditor's report to the shareholders of
TSC Offshore Group Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of TSC Offshore Group Limited ("the Company") set out on pages 51 to 131, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 as to whether the financial statements are free from material misstatement.

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit 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.

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

26 March 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Note	2008 US$'000	2007 (restated) US$'000
Turnover	3 & 12	**160,113**	34,327
Cost of sales		**(114,470)**	(20,494)
Gross profit		**45,643**	13,833
Other revenue	4	**881**	1,399
Selling and distribution expenses		**(8,930)**	(2,551)
General and administrative expenses		**(18,364)**	(7,989)
Other operating expenses		**(4,587)**	(755)
Profit from operations		**14,643**	3,937
Finance costs	5(a)	**(500)**	(296)
Share of (losses) less profits of associates		**(2,063)**	528
Profit before taxation	5	**12,080**	4,169
Income tax	6(a)	**(1,753)**	(236)
Profit for the year		**10,327**	3,933
Attributable to:			
Equity shareholders of the Company	9 & 34	**10,336**	3,933
Minority interests	34	**(9)**	–
Profit for the year	34	**10,327**	3,933
Dividends payable to equity shareholders of the Company attributable to the year	10	**–**	–
Earnings per share	11		
Basic		**US2.23 cents**	US1.16 cent
Diluted		**US2.19 cents**	US1.11 cent

The notes on pages 60 to 131 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2008

	Note	2008 US$'000	2007 (restated) US$'000
Non-current assets			
Property, plant and equipment	13(a)	**16,624**	5,812
Property under development	14	**4,282**	1,070
Interest in leasehold land held for own use under operating leases	15	**3,279**	1,202
Goodwill	16	**22,253**	2,272
Other intangible assets	17	**17,770**	2,824
Interest in associates	19	**9,141**	14,847
Deferred tax assets	29(b)	**7,483**	680
		80,832	28,707
Current assets			
Other financial asset	20	**–**	676
Inventories	21	**31,318**	14,701
Trade and other receivables	22	**67,363**	28,169
Amounts due from directors	24	**–**	38
Amount due from a related company	25	**85**	79
Tax recoverable	29(a)	**72**	–
Pledged bank deposits		**924**	1,067
Cash at bank and in hand		**16,156**	44,334
		115,918	89,064
Current liabilities			
Trade and other payables	26	**59,946**	37,258
Amount due to a related company	27	**–**	2
Bank loans	28	**7,811**	3,298
Current taxation	29(a)	**1,136**	454
Provisions	30	**2,555**	–
		71,448	41,012
Net current assets		**44,470**	48,052
Total assets less current liabilities		**125,302**	76,759

Consolidated Balance Sheet

At 31 December 2008

	Note	2008 US$'000	2007 (restated) US$'000
Non-current liabilities			
Bank loans	28	**2,744**	405
Loan from a director	31	**2,056**	–
Deferred tax liabilities	29(b)	**4,948**	331
		9,748	736
NET ASSETS		**115,554**	76,023
CAPITAL AND RESERVES	34		
Share capital		**7,225**	5,041
Reserves		**108,329**	70,982
Total equity attributable to equity shareholders of the Company		**115,554**	76,023
Minority interests		**–**	–
TOTAL EQUITY		**115,554**	76,023

Approved and authorised for issue by the board of directors on 26 March 2009

Jiang Bing Hua
Director

Zhang Menggui
Director

The notes on pages 60 to 131 form part of these financial statements.

Balance Sheet

At 31 December 2008

	Note	2008 US$'000	2007 US$'000
Non-current assets			
Property, plant and equipment	13(b)	**36**	–
Interest in subsidiaries	18	**99,690**	20
Investment in an associate	19	**–**	6,540
		99,726	6,560
Current assets			
Other receivables, prepayments and deposits	22	**81**	417
Amounts due from subsidiaries	18	**–**	33,136
Dividends receivable		**2,309**	4,760
Cash at bank and in hand		**454**	18,534
		2,844	56,847
Current liabilities			
Other payables and accrued charges	26	**641**	277
Amounts due to subsidiaries	18	**10**	30
		651	307
Net current assets		**2,193**	56,540
Total assets less current liabilities		**101,919**	63,100
Non-current liability			
Loan from a director	31	**2,056**	–
NET ASSETS		**99,863**	63,100
CAPITAL AND RESERVES	34		
Share capital		**7,225**	5,041
Reserves		**92,638**	58,059
TOTAL EQUITY		**99,863**	63,100

Approved and authorised for issue by the board of directors on 26 March 2009

Jiang Bing Hua
Director

Zhang Menggui
Director

The notes on pages 60 to 131 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Note	2008 US$'000	2008 US$'000	2007 (restated) US$'000	2007 (restated) US$'000
Total equity at 1 January					
As previously reported		**75,586**		17,155	
Prior period adjustment in respect of an associate	19	**437**		–	
As restated			**76,023**		17,155
Net income and expense recognised directly in equity:					
Acquisition of subsidiaries	36(a)		**627**		–
Exchange differences on translation of financial statements of foreign subsidiaries and associates			**(11,752)**		933
Net income and expense for the year recognised directly in equity			**(11,125)**		933
Net profit for the year:					
As previously reported				3,496	
Prior period adjustment in respect of an associate	19			437	
Net profit for the year (2007: as restated)			**10,327**		3,933
Total recognised income and expense for the year (2007: as restated)			**(798)**		4,866
Attributable to:					
– equity shareholders of the Company		**(789)**		4,866	
– minority interests		**(9)**		–	
		(798)		4,866	

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Note	2008 US$'000	2008 US$'000	2007 (restated) US$'000	2007 (restated) US$'000
Movements in equity arising from capital transactions:					
Issued of ordinary shares, net of share issue expenses	34		**37,918**		53,505
Shares issued under share option schemes	34		**228**		130
Equity-settled share-based transactions	34		**2,174**		367
Capital contribution received by non-wholly owned subsidiary from minority shareholder	34		**9**		–
			40,329		54,002
Total equity at 31 December			**115,554**		76,023
Restatement of total recognised income and expense for prior year is attributable to:					
Equity shareholders of the Company					437
Arising from restated net profit for prior year					437

The notes on pages 60 to 131 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 US$'000	2007 (restated) US$'000
Operating activities			
Profit before taxation		**12,080**	4,169
Adjustments for:			
– Depreciation	5(c)	**1,289**	503
– Impairment losses on doubtful debts	5(c)	**2,075**	115
– Reversal of impairment losses on doubtful debts	4	**–**	(19)
– Amortisation of interest in leasehold land held for own use under operating leases	5(c)	**45**	24
– Amortisation of intangible assets	5(c)	**2,298**	151
– Finance costs	5(a)	**500**	296
– Interest income	4	**(388)**	(733)
– Share of losses less (profits) of associates		**2,063**	(528)
– Loss on disposal of property, plant and equipment	5(c)	**8**	40
– Equity-settled share-based payment expenses	5(b)	**2,174**	367
– Foreign exchange gain		**(2,115)**	(480)
Operating profit before changes in working capital		**20,029**	3,905
Increase in inventories		**(1,702)**	(6,420)
Increase in trade and other receivables		**(12,366)**	(15,812)
Decrease/(increase) in amounts due from directors		**38**	(25)
Decrease in amount due from an officer		**–**	12
(Increase)/decrease in amount due from a related company		**(6)**	1
(Decrease)/increase in trade and other payables		**(30,832)**	29,446
(Decrease)/increase in amount due to a related company		**(2)**	1
Decrease in provisions		**(6,686)**	–

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 US$'000	2007 (restated) US$'000
Cash (used in)/generated from operations		**(31,527)**	11,108
People's Republic of China ("PRC") enterprise income tax and overseas tax paid		**(1,217)**	(604)
Net cash (used in)/generated from operating activities		**(32,744)**	10,504
Investing activities			
Payment for purchase of property, plant and equipment		**(3,614)**	(1,747)
Payments for purchase of interest in leasehold land held for own use under operating leases		**(1,995)**	–
Construction expenditure on property under development		**(6,011)**	(2,552)
Interest received		**388**	733
Proceed from sale of other financial asset		**676**	–
Dividend received from associates		**62**	–
Decrease/(increase) in pledged bank deposits		**143**	(872)
Payment for purchase of other financial asset		**–**	(676)
Payment for purchase of intangible assets		**(201)**	(123)
Payment for purchase of subsidiaries, net of cash acquired	36	**(14,614)**	(301)
Payment for purchase of associates		**–**	(10,256)
Proceeds from sale of property, plant and equipment		**195**	576
Net cash used in investing activities		**(24,971)**	(15,218)

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 US$'000	2007 (restated) US$'000
Financing activities			
Proceeds from issue of share capital		**36,735**	44,150
Proceeds from shares issued under share option schemes		**228**	130
Capital contribution received by non-wholly owned subsidiary from minority shareholder		**9**	–
Interest paid		**(600)**	(341)
Proceeds from new bank loans		**10,737**	3,608
Repayment of bank loans		**(20,875)**	(2,481)
Proceeds from loan from a director		**2,056**	–
Net cash generated from financing activities		**28,290**	45,066
Net (decrease)/increase in cash and cash equivalents		**(29,425)**	40,352
Cash and cash equivalents at 1 January		**44,334**	2,778
Effect of foreign exchange rate changes		**1,247**	1,204
Cash and cash equivalents at 31 December		**16,156**	44,334

Major non-cash transactions

(a) In November 2008, the Group acquired all the issued and paid up capital of Centre Mark International Limited. Part of the consideration was settled by the allotment and issue of 10,000,000 shares of HK$0.1 each in the share capital of the Company (note 36(b)).

