TSC Offshore Group Limited

Stock Code: 206

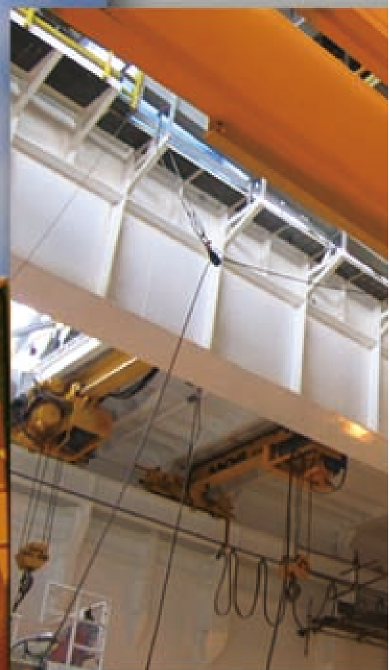
Meeting the Challenges of Deep Water Exploration and Production

2009 ANNUAL REPORT

Global Products and Services to Onshore and Offshore Drilling Industry

Your Ultimate Total Solution Company

Sales, Service, Success,



CONTENTS

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 main board of The Stock Exchange of Hong Kong Limited (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.

Corporate Profile

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.

TSC Offshore Worldwide Locations

TSC Offshore Worldwide Locations

GLOBAL SOLUTIONS

Designing, Manufacturing and Packaging For The Offshore Industry

Executive Chairman and Chief Executive Officer's Statement

Jiang Bing Hua
Executive Chairman

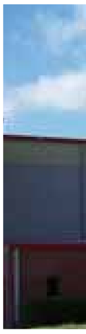
Zhang Menggui
Chief Executive Officer

Dear Shareholders,

1. Overview – Position For Growth

2009 has been the most challenging year for TSC since we started our operations in 2001 as a humble electrical equipment and parts supplier. Overall, TSC has done reasonably well for the past five years, we have achieved compounded annual growth of 31%, which is well above industry average peers of the same size/market capitalization. "As rising tides lift all boats", we can say that the reverse is also true for our industry in 2009. With oil prices hitting US$33 per barrel in December 2008 and severe reduction in customers' capital expenditure (CAPEX), TSC has had a rough year weathering through the widespread financial and economic crisis.

While overall business short term activities were on the decline, TSC sets it sights on the international deepwater/offshore market and has expanded our footprint through the acquisition of Global Marine Energy Plc ("GME"). TSC leveraged on the deepwater engineering capabilities and blue chip clientele of GME, to build a solid technical core competency. In fact, current order build up and highest growth business segment, consultancy services, were assisted by GME operations.



Executive Chairman and Chief Executive Officer's Statement

The acquisition of GME was not all smooth sailing, we had to recognise losses from the on-going GME projects contracted prior to the acquisition, largely due to costs complexity of the projects, inherent risks and uncertainties. Given the progress we have made on the acquisition, these issues should be largely behind us in 2010.

I believe we have grown strength to strength in 2009 and have built a stronger platform for future growth. We are able to offer bespoke engineering solutions to our clients and well-positioned in key markets. I am sanguine that the structural changes that took place in 2009, will position TSC as a valued player and ready to ride on the anticipated market recovery.

With some signs of recovery in the world economy, we believe that crude oil consumption will increase and this will bring the supply and demand equation in favor of higher oil prices. We anticipate that rig utilization will increase in tandem. While overall new build rig activities may not reach the 2007 level, some regional markets and rigs for specific applications should be the main drivers of growth in the new build market. In the last two years, we have concentrated on building up our network and our product lines. These network and products lead us to a position now where we can use our technology, products and services to offer complete total solutions for any particular client needs.

Compared with the cost building of new rigs, upgrading and revamping existing old rig fleet presents itself as an attractive option for drilling contractors. This is one of the major markets TSC is pursuing aggressively due to our product line coverage. The recently awarded project to TSC by Transocean for upgrading the Pathfinder drill ship is just one of many such projects.

The 2.2% decline in global GDP in 2009 and crude oil prices falling from a high of US$130 per barrel in August 2008 down to US$33 per barrel in December 2008 had a drastic effect on our business. The banking crisis led to many of our customers conserving cash by shrinking capital expenditure funding in 2009. We did not see any investments in new builds in 2009 and active rig count worldwide fell by 30.9% as rig dayrates also deflated.

We did anticipate these changing conditions following the collapse in 2008, and have been preparing the Company accordingly. We concentrated our resources on completing projects and limited acquisition activity. Sales activities were pursued relentlessly but decisions were constantly being deferred due to uncertainties in the financial sector. With the significantly reduced level of turnover we minimized exposure to development risk and planned our funding conservatively. We kept an old fashioned focus on costs, spending only when necessary.

Executive Chairman and Chief Executive Officer's Statement

Despite the challenging environment, we concentrated our efforts on opportunities to implement and embed change in our operations, to implement sound business strategies for our core business and continue to solidify our foundation. We recognized the need to integrate our multi location operations to work as one community. With the global GDP expected to recover to 2.7% this year and 3.2% in 2011 according to the World Bank, we are seeing many more enquiries and improving success in our sales proposals.

