1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 24 November 2005 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is 10th Floor, Chiwan Petroleum Building, Shekou, Nanshan District, Shenzhen, PRC. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 21 September 2006.

For the purpose of listing of the Company's shares on the Main Board of the Stock Exchange, the Company and its subsidiaries (the "Group") has undertaken a group reorganisation (the "Reorganisation"). Details of the Reorganisation are set out in the prospectus of the Company dated 11 September 2006.

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

In the opinion of the directors of the Company, as at 31 December 2006, Cheung Hing Investments Limited, a company incorporated in the Samoa, is the immediate and ultimate parent; and Mr. Wang Lishan is the ultimate controlling party of the Company.

2. ADOPTION OF NEW AND REVISED HKFRSs

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

(a) Consolidation

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

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

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

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Common control combinations

Business combinations under common control are accounted for in accordance with the Accounting Guideline 5 "Merger Accounting for Common control Combinations" issued by the HKICPA.

The Group resulting from the Reorganisation is regarded as a continuity entity of the companies now comprising the Group. The companies now comprising the Group were under the common control of the director of the Company, Mr. Wang Lishan. Accordingly, the consolidated financial statements have been prepared on the basis of merger accounting as if the Company had been the holding company of the subsidiaries now comprising the Group throughout the periods presented.

In applying merger accounting, financial statement items of the combining entities or businesses for the reporting period in which the common control combination occurs, and for any comparative periods disclosed, are included in the consolidated financial statements of the combined entity as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties. The combined entity recognises the assets, liabilities and equity of the combining entities or businesses at the carrying amounts in the consolidated financial statements of the controlling party or parties prior to the common control combinations.

There was no adjustment made to the net assets nor the net profit or loss of any companies now comprising the Group in order to achieve consistency of the Group's accounting policies.

(c) Business combination other than common control combinations

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Foreign currency translation

(i) Functional and presentation currency

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

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

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

(iii) Translation on consolidation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Property, plant and equipment

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

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

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

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

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

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

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

(f) Leases

(i) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Leases (cont'd)

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

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

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

(g) Inventories

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

(h) Construction contracts

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Trade and other receivables

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

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

(j) Cash and cash equivalents

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

(k) Financial liabilities and equity instruments

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

(l) Trade and other payables

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

(m) Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Revenue recognition

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

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

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

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

Contract revenue

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

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

In general, a 25% completion is applied by the Group as a threshold in determining the initial recognition of profit for a construction contract. When the cost incurred is below 25% of the estimated total contract costs, revenue is recognised only to the extent of costs incurred that are expected to be recoverable. As the outcome of a construction contract cannot be estimated reliably, no profit is recognised.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(o) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

(iii) Termination benefits

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

(p) Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) Taxation (cont'd)

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

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

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

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

(q) Related parties

A party is related to the Group if:

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

(ii) the party is an associate;

(iii) the party is a joint venture;

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Segment reporting

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

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

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

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

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.

(s) Impairment of assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(s) Impairment of assets (cont'd)

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

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

(t) Provisions and contingent liabilities

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

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

(u) Events after the balance sheet date

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

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Key sources of estimation uncertainty

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

(a) Revenue and profit recognition

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

(b) Income taxes

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

(c) Allowance for impairment of receivables

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

5. FINANCIAL RISK MANAGEMENT

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

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in RMB, Hong Kong dollars and United States dollars. The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

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

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

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

(c) Liquidity risk

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

(d) Interest rate risk

The Group is exposed to fair value interest rate risk through the impact of rate changes on interest bearing financial assets. Interest bearing financial assets are mainly balances with banks with fixed interest rates and mainly short terms in nature. Therefore, any future variations in interest rates will not have a significant impact on the results of the Group.

(e) Fair values

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

6. TURNOVER

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

	2006	2005
	RMB'000	RMB'000
Sales of goods	**16,807**	29,240
Revenue from construction contracts and other service rendered	**280,383**	218,647
	297,190	247,887

7. OTHER INCOME

	2006	2005
	RMB'000	RMB'000
Interest income	**4,149**	486
Reversal of impairment losses on receivables	**851**	—
Sundry income	**66**	471
	5,066	957

8. SEGMENT INFORMATION

(a) Primary reporting format – business segments

The Group is organised into four main business segments:

— Provision for technical support services in offshore oil and natural gas exploitation and production and sales of equipment and materials.