(b) In August 2007, the Group acquired all the issued and paid up capital of Top Sino Industrial Limited. Part of the consideration was settled by the allotment and issue of 10,000,000 shares of HK$0.1 each in the share capital of the Company.

(c) In October 2007, the Group acquired 28% equity interests in Goldman Offshore Design, LLC. Part of the consideration was settled by the allotment and issue of 5,701,204 shares of HK$0.1 each in the share capital of the Company.

The notes on pages 60 to 131 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2008

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries and the Group's interest in associates.

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

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

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

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 41.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Subsidiaries and minority interests *(continued)*

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1(o) or (p) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)), unless the investment is classified as held for sale.

(d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year (see notes 1(e) and 1(k)).

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

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

In the Company's balance sheet, its investment in an associate are stated at cost less impairment losses (see note 1(k)), unless it is classified as held for sale.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(k)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

On disposal of a cash generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other financial assets

Investments, other than investments in subsidiaries and associates, that do not have a quoted market price in an active market whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(k)).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

(g) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k)).

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(j)); and

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(w)).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Property, plant and equipment *(continued)*

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

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

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion.
– Leasehold improvements are depreciated over the shorter of the unexpired term of lease or 5 years.

– Office equipment, furniture and fixtures	20% – 30%
– Plant and machinery	10% – 30%
– Motor vehicles	20%

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

(h) Property under development

Property under development represents a building under construction, which is stated at cost less impairment losses (see note 1(k)), and is not depreciated. Cost comprises the direct cost of construction. Property under development is reclassified to the appropriate category of property, plant and equipment when substantially completed and ready for its intended use.

(i) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Intangible assets (other than goodwill) *(continued)*

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

– Technical knowledge	5 – 10 years
– Customer relationships	10 – 11 years
– Order backlog	2 years
– Patents	5 – 6 years
– Computer software	2 – 10 years

Both the period and method of amortisation are reviewed annually.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except that land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

Notes to the Financial Statements

For the year ended 31 December 2008

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Leased assets *(continued)*

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(k) Impairment of assets

(i) Impairment of investments and receivables

Investments (other than investments in subsidiaries and associates: see note 1(k)(ii)) and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment below its cost.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

(i) Impairment of investments and receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted investments carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

– For trade and other current receivables and other financial asset carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable, included within trade and other receivables whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- property under development;
- interest in leasehold land held for own use under operating leases;
- intangible assets;
- investments in subsidiaries and associates; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its net selling price 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the GEM Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(l) Inventories

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2008

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Construction contracts

The accounting policy for contract revenue is set out in note 1(u)(iii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Trade debtors and bills receivable". Amounts received before the related work is performed are included in the balance sheet, as a liability, as "Advances received".

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(t)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(r) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using the Binomial Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Income tax *(continued)*

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

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

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

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

  – the same taxable entity; or

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

(t) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary to the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(t)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Financial guarantees issued, provisions and contingent liabilities *(continued)*

(ii) Other provisions and contingent liabilities

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

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

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

(u) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Consultancy services fee income

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

(iii) 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 estimated contract costs for 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 it is probable will be recoverable.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated to the respective functional currencies of the group entities at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currencies at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

Results of the group entities with functional currency other than United States dollars are translated into United States dollars at the exchange rates approximating to those ruling at the dates of transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations, are translated into United States dollars at the exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences recognised in equity which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(w) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(x) Research and development costs

Research and development costs are expensed as incurred, except where the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably; is technically feasible; the Group intends to produce and market, or use, the product or process; the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the Group, can be demonstrated; and adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

Notes to the Financial Statements

For the year ended 31 December 2008

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(z) Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Segment reporting *(continued)*

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following new interpretations and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company:

- HK(IFRIC) 11, HKFRS 2 – *Group and treasury share transactions*
- HK(IFRIC) 12, *Service concession arrangements*
- HK(IFRIC) 14, HKAS 19 – *The limit on a defined benefit asset, minimum funding requirements and their interaction*
- Amendment to HKAS 39, *Financial instruments: Recognition and measurement,* and HKFRS 7, *Financial instruments: Disclosures – Reclassification of financial assets*

These HKFRS developments have had no material impact on the Group's financial statements as either they were consistent with accounting policies already adopted by the Group or they were not relevant to the Group's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 42).

3 TURNOVER

The principal activities of the Group are the construction, manufacturing and trading of rig products and technology (including rig electrical control system and other rig equipment) and oilfield expendables and supplies, the provision of rig turnkey solutions and the provision of consultancy services.

Notes to the Financial Statements

For the year ended 31 December 2008

3 TURNOVER *(continued)*

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

	2008	2007
	US$'000	US$'000
Rig products and technology		
– Sales of rig electrical control system	**16,250**	11,912
– Sales of other rig equipment	**10,785**	7,740
– Revenue from construction contracts	**68,490**	–
	95,525	19,652
Rig turnkey solutions		
– Revenue from construction contracts	**46,488**	–
Oilfield expendables and supplies		
– Sales of expendables and supplies	**17,276**	13,944
Consultancy services		
– Service fee income	**824**	731
	160,113	34,327

4 OTHER REVENUE

	2008	2007
	US$'000	US$'000
Gain on sales of accessories	**460**	491
Interest income	**388**	733
Rental income	**–**	7
Reversal of impairment losses on doubtful debts	**–**	19
Others	**33**	149
	881	1,399

5 PROFIT BEFORE TAXATION

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

		2008 US$'000	2007 US$'000
(a)	Finance costs:		
	Interest on bank loans wholly repayable within five years	600	341
	Less: borrowing costs capitalised into property under development*	(100)	(45)
		500	296

* Borrowing costs have been capitalised at rates of 6.93% – 8.22% per annum (2007: 6.93% – 8.22% per annum)

		2008 US$'000	2007 US$'000
(b)	Staff costs#:		
	Contributions to defined contribution retirement plans	1,000	268
	Equity settled share-based payment expenses (note 34)	2,174	367
	Salaries, wages and other benefits	18,268	4,584
		21,442	5,219
(c)	Other items:		
	Amortisation of interest in leasehold land held for own use under operating leases#	45	24
	Amortisation of intangible assets	2,298	151
	Depreciation#	1,289	503
	Impairment losses on doubtful debts	2,075	115
	Research and development costs	728	137
	Net foreign exchange loss	77	405
	Loss on disposal of property, plant and equipment	8	40
	Auditors' remuneration	624	189
	Share of associates' taxation	(1,136)	–
	Minimum lease payments under operating leases in respect of land and buildings	912	323
	Cost of inventories# (note 21(b))	114,470	20,494

Cost of inventories includes US$7,778,000 (2007: US$820,000) relating to staff costs, depreciation and amortisation expenses which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Income tax in the consolidated income statement represents:

	2008 **US$'000**	2007 US$'000
Current tax		
Provision for the year		
– PRC enterprise income tax	**1,138**	645
– United States corporation income tax	**662**	–
	1,800	645
(Over)/under-provision in respect of prior years		
– PRC enterprise income tax	**(4)**	–
– United States corporation income tax	**31**	–
	27	–
	1,827	645
Deferred tax		
Origination and reversal of temporary differences (note 29(b))	**(74)**	(409)
	1,753	236

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit subject to Hong Kong Profits Tax for the year. Taxation for subsidiaries in other jurisdictions is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions. During the year, certain PRC subsidiaries are subject to tax at reduced rates of 15% (2007: 12% to 15%) or fully exempt from income tax under the relevant PRC tax rules and regulations.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which became effective on 1 January 2008. According to the new tax law, the standard PRC Enterprise Income Tax rate is 25%. Furthermore, the State Council of the PRC passed the implementation guidance ("Implementation Guidance") on 26 December 2007, which sets out the details of how the existing preferential income tax rate will be adjusted to the standard rate of 25%. According to the Implementation Guidance, income tax rate for the PRC subsidiaries of the Group, which are eligible to a 100% or 50% relief from PRC Enterprise Income Tax, will be gradually changed to the standard rate of 25% over a five-year transition period.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(continued)*

(a) Income tax in the consolidated income statement represents: *(continued)*

In addition, under the new tax law, with effect from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding income tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. Pursuant to the double tax arrangement between the PRC and Hong Kong effective on 8 December 2006, the withholding income tax rate will be reduced to 5% if the investment by the Hong Kong investor in the invested entities in the PRC is not less than 25%. On 22 February 2008, the Minister of Finance and State Administration of Tax approved Caishui (2008) No.1, pursuant to which dividend distributions out of pre-2008 retained earnings of foreign investment enterprises will be exempted from withholding income tax. No withholding income tax has been recognised in respect of the post-2008 retained earnings as the Group considers that no dividend will be distributed out of the post-2008 retained earnings in the foreseeable future.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2008	2007
		(restated)
	US$'000	US$'000
Profit before taxation	**12,080**	4,169
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**3,782**	1,571
Tax effect of non-deductible expenses	**1,919**	735
Tax effect of non-taxable income	**(589)**	(639)
Tax effect of profits entitled to tax exemptions in the PRC	**(3,279)**	(1,431)
Under-provision in prior years	**27**	–
Others	**(107)**	–
Actual tax expense	**1,753**	236