We believe we are now in a stronger position and have gained a lot from this experience and we are confident that we have a clearer path ahead of us back on course with our growth track.

2. Financial Performance

For the year ended 31 December 2009, the Group recorded a turnover of US$112.8 million and net loss of US$10.2 million. The Board has decided not to declare a dividend for the year ended 31 December 2009.

The net loss is primarily due to the recognition of losses on several contracts in the books of GME and impairment losses recognized on the balance sheet date where recoverable value of assets had fallen below its carrying amount. These assets were primarily related to contracts entered into by GME prior to TSC acquiring GME in 2008. The Company elected to recognize impairment losses in view of the inherent uncertainties prevailing in present market conditions.

3. Operations

Contracts entered into by GME prior to the acquisition by TSC weighed heavily on operations. In addition to some of these sales contracts being under priced and unfavourable to TSC, GME had prior to being acquired by TSC, entered into contracts with manufacturers who were not able to complete the contracts on quality and or on time. These manufacturing contracts could not be terminated without significant impact on our delivery deadlines which would have resulted in even greater impact on the Group. We had to put in significant resources to mitigate risks of further delays and to meet the Company's obligations to clients. Consequently cost increased significantly to carry out reworks on some equipment and to expedite delivery schedules at the installation phases on site. Most of these contracts will be completed in the first quarter of 2010. TSC remains committed to completion of all projects despite the challenges met and we have demonstrated our integrity in honoring contracts and our continued commitment to customers.

Executive Chairman and Chief Executive Officer's Statement

Moving forward, we have revamped the entire project realization lifecycle from contract negotiation to the warranty management phases. We will have full control over the manufacturing process at the Group's main manufacturing facilities at Houston, Texas and Qingdao, China which were completed in June 2009. The establishment of our own manufacturing facilities removes significant uncertainties associated with the manufacturing process which is one of the main causes of some quality issues and late delivery associated with the previous GME projects. In the past, GME worked with several manufacturing subcontractors in different locations. In many instances availability and price took precedent over quality. The inconsistencies and variation of practices between different manufacturing facilities introduced a high level of uncertainty and risks to project execution and quality control. The process of centralizing manufacture at TSC's own facilities will reduce such uncertainties and will mitigate project execution risks. Consistency and stability in the engineering process is a further advantage with the combination of the different levels of engineering expertise we have at the various locations. One of our continuing strategies is to manage our engineering knowledge to maximize value creation in the future to provide TSC with a competitive leading edge. Every action we have taken throughout the year was intended to drive further value for our customers and shareholders. We can see the improvement flowing through to the improvement in our order book in 2010.

We remain on course to achieve the integration of the various strengths and differentiation factors that were identified when we acquired GME. We now have several locations with different engineering specialization for the wide range of products we offer. The common success denominator would be our capability to manufacture the engineering solutions that we are able to offer, thereby achieving the ideal synergy to provide solutions. This phase of integration will take the Company to a higher level of development where both engineering and manufacturing will be able to complement each other well to meet the needs of advancement in offshore equipment solutions.

We continue to make significant progress with our line of rig expendables and supplies. We have been accepted on approved vendor lists of several international oil majors and oilfield operators. With the decline of rig count throughout 2009, drilling contractors purchased only on a need basis to minimize inventory as opposed to previously purchasing periodically in bulk.

Delivery of the Super M2 turnkey projects which was planned for at end of 2009 was delayed till 2010 with the recent successful acquisition of the Longkou yard by Yantai Raffles Shipyard Ltd. ("YRS").

To enhance turnkey solutions for jack-up rigs, TSC-Gear has invested and built one of the most advanced facilities equipped with flame cutting line for racks, heat treatment for jacking systems and gears. This will enable TSC to manufacture both jacking systems and rack material and provide complete solutions for jack-up leg construction.

Executive Chairman and Chief Executive Officer's Statement

4. Strategy

Prior to the acquisition of GME we already had a proven and profitable business. However, this does not mean that value of the acquisition was over estimated. We feel more so now than before that our strategy to progress TSC up the engineering value chain to enable us to compete and win more contracts in future, is the right one. We are committed to this strategy to become a knowledge based company fully supported by an infrastructure that will transform that knowledge into products and total solutions for our customers. We will work hard towards sharing this vision with all our stakeholders so that we are all aligned in this purpose.

We started business as a supplier of rig components almost a decade ago and we quite rapidly progressed into manufacturing at first only electrical equipment and then subsequently into expendable parts. We consolidated our position for a time and expanded our network and gained recognition internationally. In 2004, we added to our range of expendable parts and in 2007 we added solids control equipment and systems to the list. Although we already had an inhouse engineering department and had acquired 7% of Friede & Goldman Group in 2007, the acquisition of GME provided us a quantum leap into accelerating TSC up the engineering value chain. Meanwhile, we have also added complete jacking systems and racks for jack-up rigs which are another niche products.

TSC's dynamic growth over less than a decade is testimony to our commitment and the direction we envisioned and continually strive to perfect. Presently the TSC Group is already one of only three companies in the world with such a comprehensive range of products for the oil and gas drilling industry.