— Fabrication of oil and natural gas processing skid equipment.

— Undertaking of civil engineering projects.

— Provision of technical support services in the shipbuilding industry.

8. SEGMENT INFORMATION (CONT'D)

(a) Primary reporting format – business segments (cont'd)

Year ended 31 December 2006	Provision of technical support services in offshore oil and natural gas exploitation and production and sales of equipment and materials	Fabrication of oil and natural gas processing skid equipment	Undertaking of civil engineering projects	Provision of technical support services in the shipbuilding industry	Elimination	Consolidation
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue						
External sales	60,803	145,407	44,563	46,417		297,190
Inter-segment sales	374	—	13,604	—	(13,978)	—
Total	61,177	145,407	58,167	46,417	(13,978)	297,190
Segment result	15,636	27,137	10,827	18,882	—	72,482
Other income						5,066
Unallocated expenses						(29,283)
Profit from operations						48,265
Finance costs						(1,620)
Profit before tax						46,645
Segment assets	21,568	55,828	13,713	12,912		104,021
Unallocated assets						236,505
Total assets						340,526
Segment liabilities	11,672	39,528	6,367	4,789		62,356
Unallocated liabilities						13,525
Total liabilities						75,881
Other segment information						
Capital expenditure	1,473	1,746	308	2,071		5,598
Depreciation	1,155	837	576	673		3,241
Allowance for receivables	87	4	235	20		346
Allowance for inventories	190	—	—	—		190

8. SEGMENT INFORMATION (CONT'D)

(a) Primary reporting format – business segments (cont'd)

Year ended 31 December 2005	Provision of technical support services in offshore oil and natural gas exploitation and production and sales of equipment and materials	Fabrication of oil and natural gas processing skid equipment	Undertaking of civil engineering projects	Provision of technical support services in the shipbuilding industry	Elimination	Consolidation
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue						
External sales	89,414	102,116	27,208	29,149		247,887
Inter-segment sales	—	—	8,980	—	(8,980)	—
Total	89,414	102,116	36,188	29,149	(8,980)	247,887
Segment result	36,381	17,607	4,297	7,651	66	66,002
Other income						957
Unallocated expenses						(21,989)
Profit from operations						44,970
Finance costs						(1,408)
Profit before tax						43,562
Segment assets	38,411	4,443	13,084	8,592		64,530
Unallocated assets						48,235
Total assets						112,765
Segment liabilities	11,804	9,030	13,059	513		34,406
Unallocated liabilities						7,950
Total liabilities						42,356
Other segment information						
Capital expenditure	3,619	305	61	2,275		6,260
Depreciation	2,036	34	319	744		3,133
Allowance for receivables	1,672	—	—	—		1,672

8. SEGMENT INFORMATION (CONT'D)

(b) Secondary reporting format – geographical segments

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

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

	Revenue from external customers	
	2006	2005
	RMB'000	RMB'000
The PRC	**210,429**	205,736
Hong Kong	**24,992**	5,440
Macau	**19,700**	16,376
Other Asian Countries	**20,365**	17,095
Others	**21,704**	3,240
	297,190	247,887

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

	Total assets		**Capital expenditure**	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
The PRC	**179,140**	93,040	**5,579**	6,206
Hong Kong	**153,843**	11,655	**19**	54
Macau	**6,524**	7,911	**—**	—
Other Asian Countries	**793**	—	**—**	—
Others	**226**	159	**—**	—
	340,526	112,765	**5,598**	6,260

9. FINANCE COSTS

	2006	2005
	RMB'000	RMB'000
Finance leases charges	**48**	136
Net foreign exchange losses	**1,304**	1,054
Others	**268**	218
	1,620	1,408

10. INCOME TAX EXPENSE

	2006	2005
	RMB'000	RMB'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**228**	953
Over-provision in prior years	**(859)**	–
	(631)	953
Current tax – PRC Enterprise Income Tax		
Provision for the year	**3,750**	2,705
Over-provision in prior years	**(399)**	—
	3,351	2,705
Current tax – Overseas		
Provision for the year	**419**	—
Under-provision in prior years	**20**	—
	439	—
Deferred tax *(note 27)*	**824**	331
	3,983	3,989

10. INCOME TAX EXPENSE (CONT'D)

(i) Hong Kong Profits Tax has been provided at a rate of 17.5% on the estimated assessable profit for the year ended 31 December 2006.