Notes to the Financial Statements

For the year ended 31 December 2008

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the disclosure requirements of section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees		Salaries, allowances and benefits in kind		Retirement scheme contributions		Sub-total		Share-based payments (note)		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Executive directors:												
Mr Zhang Menggui	–	–	294	259	18	18	312	277	38	36	350	313
Mr Jiang Bing Hua	–	–	284	259	18	16	302	275	38	36	340	311
Mr Chen Yunqiang	–	–	160	137	4	2	164	139	25	23	189	162
Mr Zhang Hongru	–	–	223	208	2	1	225	209	23	22	248	231
Independent non-executive directors:												
Mr Bian Junjiang	15	16	–	–	–	–	15	16	–	–	15	16
Mr Chan Ngai Sang, Kenny	19	19	–	–	–	–	19	19	–	–	19	19
Mr Guan Zhichuan	15	16	–	–	–	–	15	16	–	–	15	16
Non-executive director:												
Mr Jiang Longsheng	15	16	–	–	–	–	15	16	–	–	15	16
	64	67	961	863	42	37	1,067	967	124	117	1,191	1,084

Note: These represent the estimated value of share options granted to the directors pursuant to the Company's share option schemes. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(r)(ii). Details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share Option Schemes" in the report of the directors and note 33.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2007: four) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2007: one) individuals are as follows:

	2008 **US$'000**	2007 US$'000
Salaries and other emoluments	**431**	147
Share-based payments	**64**	14
Retirement scheme contributions	**30**	13
	525	174

The emoluments of the two (2007: one) individuals with the highest emoluments are within the following bands:

	2008 **Number of individuals**	2007 Number of individuals
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**1**	–
HK$2,000,001 – HK$2,500,000	**1**	–

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of US$3,363,000 (2007: US$664,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's (loss)/profit for the year:

	2008 **US$'000**	2007 US$'000
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(3,363)**	(664)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**–**	1,908
Company's (loss)/profit for the year (note 34)	**(3,363)**	1,244

Notes to the Financial Statements

For the year ended 31 December 2008

10 DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2008 (2007: Nil).

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of US$10,336,000 (2007 (restated): US$3,933,000) and the weighted average number of 463,319,000 (2007: 340,172,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2008 '000	2007 '000
Issued ordinary shares at 1 January	**391,805**	241,044
Effect of ordinary shares issued	**69,385**	44,129
Effect of capitalisation issue (note 34(a)(ii))	**–**	51,644
Effect of share options exercised (note 34(a)(iii))	**2,129**	3,355
Weighted average number of ordinary shares	**463,319**	340,172

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of US$10,336,000 (2007 (restated): US$3,933,000) and the weighted average number of 471,948,000 (2007: 355,081,000) ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2008 '000	2007 '000
Weighted average number of ordinary shares	**463,319**	340,172
Effect of deemed issue of shares under the Company's share option schemes (note 33)	**8,629**	14,909
Weighted average number of ordinary shares (diluted)	**471,948**	355,081

12 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because it is more relevant to the Group's internal financial reporting.

(a) Business segments

The Group comprises the following main business segments:

Rig products and technology	:	the construction, manufacturing and trading of rig equipment
Rig turnkey solutions	:	the provision of engineering, procurement and construction (EPC) services and delivery packaged equipment to offshore rigs
Oilfield expendables and supplies	:	the manufacturing and trading of oilfield expendables and supplies
Consultancy services	:	the provision of consultancy services

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12 SEGMENT REPORTING *(continued)*

(a) Business segments *(continued)*

	Rig products and technology		Rig turnkey solutions		Oilfield expendables and supplies		Consultancy services		Consolidated	
	2008	2007 (restated)	2008	2007	2008	2007	2008	2007	2008	2007 (restated)
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue from external customers	95,525	19,652	46,488	–	17,276	13,944	824	731	160,113	34,327
Other revenue from external customers	467	435	–	–	26	231	–	–	493	666
Total	95,992	20,087	46,488	–	17,302	14,175	824	731	160,606	34,993
Segment results	5,598	4,347	12,184	–	896	682	482	666	19,160	5,695
Unallocated operating income and expenses									(4,517)	(1,758)
Profit from operations									14,643	3,937
Finance costs									(500)	(296)
Share of (losses) less profits of associates	(2,063)	528	–	–	–	–	–	–	(2,063)	528
Profit before taxation									12,080	4,169
Income tax									(1,753)	(236)
Profit for the year									10,327	3,933
Depreciation for the year	827	217	–	–	440	281	22	5		
Amortisation for the year	2,329	151	–	–	14	24	–	–		
Significant non-cash expense (other than depreciation and amortisation)	2,265	220	–	–	609	24	–	–		
Segment assets	145,285	43,772	18,221	7,081	15,459	29,009	240	446	179,205	80,308
Interest in associates	9,141	14,847	–	–	–	–	–	–	9,141	14,847
Unallocated assets									8,404	22,616
Total assets									196,750	117,771
Segment liabilities	44,543	5,385	13,092	27,132	4,065	4,464	94	1	61,794	36,982
Unallocated liabilities									19,402	4,766
Total liabilities									81,196	41,748
Capital expenditure incurred during the year	11,589	2,971	–	–	175	1,349	57	2		

12 SEGMENT REPORTING *(continued)*

(b) Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical locations of customers. Segment assets and capital expenditure are based on the geographical locations of the assets.

	Revenue from external customers		Segment assets		Capital expenditure incurred during the year	
	2008	2007	**2008**	2007	**2008**	2007
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Hong Kong	**–**	–	**242**	277	**57**	2
Mainland China	**56,507**	13,124	**81,849**	56,772	**11,381**	4,233
North America	**36,635**	16,548	**40,128**	23,259	**198**	87
South America	**14,055**	2,028	**161**	–	**12**	–
Europe	**11,118**	1,664	**53,461**	–	**151**	–
Singapore	**36,838**	–	**3,087**	–	**22**	–
Others (Other part of Asia, Russia etc.)	**4,960**	963	**277**	–	**–**	–
	160,113	34,327	**179,205**	80,308	**11,821**	4,322

13 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings held for own use carried at cost US$'000	Office equipment, furniture and fixtures US$'000	Plant and machinery US$'000	Leasehold improvements US$'000	Motor vehicles US$'000	Total US$'000
Cost:						
At 1 January 2007	632	385	1,885	148	641	3,691
Exchange adjustments	31	15	92	5	31	174
Additions						
– through acquisition of subsidiaries	6	19	65	–	103	193
– others	44	435	1,099	22	147	1,747
Transfer from property under development (note 14)	1,857	–	–	–	–	1,857
Disposals	–	(27)	(621)	(51)	–	(699)
At 31 December 2007	2,570	827	2,520	124	922	6,963
At 1 January 2008	2,570	827	2,520	124	922	6,963
Exchange adjustments	313	(11)	323	(116)	31	540
Additions						
– through acquisition of subsidiaries (note 36)	3,925	147	782	221	233	5,308
– others	159	700	2,237	18	500	3,614
Transfer from property under development (note 14)	2,933	–	–	–	–	2,933
Disposals	–	(154)	–	–	(150)	(304)
At 31 December 2008	**9,900**	**1,509**	**5,862**	**247**	**1,536**	**19,054**
Accumulated depreciation:						
At 1 January 2007	22	116	247	75	153	613
Exchange adjustments	2	8	17	3	12	42
Through acquisition of subsidiaries	2	10	32	–	32	76
Charge for the year	32	120	147	72	132	503
Written back on disposal	–	(19)	(35)	(29)	–	(83)
At 31 December 2007	58	235	408	121	329	1,151
At 1 January 2008	58	235	408	121	329	1,151
Exchange adjustments	16	(5)	81	(17)	16	91
Charge for the year	120	250	626	56	237	1,289
Written back on disposal	–	(40)	–	–	(61)	(101)
At 31 December 2008	**194**	**440**	**1,115**	**160**	**521**	**2,430**
Net book value:						
At 31 December 2008	**9,706**	**1,069**	**4,747**	**87**	**1,015**	**16,624**
At 31 December 2007	2,512	592	2,112	3	593	5,812

13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(b) The Company

	Office equipment, furniture and fixtures US$'000
Cost:	
At 1 January and 31 December 2007	–
At 1 January 2008	–
Additions	54
At 31 December 2008	**54**
Accumulated depreciation:	
At 1 January and 31 December 2007	–
At 1 January 2008	–
Charge for the year	(18)
At 31 December 2008	**(18)**
Net book value:	
At 31 December 2008	**36**
At 31 December 2007	–

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

	2008 US$'000	2007 US$'000
Outside Hong Kong		
– long leases	**3,858**	–
– medium-term leases	**5,848**	2,512
	9,706	2,512

14 PROPERTY UNDER DEVELOPMENT

The Group's property under development is situated on a piece of leasehold land in Qingdao, the PRC, held under a land use right for a period of 50 years up to 12 June 2058.

During the year ended 31 December 2008, completed property of US$2,933,000 (2007: US$1,857,000) has been transferred to property, plant and equipment (note 13).

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

The Group

	2008	2007
	US$'000	US$'000
Cost:		
At 1 January	**1,256**	1,190
Exchange adjustments	**129**	66
Additions	**1,995**	–
At 31 December	**3,380**	1,256
Accumulated amortisation:		
At 1 January	**54**	29
Exchange adjustments	**2**	1
Charge for the year	**45**	24
At 31 December	**101**	54
Net book value:		
At 31 December	**3,279**	1,202

The cost of interest in leasehold land held for own use under operating leases located in the PRC is amortised over the lease terms of 43 to 50 years on a straight-line basis.