We understand the concerns that investors would raise in view of the loss in 2009 due to provisions made and we would like to suggest that we be judged over a longer timeframe. The year 2009 was an unusual year when we had a tumultuous market and a difficult acquisition and we offer no excuses. We would like to share our direction going forward which we are confident will take us to the next level.

Markets and Strategic Alliances

We don't see the rig product market as a level playing field. Our size does not allow us to compete in the way bigger players operate. We are fortunate that we have good strategic partners who are also industry leaders as well as major shareholders in TSC whom we can trust and work closely with for opportunities that would otherwise not be available for us to make any major inroads to the E&P market.

Our already comprehensive market range needs to be brought to the customers effectively and this is one of our main emphasis in 2010. We will also replicate the success we already have in the oilfield engineering service segment.

We continually seek partners who share a similar philosophy with us. We have seen this done in successful conglomerates where they have a healthy mix of organic as well as inorganic growth through strategic mergers and acquisitions. Having learnt from the experience of past acquisitions we are in a position to mitigate acquisition risks more effectively in future to execute this strategy.

Executive Chairman and Chief Executive Officer's Statement

Project Execution and Delivery

As we gain support and confidence from our partners we accept that we have to be able to execute effectively and we aim to deliver beyond expectations. Our policies, procedures, standards and most of all, our culture will be aligned to this purpose. The acquisitions have brought new elements of diversity into the Group and this need to be integrated effectively to deliver reliably.

Product Development and Total Solutions

The development and management of our knowledge base has been mentioned in the paragraphs above. This will be one of our core strategies to progress towards a knowledge based environment to foster value creation and transformation into product leadership. Research and development activities will continue to have high priority. In addition to the deepwater emphasis below, products which we have identified are electrical control designs, diesel generator control systems, cost efficiency improvement accessories for mud pumps, drawworks and top drives, lighter weight to power ratio rig floor equipment, centrifuge machines, vacuum degassers and several others including nuclear mechanical handling equipment.

Deepwater Frontier

Large oil and gas discoveries are made in ever increasing waterdepths. Development of such reserves poses many technical challenges and substantial financial risks for the operators. New technologies will be playing vital important role for operators to minimize risks and maximize rewards. To support the E&P activities in the deepwater frontier and prepare the Company to realize the enormous market potential in the future, TSC will continue focus more on its technology and business developments in the deepwater frontier to provide solutions to our clients and create values for our shareholders.

5. Business Prospects

Despite the setbacks in 2009, based on the increase in response to sales efforts we are optimistic that the prospect of 2010 will be better. Most evidence points to supply of crude oil gradually reducing whilst demand continues to grow in non-OECD countries driven largely by growing consumption in China and India. This will drive oil prices up which in turn will increase demand for rigs particularly in the deepwater sector. Favourable government policies in the US, Brazil, China, Mexico and the OPEC nations towards oil exploration and production activities are again positive signs for recovery.

In North America, the economic recovery will enhance oil and gas consumption which in turn will lead to more investments in the oil and gas sectors. Most Houston based major drilling contractors will see more of their rigs being utilized globally. The recent decision of the Obama Administration on the opening up of more offshore sectors in the US is another positive sign for the US oil industry. In Mexico, the state-owned company Pemex has decided to increase investment in offshore E&P activities. TSC was able to secure two contracts from Mexico to supply a BOP handling equipment and a conductor tensioning unit for a new jack-up rig built in Mexico and several equipment and rig revamp orders from Canada and the US. The new order intake from North America market in the first quarter of 2010 was more than half of our global orders.

In South America, Petrobras will, subject to approval by Congress, be investing US$19.4 billion in E&P activities. Petrobras are placing orders for 58 drilling rigs through to 2018, of which at least 21 rigs will be received by 2011, 28 rigs will be built in Brazil and delivered between 2013 and 2020, while 9 will be purchased in the international market and delivered in 2013. We have a strong presence in Brazil. In the past, we have successfully secured rig equipment and package orders for 11 deepwater rigs, including the two pipe handling packages for two of the jack-up rigs to be built

Executive Chairman and Chief Executive Officer's Statement

for Petrobras. We are continuing to work with Petrobras on deepwater E&P projects and offering the comprehensive range of products that we now have as a competitive package.

In the Middle East, OPEC has recently announced that 32 new E&P projects have been resumed which will lead to more projects for TSC in the region. To respond to the increasing business, TSC has recently moved its warehouse and sales office from Sharjah to a more established warehouse and sales office in the Jebel Ali Free Zone in Dubai. This will enable TSC to respond to the customers' needs not only in new products, but also in repair, services, and spare parts supplies in their daily operations.