(ii) PRC Enterprise Income Tax

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

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

Shenzhen Jutal is a foreign investment enterprise operated in Shenzhen Special Economic Zone with the applicable tax rate at 15%. Pursuant to the approval issued by Shenzhen Municipal Tax Bureau (深圳市地税務局) dated 15 September 2005, Shenzhen Jutal, a new and high technology enterprises (高新技術企業), is entitled to a preferential treatment to allow it to enjoy a reduced income tax rate of 7.5% starting from the year 2005 till year 2007.

Pursuant to a confirmation letter dated 19 October 2006 issued by Shenzhen State Tax Bureau, Ocean Petroleum Branch (深圳市國家税務局海洋石油税收管理分局), the applicable tax rate was increased from 7.5% to 10% with effect from 1 July 2006.

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

Tianjin Jutal is a foreign investment enterprise operated in Tangu Marine Hi-Tech Zone with the applicable tax rate at 24%. It is subject to two years tax exemption for the years 2004 and 2005 and three years 50% tax relief for the year 2006 till 2008.

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

10. INCOME TAX EXPENSE (CONT'D)

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

	2006 RMB'000	2005 RMB'000
Profit before tax	**46,645**	43,562
Tax at the PRC Enterprise Income Tax rate of 15%	**6,997**	6,534
Tax effect of income that is not taxable	**(1,276)**	(2,112)
Tax effect of expenses that are not deductible	**2,309**	2,183
Over-provision in prior years	**(1,238)**	—
Effect of different tax rates of subsidiaries	**(2,809)**	(2,616)
Income tax expense	**3,983**	3,989

11. PROFIT FOR THE YEAR

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

	2006 RMB'000	2005 RMB'000
Depreciation	**3,241**	3,133
Directors' emoluments		
– As directors	**120**	—
– For management	**2,237**	608
	2,357	608
Loss on disposals of property, plant and equipment	**52**	144
Operating lease charges		
– Hire of plant and equipment	**3,172**	641
– Land and buildings	**5,750**	5,122
Auditors' remuneration	**900**	278
Cost of inventories sold	**103,266**	99,411
Allowance for inventories (included in cost of inventories sold)	**190**	—
Allowance for receivables	**346**	1,672
Staff costs including directors' emoluments		
Salaries, bonus and allowances	**48,516**	37,193
Retirement benefits scheme contributions	**1,306**	670
	49,822	37,863

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of each director were as follows:

	Fees	Salaries and allowances	Discretionary Bonus	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Wang Lishan	—	662	—	7	669
Jiang Dong	—	869	—	7	876
Cao Yunsheng	—	685	—	7	692
Deng Zhiyun	—	—	—	—	—
	—	2,216	—	21	2,237
Independent non-executive directors					
Su Yang	30	—	—	—	30
Mai Boliang	30	—	—	—	30
Wang Yu	30	—	—	—	30
Xiang Bing	30	—	—	—	30
	120	—	—	—	120
Total for 2006	**120**	**2,216**	**—**	**21**	**2,357**
Executive directors					
Wang Lishan	—	—	—	2	2
Jiang Dong	—	241	60	2	303
Cao Yunsheng	—	242	60	1	303
Deng Zhiyun	—	—	—	—	—
	—	483	120	5	608
Independent non-executive directors					
Su Yang	—	—	—	—	—
Mai Boliang	—	—	—	—	—
Wang Yu	—	—	—	—	—
Xiang Bing	—	—	—	—	—
	—	—	—	—	—
Total for 2005	—	483	120	5	608

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

During the year, Deng Zhiyun, executive director of the Company, have agreed to waive his emoluments of RMB30,000 (2005: Nil). Save as disclosed above, there was no arrangement under which a director waived or agreed to waive any emoluments during the year.