16 GOODWILL

	The Group	
	2008	2007
	US$'000	US$'000
Cost		
At 1 January	**2,272**	–
Exchange adjustments	**(7,156)**	49
Additions through acquisition of subsidiaries (note 36)	**27,137**	2,223
At 31 December	**22,253**	2,272

Impairment test for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash generating units ("CGU") identified according to the business segment as follow:

	2008	2007
	US$'000	US$'000
Rig products and technology	**22,253**	2,272

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rate stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	2008	2007
– Gross margin	**21.6%-35%**	40.5%
– Growth rate	**3%**	3%
– Discount rate	**15%-18.3%**	18.4%

Management determined the budgeted gross margin based on past performance and its expectation for market development. The discount rate used is pre-tax and reflects specific risks relating to the relevant segments.

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17 OTHER INTANGIBLE ASSETS

The Group

	Technical knowledge US$'000	Customer relationships US$'000	Order backlog US$'000	Patents US$'000	Computer software US$'000	Total US$'000
Cost:						
At 1 January 2007	128	–	–	–	–	128
Exchange adjustments	30	–	–	36	4	70
Additions:						
– Through acquisition of subsidiaries	1,062	–	–	1,669	–	2,731
– Others	–	–	–	–	123	123
At 31 December 2007	1,220	–	–	1,705	127	3,052
At 1 January 2008	1,220	–	–	1,705	127	3,052
Exchange adjustments	(1,582)	(3,844)	(390)	136	(30)	(5,710)
Additions:						
– Through acquisition of subsidiaries (note 36)	6,668	14,205	1,504	–	34	22,411
– Others	–	–	–	–	201	201
At 31 December 2008	**6,306**	**10,361**	**1,114**	**1,841**	**332**	**19,954**
Accumulated amortisation:						
At 1 January 2007	69	–	–	–	–	69
Exchange adjustments	6	–	–	2	–	8
Charge for the year	48	–	–	102	1	151
At 31 December 2007	123	–	–	104	1	228
At 1 January 2008	123	–	–	104	1	228
Exchange adjustments	(73)	(176)	(98)	14	(9)	(342)
Charge for the year	563	866	488	335	46	2,298
At 31 December 2008	**613**	**690**	**390**	**453**	**38**	**2,184**
Net book value:						
At 31 December 2008	**5,693**	**9,671**	**724**	**1,388**	**294**	**17,770**
At 31 December 2007	1,097	–	–	1,601	126	2,824

The amortisation charge for the year is included in "other operating expenses" in the consolidated income statement.

18 INTEREST IN SUBSIDIARIES

	The Company 2008 US$'000	2007 US$'000
Unlisted shares/capital contributions, at cost	**26,245**	20
Amounts due from subsidiaries	**73,445**	33,136
	99,690	33,156
Amounts due to subsidiaries	**(10)**	(30)
	99,680	33,126

The amounts due from subsidiaries are unsecured, interest-free and not expected to be recovered within one year (2007: recoverable on demand), except for an amount of US$5,350,000 (2007: US$3,000,000) which bears interest at a rate of 10% per annum.

The following list contains only the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Emer International Limited	Hong Kong	2,000,000 shares of HK$1 each	100%	–	100%	Investment holding and provision of consultancy services
TSC (Qingdao) Manufacture Co., Limited ("TSC (Qingdao)")#* (青島天時石油機械有限公司)	PRC	US$1,300,000	100%	–	100%	Manufacturing and trading of oilfield expendables and supplies

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18 INTEREST IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
TSC – HHCT (Xi'an) Control Technologies Limited ("TSC-HHCT")#* (海爾海斯（西安）控制技術有限公司)	PRC	RMB17,000,000	100%	–	100%	Manufacturing and trading of rig electrical control system
TSC Manufacturing and Supply, LLC. ("TSCMS")	USA	1,612,000 shares of US$1 each	100%	–	100%	Trading of other rig equipment and oilfield expendables and supplies and provision of rig turnkey solutions
Qingdao TSC Offshore Equipment Co., Ltd.# (青島天時海洋石油裝備有限公司)	PRC	US$11,000,000	100%	–	100%	Manufacturing and trading of rig equipment and provision of rig turnkey solutions
Zhengzhou Highlight Energy Technology Co., Ltd.# (鄭州海來能源科技有限公司)	PRC	RMB31,200,000	100%	–	100%	Manufacturing and trading of rig equipment
Zhengzhou Gear King Co., Ltd. ("TSC Gear")#* (鄭州吉爾傳動科技有限公司)	PRC	RMB1,200,000	100%	–	100%	Manufacturing and trading of rig equipment
TSC Offshore (UK) Limited ("TSCUK") (formerly known as Global Marine Energy Plc) (Note)	England and Wales	73,074,952 shares of GBP0.025 each	100%	100%	–	Design and manufacture of mechanical handling equipment

18 INTEREST IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
TSC Engineering Limited	England and Wales	GBP1	100%	–	100%	Design and manufacture of mechanical handling equipment
Ansell Jones Limited	England and Wales	GBP1	100%	–	100%	Design and manufacture of mechanical handling equipment
TSC Offshore Pte. Limited	Singapore	SG$1	100%	–	100%	Design and manufacture of mechanical handling equipment
TSC Offshore Corporation	USA	US$6,100	100%	–	100%	Design and manufacture of mechanical handling equipment
TSC Offshore Limiteda	Brazil	BRL471,487	100%	–	100%	Design and manufacture of mechanical handling equipment
Patriot Crane, LLC.	USA	US$1	100%	–	100%	Design and manufacture of offshore deck crames

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18 INTEREST IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
TSC Winches Limited	England and Wales	GBP1	100%	–	100%	Design and manufacture of mechanical handling equipment

\# Registered under the laws of the PRC as foreign investment enterprises

* Unofficial translation

Note: In October 2007, the Company made a voluntary conditional offer to acquire the entire issued share capital of TSCUK at an offer price of 13 pence per share. In November 2007, the offer price was revised and increased to 16 pence per share. In December 2007, the Group acquired 20,992,498 shares of TSCUK, which represents a 28.7% equity interest in TSCUK. TSCUK was accounted for as an associate in the consolidated financial statements for the year ended 31 December 2007.

In March 2008, the Group waived other conditions and declared the offer unconditional in all respects. Besides, TSCUK was also approved by the London Stock Exchange for the cancellation of admission of TSCUK shares trading on the market operated by the London Stock Exchange effective 1 May 2008.

19 INTEREST IN ASSOCIATES

	The Group		The Company	
	2008	2007 (restated)	**2008**	2007
	US$'000	US$'000	**US$'000**	US$'000
Listed shares, at cost	**–**	–	**–**	6,540
Share of net assets	**9,141**	9,994	**–**	–
Goodwill	**–**	4,853	**–**	–
	9,141	14,847	**–**	6,540
Market value of listed shares	**–**	5,723	**–**	5,723

19 INTEREST IN ASSOCIATES *(continued)*

Details of the Group's interest in associates are as follows:

Name of associate	Form of business structure	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Goldman Offshore Design, LLC. ("Goldman Offshore") (Note)	Incorporated	USA	802 Class A shares of US$1 each and 1,732 Class B shares of US$1 each	28%	–	28%	Investment holding
Zhengzhou Fu Ge Offshore Equipment Co., Ltd.#* (鄭州富格海洋工程裝備有限公司)	Established	PRC	RMB10,000,000	25%	–	25%	Manufacturing and marketing of equipment and spare parts for offshore rigs

\# Registered under the laws of the PRC as a foreign investment enterprise

* Unofficial translation

Note:

The Group's investment in Goldman Offshore, which was acquired in 2007, was included in the consolidated financial statements for the year ended 31 December 2007 at cost less impairment losses and was not equity accounted for as required by HKAS 28, because no management accounts or audited financial statements of Goldman Offshore (after equity accounting for its own associates) were available.

During the year ended 31 December 2008, the financial information of Goldman Offshore (after equity accounting for its own associates) for both the financial years ended 31 December 2007 and 2008 was made available to the Group. Therefore, the Group has applied the equity method as required under HKAS 28 to account for the investment in Goldman Offshore in the consolidated financial statements for the year ended 31 December 2008 and a restatement of the comparative figures in respect of the year ended 31 December 2007 has also been made.

As a result of the restatement, the Group's share of (losses) less profits of associates and profit for the year ended 31 December 2007 have increased by US$437,000. Net assets of the Group as at 31 December 2007 have increased by US$437,000. Basic and diluted earnings per share for the year ended 31 December 2007 have increased by US0.13 cent.

19 INTEREST IN ASSOCIATES *(continued)*

Note: *(continued)*

Effect on the consolidated financial statements for the year ended 31 December 2007

	As originally reported US$'000	Effect of the restatement US$'000	As restated US$'000
Interest in associates	14,410	437	14,847
Net assets	75,586	437	76,023
Share of (losses) less profits of associates	91	437	528
Profit for the year	3,496	437	3,933
Earnings per share			
Basic	US1.03 cent	US0.13 cent	US1.16 cent
Diluted	US0.98 cent	US0.13 cent	US1.11 cent

Summary financial information on associates

	Assets US$'000	Liabilities US$'000	Equity US$'000	Revenue US$'000 (Note)	(Loss)/ profit US$'000 (Note)
2008					
100 per cent	**33,042**	**(230)**	**32,812**	**10,689**	**(7,093)**
Group's effective interest	**9,200**	**(59)**	**9,141**	**2,955**	**(2,063)**
2007 (restated)					
100 per cent	83,361	(47,653)	35,708	5,121	1,919
Group's effective interest	23,676	(13,682)	9,994	1,365	528

Note: TSCUK was an associate of the Group at 31 December 2007. During the year ended 31 December 2008, the Group acquired the remaining interest in TSCUK and TSCUK became a wholly-owned subsidiary (see note 18). Operating results of TSCUK are included in the summary financial information up to the date of transfer to become a subsidiary.