In Asia, the Chinese offshore operator CNOOC recently announced a capital expenditure budget for 2010 of US$7.9 billion. The other two majors in China, CNPC and Sinopec have both initiated a more aggressive capital expenditure in 2010, especially in their expansions into international sectors. Because of TSC's presence in China, the continuing global expansion by the three Chinese oil companies will benefit TSC's overall business. In the ship building industry, China has exceeded Korea and become the No.1 ship building country in the world. As more and more Chinese shipyards undertake offshore projects, TSC has apparent competitive advantages over competitors due to our presence in China. Our partnership and alliance with some of the Chinese shipyards will further enhance our competitiveness. In other major markets in the region, TSC is also actively pursuing projects and working closely with oil companies, drilling contractors and shipyard customers in Korea, India, Vietnam as well as other South East Asia countries.

In Europe and Central Asia region, we will enhance our presence in the Caspian region following the successful jack-up rig awards by Dragon Oil to a TSC participated consortium. Following the successful entry into the UK nuclear market with winning a bid for the design of a nuclear crane for the Sellafield nuclear plant, TSC will continue pursuing this market through our two divisions in UK, TSC Engineering Ltd. and Ansell Jones Ltd.

Overall E&P spending budgets are likely to rise modestly from 2009 levels and most offshore rig markets around the globe will likely experience stabilization or stage some sort of recovery in 2010. A good indicator is rig utilization which has climbed up to over 80% on average. This has resulted in increasing enquiries from customers for turnkey packages.

Further optimization of our cost structure via successful integration of GME, centralization of functions and benefitting from better scale of economies will be achieved in 2010.

The Company completed the placement of 90 million shares at HK$2.53 per share to raise approximately HK$221.9 million on 9 December 2009. Proceeds from the placement will enable the Company to expand R&D activities to improve our technology, and speed up our product development and delivery process.

We are confident that we have the resources and strategies working in our favour which will help put us back on track of our long term goals. Up to mid April 2010, we were able to secure about US$30.7 million worth of new orders. Several other high probability initiatives are currently pursued and should come to fruition in 2010. We have a superb international network and an unrivalled network in China through our strategic alliances.

Executive Chairman and Chief Executive Officer's Statement

Our relationships with customers continue to significantly improve as we improve quality throughout our value chain and the way in which we deliver our products. This will bring many benefits in the years to come. We reaffirm our deep commitment to our customers, shareholders and stakeholders.

6. Appreciation

Last but not the least, on behalf of the board I would like to take this opportunity to thank our team for their hard work throughout the year, as well as our customers, business partners and shareholders for their support. We look forward to your continuing trust and support in the years to come.

Jiang Bing Hua
Executive Chairman

Zhang Menggui
Chief Executive Officer

Hong Kong, 22 April 2010

Corporate Vision

To Be An Integral Part Of Our Clients'

Corporate Vision

Strategy To Meet The Worlds' Oil And Gas Needs

Management Discussion and Analysis

1. Overview

Principal activities of the Group remained unchanged for 2009. The Group continues to provide specialist services to the oil and gas drilling industry, offering a comprehensive range of products 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) Engineering Services.

Our long term target is to become a major product and service provider in the Oil and Gas Exploration and Production sector. Our competitive advantage is to be able to leverage on the comprehensive range of equipment and services that we already have to provide cost effective solutions as a competitive edge.

We had some setbacks in 2009 following our first acquisition of a multi-national company GME and this has adversely affected our results for the year ended 31 December 2009. We refer the name "GME" as the name of the group of companies prior to acquisition by TSC. After the acquisition, the group of companies was renamed to TSCUK. We have made provisions against possible impairment of assets in particular trade receivables, inventories and forseeable losses on contracts. Despite the losses provisioned, we firmly believe that the initial stages of putting together an organization which will be one of only three in the world with such a comprehensive range and level of expertise of products to meet our long term target is now completed.

Crude oil prices declined steeply from a peak of over US$130 per barrel in July 2008 to US$39 per barrel in January 2009. This led to a significantly lower drilling activity level which had an adverse impact on oil and gas operators. In contrast, crude oil prices averaged around US$100 per barrel in the previous year 2008 when boom conditions prevailed for the most part. Although oil prices recovered from the low of US$39 per barrel in January to reach an average of US$62 per barrel, market sentiments among oil and gas operators remained subdued for the year 2009.

Management Discussion and Analysis

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 segment also include various deck cranes for different platforms and FPSOs.

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 Engineering Services business includes rig inspection, engineering consulting, marketing consulting, and maintenance and repair services.

Management Discussion and Analysis

2. Financial Review

	Year ended 31 December 2009 US$'000	Year ended 31 December 2008 US$'000	Percentage of year-on-year decrease %
Turnover	112,842	160,113	(29.5)
Gross profit	21,264	43,643	(51.3)
(Loss)/profit for the Year	(10,238)	10,327	(199.1)
Basic (loss)/earnings per share *(US cents)*	(1.81)	2.23	(181.2)

Turnover

Turnover for the Group decreased by 29.5% to US$112.8 million from US$160.1 million in 2008. The steep decline in crude oil price led to significantly lower drilling activity which had a significant adverse impact on TSC's customers. Average active drilling rig counts, which is the key indicator for our business, fell from 3,336 in 2008 to 2,304 in 2009. Offshore rig utilization dropped to 79% from 85% a year ago. Furthermore, several capital equipment projects were completed or are nearing completion which led to a lower level of revenue recognition.