The five highest paid individuals in the Group during the year included 3 (2005: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 2 (2005: 3) individuals are set out below:

	2006	2005
	RMB'000	RMB'000
Basic salaries and allowances	**817**	1,242
Discretionary bonus	**—**	—
Retirement benefit scheme contributions	**19**	14
	836	1,256

The emoluments fell within the following band:

	Number of individuals	
	2006	2005
Nil to HK$1,000,000	**2**	3

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

13. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company included a profit of approximately RMB21,078,000 (2005: Nil) which has been dealt with in the financial statements of the Company.

14. DIVIDENDS

	2006 RMB'000	2005 RMB'000
Proposed final dividend of HK$0.05 (2005: Nil) per ordinary share	**20,750**	—

15. EARNINGS PER SHARE

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

	2006 RMB'000	2005 RMB'000
Earnings		
Profit attributable to equity holders of the Company	**42,662**	39,573

Number of shares	**2006**	2005
Weighted average number of ordinary shares	**331,315,068**	300,000,000

In determining the weighted average number of ordinary shares in issue, a total of 300,000,000 ordinary shares were deemed to be in issue since 1 January 2005 after taking into consideration of the effect of the issue of ordinary shares in respect of the Reorganisation as detailed in note 28.

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary shares during the two years ended 31 December 2006.

16. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2005	20,934	11,343	2,749	3,281	—	38,307
Additions	—	2,547	485	3,228	—	6,260
Disposals	—	(307)	(231)	(269)	—	(807)
Exchange differences	—	(11)	(5)	—	—	(16)
At 31 December 2005 and at 1 January 2006	20,934	13,572	2,998	6,240	—	43,744
Additions	48	2,684	862	1,669	335	5,598
Disposals	(2,202)	(3,628)	(446)	(217)	—	(6,493)
Exchange differences	—	(22)	(12)	—	—	(34)
At 31 December 2006	**18,780**	**12,606**	**3,402**	**7,692**	**335**	**42,815**
Accumulated depreciation						
At 1 January 2005	2,331	5,574	1,473	2,506	—	11,884
Charge for the year	744	1,296	515	578	—	3,133
Disposals	—	(187)	(183)	(242)	—	(612)
Exchange differences	—	(7)	(1)	—	—	(8)
At 31 December 2005 and at 1 January 2006	3,075	6,676	1,804	2,842	—	14,397
Charge for the year	721	1,002	571	947	—	3,241
Disposals	(1,105)	(3,671)	(374)	(172)	—	(5,322)
Exchange differences	—	(16)	(6)	—	—	(22)
At 31 December 2006	**2,691**	**3,991**	**1,995**	**3,617**	**—**	**12,294**
Carrying amount						
At 31 December 2006	**16,089**	**8,615**	**1,407**	**4,075**	**335**	**30,521**
At 31 December 2005	17,859	6,896	1,194	3,398	—	29,347

At 31 December 2006 the carrying amount of buildings held by the Group under finance leases amounted to RMB12,241,000 (2005: RMB12,568,000).

17. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	RMB'000	RMB'000
At 1 January	**1,162**	1,197
Additions	**13**	30
Amortisation of prepaid land lease payments	**(76)**	(65)
At 31 December	**1,099**	1,162

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

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	2005
	RMB'000	RMB'000
Unlisted investments, at cost	**80,040**	—
Translation differences	**(1,910)**	—
	78,130	—

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms.

18. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Particulars of the subsidiaries as at 31 December 2006 are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
			Direct	Indirect	
Directly held:					
Jutal Investment Limited	British Virgin Islands	5 ordinary shares of US$1 each	100%	—	Investment holding
Indirectly held:					
Jutal Engineering Company Limited ("Hong Kong Jutal")	Hong Kong	2 ordinary shares of HK$1 each	—	100%	Provision of technical support services in offshore oil and natural gas exploitation and production and sale of equipment and materials and undertaking of civil engineering projects
Jutal Holdings Limited ("Jutal Holdings")	British Virgin Islands	2 ordinary shares of US$1 each	—	100%	Investment holding
Jutal Engineering (Macau) Company Limited ("Macau Jutal")	Macau	Registered capital of MOP100,000	—	100%	Undertaking of civil engineering projects
巨濤油田服務(天津)有限公司 (Jutal Oil Field Services (Tianjin) Company Limited)	PRC	Registered capital of HK$1,200,000	—	100%	Provision of technical support services in offshore oil and natural gas exploitation and production and sale of equipment and materials

18. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest/ voting power/ profit sharing		Principal activities
			Direct	Indirect	
深圳巨濤機械設備有限公司 (Shenzhen Jutal Machinery Equipment Company Limited)	PRC	Registered capital of RMB 28,000,000	—	100%	Fabrication of oil and natural gas processing skid equipment, provision of technical support services in offshore oil and natural gas exploitation and production and sale of equipment and materials, undertaking of civil engineering projects and provision of technical support services in the shipbuilding industry

Tianjin Jutal and Shenzhen Jutal are wholly-owned foreign enterprises established in the PRC.

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

19. INVENTORIES

	Group	
	2006	2005
	RMB'000	RMB'000
Raw materials	**4,077**	2,365

20. TRADE RECEIVABLES

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

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

	Group	
	2006	2005
	RMB'000	RMB'000
0 to 30 days	**12,363**	14,850
31 to 90 days	**2,084**	5,260
91 to 365 days	**3,273**	880
Over 365 days	**2,270**	674
	19,990	21,664

As at 31 December 2006, an allowance was made for estimated irrecoverable trade receivables of approximately RMB904,000 (2005: RMB1,775,000).

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

	Group	
	2006	2005
	RMB'000	RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	**216,008**	99,860
Less: Progress billings	**(162,073)**	(94,404)
	53,935	5,456
Gross amount due from customers for contract work	**57,064**	7,191
Gross amount due to customers for contract work	**(3,129)**	(1,735)
	53,935	5,456

In respect of construction contracts in progress at the balance sheet date, retentions receivable included in trade receivables is RMB6,366,000 (2005: RMB4,163,000). The amount of retentions expected to be recovered after more than twelve months is RMB380,000 (2005: RMB3,172,000).

Advances received in respect of construction contracts amounted to RMB7,164,000 at 31 December 2006 (2005: RMB1,228,000) and is included in accruals and other payables.

22. DUE FROM DIRECTORS

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

		Group		
Name	**Terms of loan**	**Balance at 31 December 2006**	**Balance at 1 January 2006**	**Maximum amount outstanding during the year**
		RMB'000	RMB'000	RMB'000
Wang Lishan	Unsecured, no fixed repayment terms and interest-free	—	1,378	1,378
Cao Yunsheng	Unsecured, no fixed repayment terms and interest-free	—	440	440
Jiang Dong	Unsecured, no fixed repayment terms and interest-free	—	25	25
		—	1,843	

23. DUE FROM A RELATED COMPANY

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

		Group		
Name	**Name of directors having beneficial interest**	**Balance at 31 December 2006**	**Balance at 1 January 2006**	**Maximum amount outstanding during the year**
		RMB'000	RMB'000	RMB'000
Prospering Investments Limited	Wang Lishan	—	874	874

The above advances are unsecured, interest-free and have no fixed repayment terms.

24. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities of RMB33,470,000 (2005: RMB20,104,000) granted to the Group. As at 31 December 2006, the Group issued performance bonds totalling RMB7,623,000 (2005: RMB516,000) and utilised other banking facilities totalling RMB1,380,000 (2005: RMB104,000).

The pledged bank deposits are in RMB, HK$ and US$ and at fixed interest rate of 0.72% p.a., 0.5% p.a. and 1.15% p.a. respectively. The pledged bank deposits in US$ and HK$ of RMB578,000 (2005: RMB125,000) are therefore subject to foreign currency risk and fair value interest rate risk.

As at 31 December 2006, the bank and cash balances of the Group denominated in RMB amounted to RMB58,505,000 (2005: RMB8,069,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

25. TRADE PAYABLES

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

	Group	
	2006	2005
	RMB'000	RMB'000
0 to 30 days	**28,926**	17,648
31 to 90 days	**10,939**	1,474
91 to 365 days	**6,308**	1,208
Over 365 days	**1,223**	1,624
	47,396	21,954

26. FINANCE LEASE PAYABLES

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**124**	1,488	**123**	1,440
In the second to fifth years, inclusive	**—**	124	**—**	123
	124	1,612	**123**	1,563
Less: Future finance charges	**(1)**	(49)	**N/A**	N/A
Present value of lease obligations	**123**	1,563	**123**	1,563
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(123)**	(1,440)
Amount due for settlement after 12 months			**—**	123

It is the Group's policy to lease certain of its buildings under finance leases. The lease term is five years. As at 31 December 2006, the effective borrowing rate was 5.31% (2005: 5.31%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All finance lease payables are denominated in RMB.