20 OTHER FINANCIAL ASSET

	The Group 2008 US$'000	2007 US$'000
Available-for-sale investment:		
– Unlisted, at cost	**–**	676

21 INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2008	2007
	US$'000	US$'000
Raw materials	**6,026**	2,050
Work in progress	**15,893**	6,381
Finished goods	**9,399**	6,270
	31,318	14,701

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2008	2007
	US$'000	US$'000
Carrying amount of inventories sold	**113,671**	20,365
Write down of inventories	**799**	129
	114,470	20,494

22 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	US$'000	US$'000	**US$'000**	US$'000
Trade debtors and bills receivable	**44,919**	17,927	**–**	–
Less: allowance for doubtful debts (note 22(b))	**(2,302)**	(497)	**–**	–
	42,617	17,430	**–**	–
Other receivables, prepayments and deposits	**5,464**	3,658	**81**	417
Gross amount due from customers for contract work (note 23)	**19,282**	7,081	**–**	–
	67,363	28,169	**81**	417

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22 TRADE AND OTHER RECEIVABLES *(continued)*

(a) Ageing analysis

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

	The Group	
	2008	2007
	US$'000	US$'000
Current	**25,689**	7,148
Less than 1 month past due	**8,758**	2,334
1 to 3 months past due	**5,766**	1,470
More than 3 months but less than 12 months past due	**2,275**	6,173
More than 12 months but less than 24 months past due	**129**	305
Amounts past due	**16,928**	10,282
	42,617	17,430

The credit terms offered by the Group to its customers differ with each product/service. The credit terms offered to customers of oilfield expendables and supplies and consultancy services are normally 30 to 90 days. The credit terms offered to customers of rig electrical control system and other rig equipment are negotiated on a case-by-case basis. Deposits ranging from 10% to 30% of the contract sum are usually required. The balance of 60% to 85% would be payable in 1 to 2 months after delivery and acceptance of products. The remaining 5% to 10% of the contract sum represents the retention money and is payable within up to 18 months after delivery of the products or 1 year after completion of the onsite testing, whichever is earlier. The amount of those retentions expected to be recovered after more than one year is US$495,000 (2007: US$279,000).

22 TRADE AND OTHER RECEIVABLES *(continued)*

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(k)(i)).

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

	The Group	
	2008	2007
	US$'000	US$'000
At 1 January	**497**	376
Exchange adjustments	**(270)**	25
Impairment loss recognised	**2,075**	115
Reversal of impairment losses	**–**	(19)
At 31 December	**2,302**	497

At 31 December 2008, the Group's trade debtors and bills receivable of US$3,188,000 (2007: US$686,000) were individually determined to be impaired. The individually impaired receivables related to customers which management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of US$2,302,000 (2007: US$497,000) were recognised. The Group does not hold any collateral over these balances.

22 TRADE AND OTHER RECEIVABLES *(continued)*

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

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

	The Group	
	2008	2007
	US$'000	US$'000
Neither past due nor impaired	**25,689**	7,148
Less than 1 month past due	**8,758**	2,334
1 to 3 months past due	**5,307**	1,470
More than 3 months but less than 12 months past due	**1,977**	6,173
More than 12 months but less than 24 months past due	**–**	116
	16,042	10,093
	41,731	17,241

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

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

23 CONSTRUCTION CONTRACTS

The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in gross amount due from/to customers for contract work at 31 December 2008, is US$114,978,000 (2007: US$Nil). No contract revenue was recognised and no progress billing was made during the year ended 31 December 2007 as the progress was at initial stage.

24 AMOUNTS DUE FROM DIRECTORS

	The Group	
	2008	2007
	US$'000	US$'000
Balance at 1 January		
– Mr Zhang Menggui	**19**	13
– Mr Jiang Bing Hua	**19**	–
– Mr Zhang Hongru	**–**	–
	38	13
Balance at 31 December		
– Mr Zhang Menggui	**–**	19
– Mr Jiang Bing Hua	**–**	19
– Mr Zhang Hongru	**–**	–
	–	38
Maximum balance outstanding during the year		
– Mr Zhang Menggui	**19**	19
– Mr Jiang Bing Hua	**19**	19
– Mr Zhang Hongru	**38**	19

The amounts represent expenses paid on behalf of/funds advanced to the directors and are unsecured, non-interest-bearing and without pre-determined repayment terms.

There was no provision made against the principal amounts at 31 December 2007 and 2008.

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25 AMOUNT DUE FROM A RELATED COMPANY

	The Group	
	2008	2007
	US$'000	US$'000
Katy International Inc.:		
Balance at 1 January	**79**	80
Balance at 31 December	**85**	79
Maximum balance outstanding during the year	**85**	80

The amount represents funds advanced and expenses paid on behalf of Katy International Inc. and is unsecured, non-interest-bearing and without pre-determined repayment terms.

Mr Zhang Menggui and Mr Jiang Bing Hua are directors of the Company and each of them has a 50% beneficial interest in Katy International Inc.

There was no provision made against the principal amount at 31 December 2007 and 2008.

26 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	US$'000	US$'000	**US$'000**	US$'000
Trade creditors and bills payable	**33,727**	5,620	**–**	–
Other payables and accrued charges	**5,290**	4,163	**641**	277
Amount due to an associate	**36**	343	**–**	–
Gross amount due to customers for contract work (note 23)	**19,702**	–	**–**	–
Advances received in relation to construction contracts	**1,191**	27,132	**–**	–
	59,946	37,258	**641**	277

The amount due to an associate is unsecured, interest-free and repayable within one year.

26 TRADE AND OTHER PAYABLES *(continued)*

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date.

	The Group	
	2008	2007
	US$'000	US$'000
Within 1 month	**16,791**	3,987
More than 1 month but less than 3 months	**10,337**	872
More than 3 months but less than 12 months	**6,476**	761
More than 12 months but less than 24 months	**123**	–
	33,727	5,620

27 AMOUNT DUE TO A RELATED COMPANY

The Group

The amount in 2007 was unsecured, non-interest-bearing and without pre-determined terms of repayment.

Mr Zhang Menggui and Mr Jiang Bing Hua are directors of the Company and each of them has a 50% beneficial interest in the related company.

28 BANK LOANS

At 31 December 2008, the bank loans were repayable as follows:

	The Group	
	2008	2007
	US$'000	US$'000
Within 1 year or on demand	**7,811**	3,298
After 1 year but within 2 years	**83**	405
After 2 years but within 5 years	**206**	–
After 5 years	**2,455**	–
	2,744	405
	10,555	3,703

At 31 December 2008, the bank loans were secured and unsecured as follows:

	The Group	
	2008	2007
	US$'000	US$'000
Secured	**9,826**	3,703
Unsecured	**729**	–
	10,555	3,703

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28 BANK LOANS *(continued)*

The bank loans carried interest at rates ranging from 6.14% to 8.96% per annum (2007: 6.93% to 8.22% per annum) and were secured by:

(i) Interest in leasehold land held for own use under operating leases, buildings, plant and machinery, inventories and trade receivables of four subsidiaries namely TSC (Qingdao), TSCMS, TSCUK and TSC-HHCT. The aggregate net book value of assets pledged amounted to US$19,908,000 (2007: US$5,324,000).

(ii) Corporate guarantees given by the Company and TSC-HHCT to the extent of banking facilities outstanding of US$1,897,000 (2007: US$3,703,000) as at 31 December 2008.

All of the Group's bank loans are not subject to the fulfilment of financial covenants.

29 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	The Group	
	2008	2007
	US$'000	US$'000
Provision for the year	**1,800**	645
Provisional income tax paid	**(943)**	(191)
	857	454
Balance of income tax provision relating to prior years	**207**	–
	1,064	454
Represented by:		
Tax recoverable	**(72)**	–
Tax payable	**1,136**	454
	1,064	454

29 INCOME TAX IN THE BALANCE SHEET *(continued)*

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation in excess of related depreciation allowances US$'000	Impairment losses on doubtful debts US$'000	Write-down on inventories US$'000	Intangible assets US$'000	Tax losses US$'000	Unrealised profits US$'000	Others US$'000	Total US$'000
Deferred tax arising from:								
At 1 January 2007	(8)	(44)	(10)	–	–	(263)	66	(259)
Exchange adjustments	–	(3)	–	7	–	(22)	(4)	(22)
Addition through acquisition of subsidiaries	–	–	–	341	–	–	–	341
Charged/(credited) to profit or loss (note 6(a))	8	–	–	(17)	(161)	(233)	(6)	(409)
At 31 December 2007	–	(47)	(10)	331	(161)	(518)	56	(349)
At 1 January 2008	–	(47)	(10)	331	(161)	(518)	56	(349)
Exchange adjustments	–	(66)	(10)	(1,504)	2,644	–	–	1,064
Addition through acquisition of subsidiaries (note 36)	–	–	–	6,235	(9,411)	–	–	(3,176)
Charged/(credited) to profit or loss (note 6(a))	116	(338)	(245)	(281)	306	280	88	(74)
At 31 December 2008	**116**	**(451)**	**(265)**	**4,781**	**(6,622)**	**(238)**	**144**	**(2,535)**

29 INCOME TAX IN THE BALANCE SHEET *(continued)*

(b) Deferred tax assets and liabilities recognised: *(continued)*

The Group *(continued)*

	2008 US$'000	2007 US$'000
Deferred tax included in the consolidated balance sheet:		
Net deferred tax assets	**(7,483)**	(680)
Net deferred tax liabilities	**4,948**	331
	(2,535)	(349)

At 31 December 2008, the Group had not recognised deferred tax liabilities of US$3,976,000 in respect of undistributed profits of subsidiaries (2007: US$Nil) as the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the forseeable future.