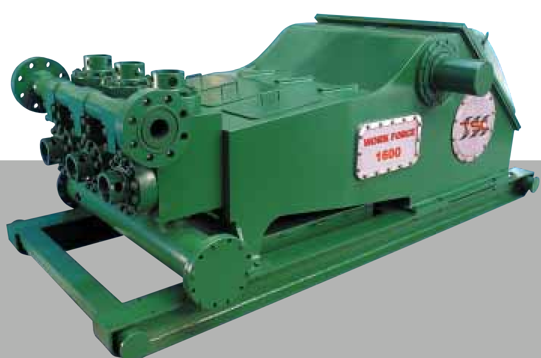
Management Discussion and Analysis

2. Financial Review *(continued)*

Segment Information By Business Segments

Turnover by business segments

	Year ended 31 December 2009 US$'000	Percentage %	Year ended 31 December 2008 US$'000	Percentage %	Percentage of year-to-year increase/ (decrease) %
Rig Products and Technology	81,740	72.5	95,525	59.7	(14.4)
Rig Turnkey Solutions	14,334	12.7	46,488	29.0	(69.2)
Oilfield Expendables and Supplies	11,539	10.2	17,276	10.8	(33.2)
Engineering Services	5,229	4.6	824	0.5	534.6
Total	112,842	100.0	160,113	100.0	(29.5)



Management Discussion and Analysis

2. 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 which provides a comprehensive line of capital equipment used on onshore and offshore drilling rigs generated a turnover of US$81.7 million. This was a reduction of 14.4% from last year due primarily to completion of projects and no new significant projects starting in 2009. The Group recognises revenue on projects on the percentage of completion basis and the majority of projects taken over by TSC from the acquisition of GME on 23 April 2008 were completed or near to completion in 2009.

Rig Turnkey Solutions

Rig Turnkey Solutions turnover comprising mainly cantilever and drilling packages decreased from approximately US$46.5 million in 2008 to US$14.3 million in 2009. The 69.2% decrease is attributed mainly to the interruption on progress on a rig turnkey project as a result of change in ownership of the shipyard where the cantilever and drilling turnkey packages were to be delivered. The shipyard has since been acquired by Yantai-Raffles Offshore Ltd ("YRO") and two of the cantilever package fabrications were moved to one of the main Yantai-Raffles yards. Construction activities have resumed in March 2010 and is estimated to be completed by end of 2010. The acquisition of the shipyard by YRO provides for future improvements in logistics and operations which will facilitate the timely completion of remaining works and provide an opportunity for future similar projects to be executed more effectively.

Oilfield Expendables and Supplies

The Group's Oilfield Expendables and Supplies business offers several thousand lines of expendable items used in the daily operations of both onshore and offshore rigs. Turnover from this business segment amounted to approximately US$11.5 million, a decrease of 33.2% from US$17.3 million in 2008. The decrease is mainly due to the market conditions in 2009.

Engineering Services

This segment comprises the provision of oilfield services by the broad range of experienced personnel within the Group. The significant increase from US$824,000 to US$5.2 million is in line with the strategy of the Group to be established as a total solutions provider to the offshore and onshore drilling rig industry. The difficult economic conditions provided the opportunity and emphasis for the expertise within the Group to be showcased. Contribution to this segment revenue also came partially from the installation and commissioning work for several of the GME projects which were completing in 2009 as well as from service and repair work done on TSC and non-TSC equipment.

Segment Information By Geography

Turnover by geographic locations

	Year ended 31 December 2009 US$'000	Percentage %	Year ended 31 December 2008 US$'000	Percentage %	Percentage of year-to-year increase/ (decrease) %
Mainland China	46,549	41.2	56,507	35.3	(17.6)
North America	28,158	25.0	36,635	22.9	(23.1)
South America	7,811	6.9	14,055	8.8	(44.4)
Europe	11,599	10.3	11,118	6.9	4.3
Singapore	12,255	10.9	36,838	23.0	(66.7)
Others (Other part of Asia, India, Russia etc.)	6,470	5.7	4,960	3.1	30.4
Total	112,842	100.0	160,113	100.0	(29.5)

Management Discussion and Analysis

2. Financial Review *(continued)*

Segment Information By Geography *(continued)*

The increase in turnover of 30.4% in the region categorised as Others is due mainly to the progress achieved on the refurbishment contract for a customer based in India.

The increase turnover of 4.3% for Europe is due mainly to the progress on the supply of two sets of pipehandling equipment to Seawell Norge AS for Statoil Hydro platforms in the Norwegian sector of the North Sea and increase in the supply of engineering components to mechanical handling products.

Turnover for the other regions decreased generally due mainly to the depressed market conditions prevailing in 2009.

Cost of Sales and Gross Profit Margin

The Group made an overall gross profit of US$21.3 million which is down 51.3% from the previous year of US$43.6 million. The decrease in gross profit is due primarily to the 29.5% decrease in turnover as well as the high cost to complete some of the projects which were taken over with the acquisition of the GME Group in 2008.