The Group's finance lease payables are secured by the lessor's title to the leased assets.

27. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised by the Group, and the movements thereon, during the current and prior reporting periods.

	Accelerated tax depreciation	**Others**	**Total**
	RMB'000	RMB'000	RMB'000
At 1 January 2005	1,045	49	1,094
Charge to income statement for the year *(note 10)*	297	34	331
At 31 December 2005 and at 1 January 2006	1,342	83	1,425
Charge to income statement for the year *(note 10)*	300	524	824
At 31 December 2006	**1,642**	**607**	**2,249**

At the balance sheet date the Group has no unused tax losses (2005: Nil).

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries is immaterial.

Temporary differences arising in connection with interests in subsidiaries are insignificant.

28. SHARE CAPITAL

	Note	**Number of Shares**	**Amount**
			HK$'000
Authorised:			
Ordinary shares of HK$0.01 (2005: HK$0.01) each			
At 24 November 2005 (date of incorporation)	(a)	38,000,000	380
At 31 December 2005		38,000,000	380
Increase in authorised capital	(b)	662,000,000	6,620
At 31 December 2006		700,000,000	7,000

28. SHARE CAPITAL (CONT'D)

		Number of Shares	Amount HK$'000	Equivalent to amount RMB'000
Issued and fully paid:				
Ordinary shares of HK$0.01 (2005: HK$0.01) each				
At 24 November 2005 (date of incorporation), issue of shares on incorporation	(a)	1	—	—
At 31 December 2005		1	—	—
Issued in consideration for the acquisition of the issued share capital of Jutal Investments	(c)	16,999,999	170	174
Capitalisation issue	(d)	283,000,000	2,830	2,895
Issue of shares on listing	(e)	100,000,000	1,000	1,018
Issue of shares on placement	(e)	15,000,000	150	152
At 31 December 2006		**415,000,000**	**4,150**	**4,239**

(a) The Company was incorporated on 24 November 2005 with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. On the same date, one share of HK$0.01 was allotted and issued at par.

(b) Pursuant to the written resolution passed on 28 August 2006, the authorised ordinary share capital of the Company was increased from HK$380,000 to HK$7,000,000 by the creation by 662,000,000 shares of HK$0.01 each, such new shares ranking pari passu in all respects with the existing shares of the Company.

(c) On 15 May 2006, Cheung Hing Investments Limited transferred to the Company 5 shares of US$1.00 each in Jutal Investments, being its entire share capital, in return for the allotment and issue of 16,999,999 shares of HK$0.01 each. On 15 May 2006 and 18 August 2006, 9,999,999 shares and 7,000,000 shares of HK$0.01each were allotted and issued to Cheung Hing Investments Limited, credited and fully paid, respectively.

(d) Pursuant to the written resolution passed on 28 August 2006, conditional on the share premium account of the Company being credited as a result of the share offer, the directors were authorised to capitalise HK$2,830,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 283,000,000 shares for allotment and issue to the existing shareholders on 1 September 2006 in proportion to their then existing shareholdings in the Company.

(e) On 21 September 2006 and 11 October 2006, 100,000,000 ordinary shares of HK$0.01 each were issued to public and 15,000,000 ordinary shares of HK$0.01 each were issued upon the exercise of the over allotment options, both at a price of HK$1.38 each, therefore the total issue of 115,000,000 shares raised HK$159 million (RMB161 million) share proceeds. These shares rank pari passu with the then existing shares.