30 PROVISIONS

Provision for loss making construction contracts:

	The Group US$'000
At 1 January 2008	**–**
Exchange adjustments	**(1,495)**
Addition through acquisition of subsidiaries (note 36)	**9,241**
Provisions realised	**(5,191)**
At 31 December 2008	**2,555**

Provision for loss making construction contracts is recognised for the amount by which costs exceed the associated revenue based on the best estimate of the expenditure required to settle the Group's liabilities under certain long term contracts. These provisions will be realised over the next 12 months.

31 LOAN FROM A DIRECTOR

The loan represents the working capital loan borrowed from a director, Mr Jiang Bing Hua and is guaranteed by another director, Mr Zhang Menggui. The loan is unsecured, non-interest-bearing and repayable in March 2010.

32 EMPLOYEE RETIREMENT BENEFITS

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

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

The Group also operates defined contribution retirement benefits schemes for all qualifying employees in jurisdictions other than the PRC and Hong Kong with contributions to the schemes at 6%-10% of the gross salaries.

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

33 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Pre-IPO Scheme

Pursuant to written resolutions of all shareholders of the Company on 19 October 2005, the Company adopted a Pre-IPO share option scheme ("Pre-IPO Scheme").

The purpose of the Pre-IPO Scheme is to recognise the contribution of certain directors and employees of the Group to the growth of the Group and/or the listing shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The subscription price for each share is HK$0.2383 (adjusted for the effect of capitalisation issue in May 2007 (note 34(a)(ii)) which was determined after taking into account the grantees' substantial contributions to the growth and development of the Group.

The total number of shares subject to the Pre-IPO Scheme is 18,252,000 ordinary shares (adjusted for the effect of capitalisation issue) representing approximately 6.34% of the then total issued share capital of the Company. During the year, 4,654,800 (2007: 4,222,800) share options were exercised and the Company had 8,121,600 (2007: 12,776,400) share options outstanding as at the balance sheet date.

Notes to the Financial Statements

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33 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

Pre-IPO Scheme *(continued)*

No further share options will be offered or granted under the Pre-IPO Scheme after the termination date i.e. 21 November 2005.

The options granted under the Pre-IPO Scheme can only be exercised by the grantees after the later of twelve months following the listing date (i.e. 28 November 2005) or such period as may be required by the Stock Exchange for the options granted under the Pre-IPO Scheme to be subject to lock-up restrictions.

If the grantee maintains continuous status of an employee for every 6 months, an additional 10% of the option granted is vested and exercisable. The accumulated vested portion of this option may not be exercised later than 10 years from the date on which the grantee accepts the options.

Share Option Scheme

In addition, pursuant to the resolutions passed by all the shareholders on 20 October 2005, the Company has adopted a share option scheme ("Share Option Scheme").

The purpose of the Share Option Scheme is to provide incentives or rewards to the participants (as defined below) for their contribution to the Group and/or enable the Group to recruit and retain high-caliber employees and to improve the loyalty of the employees.

The directors may, at their discretion, invite any participant (the "Participants") being any employee, executive directors, non-executive directors, certain consultants, suppliers and customers of the Group who, in the sole discretion of the boards, have contributed to the Group. Upon acceptance of the option, the grantee shall pay HK$1 to the Company as consideration for the grant.

The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes in force from time to time must not in aggregate exceed 30% of the shares in issue from time to time (the "Scheme Limit").

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

33 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

Share Option Scheme *(continued)*

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

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

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

A nominal consideration of HK$1 is payable by the grantee upon acceptance of an option.

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

During the year, 278,000 (2007: Nil) share options under the Share Option Scheme were exercised and 1,850,000 (2007: Nil) share options were lapsed.

33 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 19 October 2005	13,521,600	Note	10 years
– on 29 December 2008	5,550,000	Note	10 years
Options granted to employees:			
– on 19 October 2005	3,477,600	Note	10 years
– on 10 May 2007	7,280,000	Note	10 years
– on 12 November 2007	9,700,000	Note	10 years
– on 15 January 2008	2,000,000	Note	10 years
– on 12 August 2008	5,000,000	Note	10 years
– on 29 December 2008	10,500,000	Note	10 years
Total share options	57,029,200		

Note: The vesting period of the options is 5 years, starting from the date of grant and becomes vested at stepped semi-annual increments of 10% of the total options originally granted for a period of 5 years from the date of grant.

33 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

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

	2008 Weighted average exercise price	**2008** Number of options	2007 Weighted average exercise price	2007 Number of options
Outstanding at the beginning of the year	**HK$2.52**	**29,756,400**	HK$0.2383	16,999,200
Exercised during the year	**HK$0.36**	**(4,932,800)**	HK$0.2383	(4,222,800)
Lapsed during the year	**HK$3.48**	**(1,850,000)**	–	–
Granted during the year	**HK$1.33**	**23,050,000**	HK$4.24	16,980,000
Outstanding at the end of the year	**HK$2.12**	**46,023,600**	HK$2.52	29,756,400
Exercisable at the end of the year	**HK$1.47**	**11,977,600**	HK$0.36	13,515,200

The weighted average share price at the date of exercise for share options exercised during the year was HK$2.48 (2007: HK$1.98).

The options outstanding at 31 December 2008 had an exercise price of HK$0.2383, HK$2.43, HK$5.6, HK$5.23, HK$2.32 and HK$0.54 (2007: HK$0.2383, HK$2.43 or HK$5.6) and a weighted average remaining contractual life of 8.8 years (2007: 8.8 years).

33 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(c) Fair value of share options and assumptions

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

Fair value of share options and assumptions

Grant date	29 December 2008	12 August 2008	15 January 2008	12 November 2007	10 May 2007	19 October 2005
Fair value at measurement date	US$0.03	US$0.12	US$0.27	US$0.29	US$0.13	US$0.09
Share price	HK$0.54	HK$2.32	HK$5.22	HK$5.6	HK$2.43	HK$0.6083
Exercise price	HK$0.54	HK$2.32	HK$5.23	HK$5.6	HK$2.43	HK$0.2383
Expected volatility	45%	41%	42%	42%	42%	51%
Option life	10 years	10 years	10 years	10 years	10 years	10 years
Expected dividends	Nil	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate (based on Exchange Fund Notes)	1.235%	3.38%	2.8%	3.45%	4.24%	4.58%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on public available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

34 CAPITAL AND RESERVES

The Group

	Share capital US$'000	Share premium US$'000	Merger reserve US$'000	Exchange reserve US$'000	Employee share-based compensation reserve US$'000	Capital reserve US$'000	Revaluation reserve US$'000	Reserve funds US$'000	Retained profits US$'000	Total US$'000	Minority interests US$'000	Total equity US$'000
At 1 January 2007	3,103	1,124	2,161	540	321	512	–	883	8,511	17,155	–	17,155
Issue of ordinary shares	1,196	53,638	–	–	–	–	–	–	–	54,834	–	54,834
Share issue expenses	–	(1,329)	–	–	–	–	–	–	–	(1,329)	–	(1,329)
Capitalisation issue (note 34(a)(ii))	693	(693)	–	–	–	–	–	–	–	–	–	–
Shares issued under share option schemes (note 34(a)(iii))	49	172	–	–	(91)	–	–	–	–	130	–	130
Equity-settled share-based transactions	–	–	–	–	367	–	–	–	–	367	–	367
Exchange differences on translation of financial statements of foreign subsidiaries and associates	–	–	–	933	–	–	–	–	–	933	–	933
Profit for the year (restated)	–	–	–	–	–	–	–	–	3,933	3,933	–	3,933
Transferred to reserve funds	–	–	–	–	–	–	–	757	(757)	–	–	–
At 31 December 2007	5,041	52,912	2,161	1,473	597	512	–	1,640	11,687	76,023	–	76,023
At 1 January 2008												
– as previously reported	5,041	52,912	2,161	1,473	597	512	–	1,640	11,250	75,586	–	75,586
– prior period adjustment in respect of an associate (note 19)	–	–	–	–	–	–	–	–	437	437	–	437
– as restated	5,041	52,912	2,161	1,473	597	512	–	1,640	11,687	76,023	–	76,023
Issue of ordinary shares	2,121	36,517	–	–	–	–	–	–	–	38,638	–	38,638
Share issue expenses	–	(720)	–	–	–	–	–	–	–	(720)	–	(720)
Acquisition of subsidiaries (note 36(a))	–	–	–	–	–	–	627	–	–	627	–	627
Shares issued under share option schemes (note 34(a)(iii))	63	378	–	–	(213)	–	–	–	–	228	–	228
Equity-settled share-based transactions	–	–	–	–	2,174	–	–	–	–	2,174	–	2,174
Capital contribution received by non-wholly owned subsidiary from minority shareholder	–	–	–	–	–	–	–	–	–	–	9	9
Exchange differences on translation of financial statements of foreign subsidiaries and associates	–	–	–	(11,752)	–	–	–	–	–	(11,752)	–	(11,752)
Profit/(loss) for the year	–	–	–	–	–	–	–	–	10,336	10,336	(9)	10,327
Transferred to reserve funds	–	–	–	–	–	–	–	216	(216)	–	–	–
At 31 December 2008	**7,225**	**89,087**	**2,161**	**(10,279)**	**2,558**	**512**	**627**	**1,856**	**21,807**	**115,554**	**–**	**115,554**