The gross profit margin for 2009 of 18.8% is reduced by 8.5% compared to the gross profit margin of 27.3% for 2008. As mentioned in this section of the discussion in the 2008 annual report, several of the projects taken over with the acquisition of the GME Group were expected to earn low or negative margins. These margins were expected to be reduced due to high cost of redesign and rework of deck cranes during the delivery phase. The business review section in last year's discussion also reiterated that sizable losses would be incurred from the old sales contracts for offshore cranes carried forward from GME. In addition to these problems, GME had prior to the acquisition committed the Company to a number of manufacturers of equipment which subsequent to the acquisition demonstrated that they were not capable of carrying out the level of manufacturing to the specifications and standards required by TSC and our clients. Included in cost of goods sold is a provision of US$2.3 million in respect of foreseeable losses on contracts not yet completed. This resulted in further significant cost to rectify the delays and deficiencies by engaging additional close supervision and contractors to expedite delivery schedules and to complete the work to the standards required. These projects are now completed or nearing completion and issues that have been uncovered relating to defective design and poor quality of manufacturing have since been corrected.

Manufacturing is now increasingly done within the Group at our own manufacturing facilities in Houston, Qingdao and Dalian which have been certified to meet ISO and API quality standards. The undertaking of manufacturing activities within the Group provides for significant cost savings and significant improvements in the control over delivery schedules and quality of manufacturing. In addition to the engineering expertise that we have acquired in GME, we see the integration with in-house manufacturing facilities as a critical factor to the future success of the Group.

In general, the lower sales prices for our other business segments to remain competitive during the recession also contributed to the lower gross profit margin.

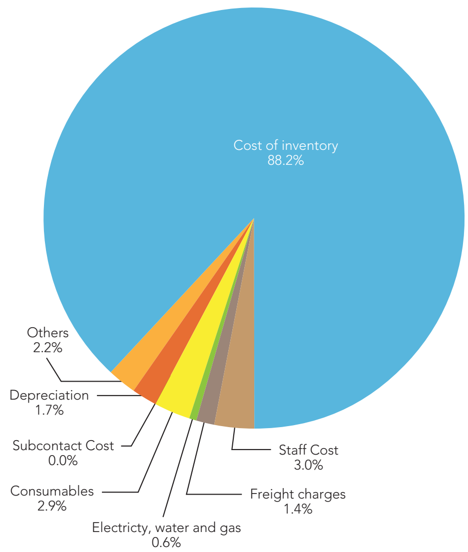
Management Discussion and Analysis

2. Financial Review *(continued)*

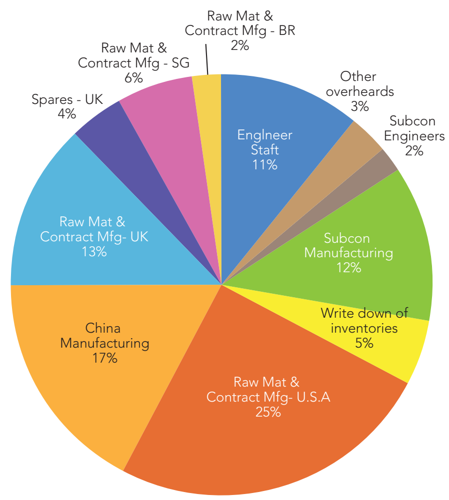
Cost of Sales and Gross Profit Margin *(continued)*

The key components of cost of sales are provided below. For purpose of discussion the cost structure is segregated into two parts. Mainland China and TSC M&S in Houston as one part and the TSCUK Group (comprising companies acquired through GME) which relates to projects and the sales of project related specialized spares and services, as the second part.

Group (exclude TSCUK Group) cost



TSCUK Group Cost



88.2% of cost of sales for China Operations comprises raw materials and components. The second highest component is Staff cost making up 3.0% followed by Consumables of 2.9%. We have an efficient cost structure in our operations in the manufacture of our products in China with minimal overheads.

For the TSCUK Group, engineering content in projects are staff costs and subcontract engineers cost which combined amounts to approximately 13.1% of total cost of sales. Write down of inventories amounting to US$3.1 million or 5% of 2009 cost of sales, were in respect of a 50% provision against obsolescence of certain inventory categories brought forward from the GME acquisition. Purchase of raw materials, components and third party contract manufacturers amounted to 49.5% of Cost of Sales in the TSCUK Group. The portion of manufacturing done in China amounted to only 17.7% of TSCUK cost of sales. We intend to undertake more manufacturing in China in order to increase overall margins and to improve control over quality and delivery time.

Operating Expenses and Loss Attributable to Equity holders of the Company

General and Administrative Expenses

General and Administrative Expenses amounted to US$22.9 million for the Group in 2009. Several cost savings measures were implemented throughout the Group in view of the depressed economic conditions to achieve substantial cost savings, however, provisions and additional cost more than offset these savings to result in a net increase of 13.9% over the previous year of US$20.1 million.

Management Discussion and Analysis

2. Financial Review *(continued)*

Operating Expenses and Loss Attributable to Equity holders of the Company *(continued)*

General and Administrative Expenses *(continued)*

The cost saving measures implemented in 2009 were as follows:

- Two facilities which were on leases in Houston were consolidated to the one location owned by TSC. Staff numbers were reduced by 22 which resulted in cost savings of over US$130,000 per month from reduction in lease rentals, salaries and associated overheads in July 2009.