29. RESERVES

(a) Group

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

(b) Company

	Share premium account RMB'000	Foreign currency translation reserves RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2005 and 31 December 2005	—	—	—	—	—
Issue of shares on Recognisation	79,866	—	—	—	79,866
Capitalisation issue	(2,895)	—	—	—	(2,895)
Issue of shares on listing	139,492	—	—	—	139,492
Issue of shares on placement	20,823	—	—	—	20,823
Share issue expenses	(7,857)	—	—	—	(7,857)
Translation difference	—	(3,841)	—	—	(3,841)
Profit for the year	—	—	21,078	—	21,078
2006 proposed final dividend	—	—	(20,750)	20,750	—
At 31 December 2006	**229,429**	**(3,841)**	**328**	**20,750**	**246,666**

(c) Nature and purpose of reserves

(i) Share premium account

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

29. RESERVES (CONT'D)

(c) Nature and purpose of reserves (cont'd)

(ii) Statutory reserves

The statutory reserves are set up by the subsidiaries, Tianjin Jutal and Shenzhen Jutal, by way of appropriation from the annual statutory net profit after taxation (after offsetting any prior years losses) in accordance with the relevant laws and regulations in the PRC and the subsidiaries' articles of association. The reserves are designated for non-distributable statutory reserves, being the statutory surplus reserves fund ("儲備基金"), the enterprise expansion fund ("企業發展基金") and welfare fund for staff and workers ("職工獎勵及福利基金"). The rate of appropriation to the general reserve is subject to the decision of the board of directors of Tianjin Jutal and Shenzhen Jutal, but the minimum appropriation rate for the statutory surplus reserve fund is 10% of the annual statutory net profit after taxation (after offsetting any prior years losses). When the balance of such reserves reaches 50% of the subsidiaries' registered capital, any further appropriation is optional. The statutory surplus reserves fund can be used to make up its prior year losses, if any, and can be applied in conversion into capital by means of capitalization issue. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries by means of capitalization issue. The welfare fund for staff and workers is used for staff benefits of the PRC subsidiary, which was accounted for as a liability.

For the year end 31 December 2006, the directors has resolved to appropriate 10% and 0.1% of the annual statutory net profit after taxation to statutory surplus reserves and welfare fund respectively.

(iii) Retained profits

According to the relevant PRC regulations, the profit available for distributable reserves is the amount which is the lesser of the net profit after the appropriation to statutory reserves determined in accordance with the PRC accounting standards and regulations as stated in the PRC statutory accounts and the profit determined in accordance with accounting principles generally accepted in Hong Kong.

(iv) Special reserve

The special reserve represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof pursuant to the Reorganisation.

30. LEASE COMMITMENTS

At 31 December 2006 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2006	2005
	RMB'000	RMB'000
Within one year	**820**	3,252
In the second to fifth years, inclusive	**111**	483
	931	3,735

31. RELATED PARTY TRANSACTIONS

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

	2006	2005
	RMB'000	RMB'000
Provision of technical services to a related company, Penglai Jutal Offshore Engineering Heavy Industries Company Limited	**339**	823
Due to a related company, Penglai Jutal Offshore Engineering Heavy Industries Company Limited	**—**	2,688

A director, Wang Lishan, has significant influence over the related company.

32. EVENTS AFTER THE BALANCE SHEET DATE

The Company's share option scheme was adopted on 28 August 2006 whereby the directors of the Company were authorized, at their discretion, to invite the directors of the Company, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any consultants, advisers, managers or officers of the Group, and the shareholders of the Company to take up option at HK$1.00 consideration to subscribe for shares of the Company. On 16 March 2007, the board of directors approved to grant 11,460,000 options to directors of the Company and other employees of the Group. The options vest after one or two years from the date of grant and are then exercisable at HK$1.68 within a period of ten years. Each option gives the holders the right to subscribe for one ordinary share of the Company. The terms and conditions of the options granted are as follows:

	Number of share option	Exercise period
Options granted to directors:		
– On 16 March 2007	2,000,000	16 March 2008 to 15 March 2017
– On 16 March 2007	2,000,000	16 March 2009 to 15 March 2017
	4,000,000	
Options granted to employees		
– On 16 March 2007	3,730,000	16 March 2008 to 15 March 2017
– On 16 March 2007	3,730,000	16 March 2009 to 15 March 2017
	7,460,000	
	11,460,000	

On 18 April 2007, Mr. Chen Guocai who was granted 1,000,000 share options on 16 March 2007 was appointed as director of the Company.

33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 18 April 2007.