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For the year ended 31 December 2008

34 CAPITAL AND RESERVES *(continued)*

The Company

	Share capital US$'000	Share premium US$'000	Exchange reserve US$'000	Employee share-based compensation reserve US$'000	Retained profits US$'000	Total US$'000
At 1 January 2007	3,103	1,124	93	321	2,333	6,974
Issue of ordinary shares	1,196	53,638	–	–	–	54,834
Shares issue expenses	–	(1,329)	–	–	–	(1,329)
Capitalisation issue (note 34(a)(ii))	693	(693)	–	–	–	–
Shares issued under share option schemes (note 34(a)(iii))	49	172	–	(91)	–	130
Equity-settled share-based transactions	–	–	–	367	–	367
Exchange differences on translation of financial statements	–	–	880	–	–	880
Profit for the year	–	–	–	–	1,244	1,244
At 31 December 2007	5,041	52,912	973	597	3,577	63,100
At 1 January 2008	5,041	52,912	973	597	3,577	63,100
Issue of ordinary shares	2,121	36,517	–	–	–	38,638
Shares issue expenses	–	(720)	–	–	–	(720)
Shares issued under share option schemes (note 34(a)(iii))	63	378	–	(213)	–	228
Equity-settled share-based transactions	–	–	–	2,174	–	2,174
Exchange differences on translation of financial statements	–	–	(194)	–	–	(194)
Loss for the year	–	–	–	–	(3,363)	(3,363)
At 31 December 2008	**7,225**	**89,087**	**779**	**2,558**	**214**	**99,863**

34 CAPITAL AND RESERVES *(continued)*

(a) Share capital

(i) Authorised and issued share capital

	2008		2007	
	No. of shares '000	**Amount US$'000**	No. of shares '000	Amount US$'000
Authorised:				
Ordinary share of HK$0.1 each	**1,000,000**	**12,873**	1,000,000	12,873
Ordinary shares, issued and fully paid:				
At 1 January	**391,805**	**5,041**	241,044	3,103
Issue of ordinary shares	**165,000**	**2,121**	93,469	1,196
Capitalisation issue	**–**	**–**	53,469	693
Shares issued under share option schemes	**4,933**	**63**	3,823	49
At 31 December	**561,738**	**7,225**	391,805	5,041

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Capitalisation issue

On 10 May 2007, an amount of US$693,000 standing to the credit of the share premium account was applied in paying up in full 53,469,000 ordinary shares of HK$0.1 each which were allotted and distributed as fully paid to existing shareholders in the proportion of one for every five shares then held.

(iii) Shares issued under share option schemes

During the year ended 31 December 2008, options were exercised to subscribe for 4,932,800 ordinary shares in the Company at a consideration of US$228,000 of which US$63,000 was credited to share capital and the balance of US$165,000 was credited to the share premium account. US$213,000 has been transferred from the employee share-based payment reserve to the share premium account in accordance with the policy set out in note 1(r)(ii).

34 CAPITAL AND RESERVES *(continued)*

(a) Share capital *(continued)*

(iv) Terms of unexpired and unexercised share options at the balance sheet date

Exercise period	Exercise price	2008 Number	2007 Number
29 November 2005 to 18 October 2015	HK$0.2383	**8,121,600**	12,776,400
10 November 2007 to 9 May 2017	HK$2.43	**6,802,000**	7,280,000
12 May 2008 to 11 November 2017	HK$5.6	**9,050,000**	9,700,000
15 July 2008 to 14 January 2018	HK$5.23	**2,000,000**	–
12 February 2009 to 11 August 2018	HK$2.32	**4,000,000**	–
29 June 2009 to 28 December 2018	HK$0.54	**16,050,000**	–
		46,023,600	29,756,400

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 33 to the financial statements.

(b) Nature and purpose of reserves

(i) Share premium

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

(ii) Merger reserve

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

(iii) Exchange reserve

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

34 CAPITAL AND RESERVES *(continued)*

(b) Nature and purpose of reserves *(continued)*

(iv) Employee share-based compensation reserve

The employee share-based compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 1(r)(ii).

(v) Capital reserve

The capital reserve represents the excess of capital contribution over the nominal value of the registered capital of TSC (Qingdao).

(vi) Revaluation reserve

The revaluation reserve represents the fair value adjustment to the interest previously held by the Group as an associate upon the acquisition of TSCUK (note 36(a)).

(c) Reserve funds

The Articles of Association of certain PRC subsidiaries require the appropriation of 10% of their profit after tax each year, based on their statutory audited financial statements, to the reserve funds until the balance reaches 50% of the registered capital of the respective PRC subsidiaries. The reserve funds may be capitalised as the paid-in capital of these subsidiaries.

(d) Distributability of reserves

The Company's reserves available for cash distribution and/or distribution in specie to equity shareholders of the Company as at 31 December 2008, as computed in accordance with the Companies Law (Revised) of the Cayman Islands amounted to US$89,301,000 (2007: US$56,489,000).

(e) Capital management

The Group's primary objectives when managing capital are to maintain a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. The Group reviews the capital structure on a regular basis and considers the cost of capital and the associated risks. Based on recommendations of the board of directors, the Group will balance its overall capital structure through adjusting the amount of dividends payable to shareholders, new shares issues or new debt financing. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2008.

34 CAPITAL AND RESERVES *(continued)*

(e) Capital management *(continued)*

The Group monitors capital with reference to its debt position. The Group's strategy is to maintain the equity and debt in a balanced position and ensure there would be adequate working capital to service its debt obligations. The Group's gearing ratio, being the Group's total liabilities to equity shareholders' funds, as at 31 December 2008 was 70% (2007: 55%).

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

35 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to this credit risk is monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Credit terms offered by the Group to its customers are set out in note 22(a) to the financial statements.

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentration of credit risk as 2% (2007: 7%) and 17% (2007: 19%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 22.

35 FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay.

The Group

	2008 Contractual undiscounted cash outflow						2007 Contractual undiscounted cash outflow			
	Carrying amount US$'000	Total contractual undiscounted cash flow US$'000	Within 1 year or on demand US$'000	More than 1 year but less than 2 years US$'000	More than 2 years but less than 5 years US$'000	Over 5 years US$'000	Carrying amount US$'000	Total contractual undiscounted cash flow US$'000	Within 1 year or on demand US$'000	More than 1 year but less than 2 years US$'000
Trade and other payables	39,053	39,053	39,053	–	–	–	10,126	10,126	10,126	–
Bank loans	10,555	12,967	8,311	261	783	3,612	3,703	3,883	3,473	410
Loan from a director	2,056	2,056	–	2,056	–	–	–	–	–	–
	51,664	54,076	47,364	2,317	783	3,612	13,829	14,009	13,599	410

The Company

	2008 Contractual undiscounted cash outflow						2007 Contractual undiscounted cash outflow			
	Carrying amount US$'000	Total contractual undiscounted cash flow US$'000	Within 1 year or on demand US$'000	More than 1 year but less than 2 years US$'000	More than 2 years but less than 5 years US$'000	Over 5 years US$'000	Carrying amount US$'000	Total contractual undiscounted cash flow US$'000	Within 1 year or on demand US$'000	More than 1 year but less than 2 years US$'000
Other payables and accrued charges	641	641	641	–	–	–	277	277	277	–
Amounts due to subsidiaries	10	10	10	–	–	–	30	30	30	–
Loan from a director	2,056	2,056	–	2,056	–	–	–	–	–	–
	2,707	2,707	651	2,056	–	–	307	307	307	–

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For the year ended 31 December 2008

35 FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from the Group's bank deposits and bank loans. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's net borrowings (being interest-bearing financial liabilities less bank deposits) at the balance sheet date.

The Group

	2008		2007	
	Effective interest rate	**US$'000**	Effective interest rate	US$'000
Fixed rate borrowings:				
Bank loans	**6.14%-8.96%**	**7,929**	7.56%-8.02%	1,351
Variable rate borrowings/ (deposits):				
Bank loans	**6.5%-8.22%**	**2,626**	6.93%-8.22%	2,352
Less: Pledged bank deposits	**2.25%**	**(924)**	0.7%	(1,067)
Cash at bank and in hand	**0.01%-2%**	**(16,156)**	0.7%-1.4%	(44,334)
		(14,454)		(43,049)
Total net deposits		**(6,525)**		(41,698)

35 FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk *(continued)*

(i) Interest rate profile (continued)

The Company

	2008		2007	
	Effective interest rate	**US$'000**	Effective interest rate	US$'000
Variable rate deposits:				
Cash at bank and in hand	**0.01%**	**(454)**	0.7%-1.4%	(18,534)
Total net deposits		**(454)**		(18,534)

(ii) Sensitivity analysis

At 31 December 2008, it is estimated that a general increase/decrease of one percentage point in interest rates, with all other variables held constant, would have increased/decreased the Group's profit before tax by approximately US$145,000 (2007: US$430,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit before tax that would arise assuming that the change in interest rates had occurred at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group, at the balance sheet date, the impact on the Group's profit before tax is estimated as an annualised impact on interest expense or income of such a change interest rates. The analysis is performed on the same basis for 2007.

35 FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk

(i) Forecast transactions

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. Most of the Group's subsidiaries in the PRC carried out production locally with Renminbi as functional currency while over 50% of the Group's turnover was denominated in United States dollars. At 31 December 2008, no related hedges were made by the Group.