- The TSC Winches Ltd operations in Newcastle were combined with Ansell Jones Ltd operations in Birmingham in June 2009.11 staff were made redundant reducing payroll cost by approximately US$35,000 per month in the process.

- The onshore service division with 18 staff was discontinued resulting in reducing salaries by US$75,000 per month in November 2009 and a redundancy exercise was carried out in the UK office which reduced staff and contractors by 23 numbers reducing payroll cost by US$70,000 per month in August 2009.

Cost savings were offset by the following:

- Research and development expense increased US$393,000 from US$728,000 for 2008 to US$1,121,000 for 2009. This increase of 54% is in respect of the development of the new 3000 HP drawworks, 49.5" rotary table, 2000 HP mud pumps, digital driller control cabin, new offshore rig control and drive systems which were successfully launched in 2009.

- Rental expenses increased by US$0.7 million to US$1.6 million from US$0.9 million in the previous year despite cost savings measures through combining office premises in the US and moving to a lower rental office in Singapore. The savings were offset by the need to expand to larger premises in Brazil to meet expansion and in Birmingham for Ansell Jones Ltd in the UK. Furthermore, a provision of US$275,000 was made in accordance with Hong Kong Accounting Standard 37 on Provision wherein future lease payment on leases on premises in Newcastle UK for TSC Winches Ltd which was moved to the Ansell Jones Ltd premises in Birmingham in May 2009.

As the GME Group was acquired in April 2008, the comparatives include only a 9 month period of GME Group expenses from April 2008 onwards. The general and administrative expenses for 2009 is higher by approximately US$3.0 million in respect of the full year of GME related expenses compared to the 9 months in 2008.

Selling and Distribution Expenses

Selling and Distribution Expenses decreased by 5.6% from US$5.2 million for 2008 to US$4.9 million for 2009 as a result of cost reduction measures undertaken throughout the Group.

Other Operating Expenses

Other Operating Expenses amounted to US$9.1 million in 2009 compared to US$4.6 million in 2008. An increase of 97.3% over the Year.

The significant increase is mainly in respect of impairment losses on doubtful debts of US$4.8 million (2008: US$2.1 million) made to cover recovery risks of GME project milestone receivables. Recovery of trade debts depend to some extent on future events, trends, financial condition of our customers and negotiation of terms and condition on capital equipment contracts. The impaired loss has been recognised in respect of project milestones where recoveribility may be affected by project delays.

Management Discussion and Analysis

2. Financial Review *(continued)*

Operating Expenses and Loss Attributable to Equity holders of the Company *(continued)*

Other Operating Expenses *(continued)*

In addition to the impairment losses on doubtful debts, Other Operating Expenses includes an increase of US$0.5 million for the amortisation of intangible assets to US$2.8 million from the previous year amortisation of US$2.3 million. The increase was primarily due to the amortisation of a full year compared to nine months of amortisation in 2008.

Net foreign exchange losses amounted to US$1,301,000 compared to US$77,000 for 2008. As we have operating subsidiaries in seven countries the strengthening of local currencies against the foreign currencies would create losses to the extent we maintain net assets and liabilities not denominated in the local currencies. Therefore, the net foreign exchange loss is primarily due to exchange rate fluctuations related to balances denominated in currencies other than the local currency. In order to mitigate that risk, we may utilise foreign currency forward contracts to better match the currency of our revenues and associated costs in the future.

The level of turnover and contribution to gross margin consequently fell below breakeven and the Group incurred a loss of US$10.2 million compared to a profit of US$10.3 million in the previous year. The loss is primarily due to the lower turnover and recognition of GME asset impairment, cost overruns and the economic conditions.

Finance Costs

During the Year, the Group's Finance costs amounted to approximately US$1.3 million compared to approximately US$0.5 million for 2008. The increase in finance costs is due to the higher level of borrowings compared to the previous year.

Group's Liquidity and Capital Resources

As at 31 December 2009, the Group had other intangible assets of approximately US$16.4 million. As at 31 December 2009, the Group carried fixed assets of approximately US$26.7 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 2009, the Group had interest in associates and deferred tax assets of approximately US$9.8 million and approximately US$14.6 million, respectively.

As at 31 December 2009, the Group had current assets to approximately US$132.0 million. Current assets mainly comprised cash and bank balances of approximately US$38.5 million, and pledged bank deposits of approximately US$2.3 million, inventories of approximately US$26.6 million, trade and other receivables of approximately US$64.5 million and amount due from a related company of approximately US$0.1 million.

As at 31 December 2009, current liabilities amounted to approximately US$76.7 million, mainly comprising trade and other payables of approximately US$48.4 million, bank loans of approximately US$22.8 million, current tax payables of approximately US$3.2 million and provisions of approximately US$2.3 million.

As at 31 December 2009, the Group had non-current liabilities of approximately US$7.1 million, comprising bank loans of approximately US$2.7 million and deferred tax liabilities of approximately US$4.4 million. Gearing ratio, total liabilities to equity holders' fund was 59.9%, as compared to 70.3% in 2008.