(ii) Exposure to currency risk

Included in the consolidated balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group	
	2008	2007
	'000	'000
Trade and other receivables:		
United States dollars	**8,755**	1,793
Trade and other payables:		
United States dollars	**11,185**	486

(e) Fair values

The fair values of current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The carrying amounts of non-current bank loans and loans from a director approximate their fair values.

(f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of the following financial instruments.

Interest-bearing loans and borrowings and receivables

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

36 ACQUISITION OF SUBSIDIARIES

(a) As set out in notes 18 and 19, the Group acquired the remaining interest in TSCUK during the year ended 31 December 2008 for an additional consideration of US$19,753,000. For the nine months ended 31 December 2008, TSCUK and its subsidiaries ("TSCUK Group") contributed profit of US$162,000 to the consolidated profit for the year. If the acquisition had occurred on 1 January 2008, the Group's turnover would increase by US$7,593,000 and the Group's profit would decrease by US$10,174,000 respectively.

The net assets of TSCUK Group at the acquisition date are as follows:

	Pre-acquisition carrying amount US$'000	**Fair value adjustments** US$'000	**Recognised values on acquisition** US$'000
Property, plant and equipment	5,081	–	5,081
Intangible assets	32	21,350	21,382
Inventories	13,850	–	13,850
Trade and other receivables	26,165	–	26,165
Cash at bank and in hand	4,186	–	4,186
Trade and other payables	(50,832)	–	(50,832)
Bank and other loans	(16,990)	–	(16,990)
Provisions	(9,241)	–	(9,241)
Deferred tax assets	–	9,411	9,411
Deferred tax liabilities	–	(5,978)	(5,978)
Net identifiable liabilities	(27,749)	24,783	(2,966)
Revaluation reserve			(627)
Goodwill on acquisition (note 16)			26,946
			23,353
Less: reclassification from interest in associates			(3,600)
Total consideration, satisfied by cash			19,753
Net cash outflow arising on acquisition:			
– cash consideration paid			19,753
– cash acquired			(4,186)
Net cash outflow			15,567

Goodwill has arisen from the acquisition of TSCUK Group as the management expects synergy can be achieved through the acquisition.

Notes to the Financial Statements

For the year ended 31 December 2008

36 ACQUISITION OF SUBSIDIARIES *(continued)*

(b) In November 2008, the Group acquired the entire issued share capital of Center Mark International Limited (together with its wholly-owned subsidiary TSC Gear, collectively known as "the Acquired Subsidiaries") at total costs of US$1,486,000. For the two months ended 31 December 2008, the Acquired Subsidiaries contributed loss of US$100,000 to the consolidated profit for the year. If the acquisition had occurred on 1 January 2008, the Group's turnover and profit for the year would increase by US$1,652,000 and US$206,000 respectively.

The net assets of the Acquired Subsidiaries at the acquisition date are as follows:

	Pre-acquisition carrying amount US$'000	Fair value adjustments US$'000	Recognised values on acquisition US$'000
Property, plant and equipment	202	25	227
Intangible assets	1	1,028	1,029
Inventories	927	138	1,065
Trade and other receivables	663	–	663
Cash at bank and in hand	1,256	–	1,256
Trade and other payables	(2,688)	–	(2,688)
Deferred tax liabilities	–	(257)	(257)
Net identifiable assets	361	934	1,295
Goodwill on acquisition (note 16)			191
Total consideration			1,486
Consideration, satisfied by:			
– cash			303
– issue of new shares			1,183
			1,486
Net cash outflow arising on acquisition:			
– cash consideration paid			303
– cash acquired			(1,256)
Net cash inflow			(953)

Goodwill has arisen from the acquisition of the Acquired Subsidiaries as the management expects synergy can be achieved through the acquisition.

37 COMMITMENTS

(a) Commitments outstanding at 31 December 2008 not provided for in the financial statements were as follows:

	The Group	
	2008	2007
	US$'000	US$'000
Contracted for the construction of property	**4,273**	1,137
Authorised but not contracted for the construction of property	**1,310**	–
Voluntary conditional offer for the acquisition of shares of TSCUK	**–**	16,633

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

	The Group	
	2008	2007
	US$'000	US$'000
Within 1 year	**957**	318
After 1 year but within 5 years	**1,357**	337
After 5 years	**585**	12
	2,899	667

The Group is the lessee in respect of certain properties under operating leases. The leases run for an initial period of one to seven years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

38 CONTINGENT LIABILITIES

As at the balance sheet date, the Company has issued guarantees to banks in respect of banking facilities granted to a subsidiary.

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued is the facilities drawn down by a subsidiary of US$438,000 (2007: US$2,351,000).

39 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following related party transactions.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2008	2007
	US$'000	US$'000
Salaries and other emoluments	**1,391**	1,401
Share-based payments	**207**	193
Retirement scheme contributions	**69**	71
	1,667	1,665

Total remuneration is included in "staff costs" (see note 5(b)).

(b) During the year ended 31 December 2008, the Group purchased raw materials from an associate amounted to US$53,000 (2007: US$957,000).

40 COMPARATIVE FIGURES

Certain comparative figures have been restated. Further details are disclosed in note 19.

41 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. Note 16 contains information about the assumptions and their risk factors relating to goodwill impairment. Other estimates and assumptions 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) Useful lives of property, plant and equipment and intangible assets

The Group determines the estimated useful lives and related depreciation/amortisation charges for the property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation/amortisation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment losses on trade and other receivables

The Group recognises impairment losses on doubtful debts based on an assessment of the recoverability of trade debtors and other receivables. Impairments are applied to trade debtors and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debts expenses in the period in which such estimate has been changed.

(c) Other impairment losses

If circumstances indicate that the carrying value of investment in a subsidiary, associate, property, plant and equipment, property under development, interest in leasehold land held for own use under operating leases, goodwill and intangible assets may not be recoverable, these assets may be considered impaired, and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amount may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling prices and the value in use. It is difficult to estimate precisely selling prices because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

41 ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(d) Net realisable value of inventories

The Group recognises write-down on inventories based on an assessment of the net realisable value of the inventories. Write-down is applied to the inventories where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of the inventories and write-down on inventories charged to profit or loss in the period in which such estimate has been changed.

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

(f) Construction contracts

Based on the latest information available in respect of the market environment, the Group prepares budgets for construction contracts individually and the budget, which is used in the Group's financial reporting, is reviewed regularly. Foreseeable losses are provided when identified.

In preparing the financial statements for the year ended 31 December 2008, the directors of the Company have reviewed the construction contracts and consider that a provision for loss is not necessary. Material adjustments to the budgeted costs may occur in future if there is a significant change in the market environment.

(g) Warranty provisions

For some of the goods sold by the Group, there is an one year warranty period. Based on historical warranty data and a weighting of all possible outcomes against their associated probabilities, no provision for warranty has been made in the financial statements. It is possible that the past warranty claim history is not indicative of future claims. Any increase in the provision would affect profit or loss in future years.

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2008

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application but is not yet in a position to state whether these amendments, new standards and interpretations would have a significant impact on the Group's results of operation and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

		Effective for accounting periods beginning on or after
HKFRS 8	Operating segments	1 January 2009
HKAS 1 (revised 2007)	Presentation of financial statements	1 January 2009

Five Years Financial Summary

The following is a summary of the consolidated results an of the assets and liabilities of the Group prepared on the basis set out in notes 1 to 2.

	2008	2007 (restated)	2006	2005	2004
	US$'000	US$'000	US$'000	US$'000	US$'000
Turnover	**160,113**	34,327	27,038	13,525	12,774
Cost of sales	**(114,470)**	(20,494)	(14,961)	(7,804)	(8,027)
Gross profit	**45,643**	13,833	12,077	5,721	4,747
Other revenue	**881**	1,399	607	415	252
Selling and distribution expenses	**(8,930)**	(2,551)	(1,782)	(541)	(170)
General and administration expenses	**(18,364)**	(7,989)	(5,770)	(2,707)	(1,084)
Other operating expenses	**(4,587)**	(755)	(262)	(320)	(298)
Finance costs	**(500)**	(296)	(153)	(107)	(15)
Share of (losses) less profits of associates	**(2,063)**	528	(1)	–	–
Profit before taxation	**12,080**	4,169	4,716	2,461	3,432
Income tax	**(1,753)**	(236)	(424)	(124)	79
Profit for the year	**10,327**	3,933	4,292	2,337	3,511

ASSETS AND LIABILITIES

		As at 31 December			
	2008	2007 (restated)	2006	2005	2004
	US$'000	US$'000	US$'000	US$'000	US$'000
Non-current assets	**80,832**	28,707	5,203	3,218	1,479
Current assets	**115,918**	89,064	21,985	14,126	7,613
Current liabilities	**71,448**	41,012	9,998	4,882	3,357
Net current assets	**44,470**	48,052	11,987	9,244	4,256
Non-current liabilities	**9,748**	736	35	17	2
Net assets	**115,554**	76,023	17,155	12,445	5,733

Notes:

1. The summary of consolidated results of the Group includes the results of the Company and its subsidiaries as if the current Group structure had been in existence throughout the financial periods, or from the respective dates of the incorporation where this is a shorter period. The consolidated results of the Group for the years ended 31 December 2008 are as set out on page 51 of the audited financial statements.

2. The consolidated balance sheet of the Group as at 31 December 2008 are as set out on pages 52 to 53 of the audited financial statements.

TSC Offshore Group Limited

www.tscoffshore.com