During the Year, the Company made one placement of new shares to raise funds. The placement of 90,000,000 new shares of HK$0.10 each in the capital of the Company with aggregate nominal value of the placing shares was HK$9,000,000, to not less than 6 independent professional, institutional and individual placees, was made in December 2009 at the placing price at HK$2.53 per share (net price per share at approximately HK$2.46) to raise approximately HK$221.9 million net of expenses and the net proceeds were used as general working capital of the Group for developing deepwater related products and future acquisition. The price on the date of the placing based on the closing price on 9 December 2009 was HK$2.85.

Management Discussion and Analysis

2. Financial Review *(continued)*

Significant Investments and Disposals

During the Year, there were no significant investments and disposals done.

Capital Structure

As at 31 December 2008, there were 561,737,604 shares in issue (the "Shares") and the Company carried a share capital of approximately US$7,225,000.

During the Year, the Company issued 872,800 Shares to Pre-IPO option holders and other option holders who exercised their options, and issued 90,000,000 Shares for a placement. As at 31 December 2009, the Company carried 652,610,404 Shares in issue, and a capital of approximately US$8,393,000.

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, bank deposits, inventories and trade receivables of five subsidiaries namely TSC (Qingdao) Manufacture Co., Limited ("TSCQD"), TSC-HHCT (Xi'an) Control Technologies Limited ("TSC-HHCT"), TSC Manufacturing and Supply, LLC, Qingdao TSC Offshore Equipment Co., Ltd. ("TSCOE") and 8655 Golden Spike, LLC. The aggregate net book value of assets pledged amounted to US$32,854,000 (2008: US$19,908,000).

(ii) Corporate guarantees given by the Company, Zhengzhou Highlight Energy Technology Co., Ltd., TSCQD and TSC-HHCT to the extent of banking facilities outstanding of US$12,725,000 as at 31 December 2009. (2008: US$1,897,000).

Foreign Currency Exchange Exposure

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The Group has foreign exchange exposure resulting from most of the Group's subsidiaries in the PRC carried out production locally with Renminbi while over 50% of the Group's turnover was denominated in United States dollars. As at 31 December 2009, no related hedges were made by the Group.

In order to mitigate that foreign exchange exposure, we may utilize foreign currency forward contracts to better match the currency of our revenues and associated costs in the future. However, we do not use foreign currency forward contracts for trading or speculative purposes. The Group will actively explore ways to hedge or reduce currency exchange risk in future.

Contingent Liability

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

As at 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 balance sheet date under the guarantees issued is the facilities drawn down by a subsidiary which was nil (2008: US$438,000).

Management Discussion and Analysis

2. Financial Review *(continued)*

Exempt Connected Transaction

(a) On 23 October 2008, a loan of HK$16 million was made to the Company by Mr. Jiang Bing Hua ("Mr. Jiang"), a Director of the Company. The purpose of the loan was to meet short term bridging financing purposes and was guaranteed by another Director, Mr. Zhang Menggui ("Mr. Zhang"). The loan was unsecured, non-interest-bearing and was due to 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 from 30 December 2008 to 1 March 2010 (the "Revised Latest Repayment Date"), with the Company having the right to repay any time 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 were unchanged.

On 3 March 2009, the Company repaid HK$10 million to Mr. Jiang and the balance of HK$6 million was fully repaid to Mr. Jiang on 13 July 2009.

(b) On 23 November 2009, Mr. Jiang made a further loan of US$3 million to the Company for short term bridging financing purpose. The loan is guaranteed by Mr. Zhang and is unsecured, interest-free and to be repaid in full on or before 22 February 2010. On 17 December 2009, Mr. Jiang was fully repaid the loan of US$3 million.

Non-Exempt Continuing Connected Transactions

In June 2008, the Group conducted the following continuing connected transactions with connected parties of the Company, namely Yantai Raffles Shipyard Limited ("YRS"). YRS owned over 80% equity interest of YRO during 2008, and YRS wholly owned YRS Investments Limited ("YRSI"). 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 in 2008. 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 Rules Governing the Listing of Securities on the Stock Exchange ("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 2008.

Management Discussion and Analysis

2. Financial Review *(continued)*

Non-Exempt Continuing Connected Transactions *(continued)*

The Fabrication of BOP Handling and Transport System

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 websites of the Stock Exchange and the Company. The master agreement was approved by independent shareholders at extraordinary general meeting on 18 July 2008.

During the Year, the Group transacted a contract 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 contract cover the fabrication of BOP Handling and Transport System with a total contract value with VAT of RMB15.65 million, which is within the cap of RMB1,028 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 RMB8,533,000 for the year ended 31 December 2009.

In addition, the actual sales amount of four supply contracts with YRS signed during 2008 was approximately RMB3,077,000 for the year ended 31 December 2009 (2008: RMB3,766,000).

Employees and Remuneration Policy

As at 31 December 2009, the Group had approximately 850 full-time staff in U.S.A., the United Kingdom ("UK"), Brazil, United Arab Emirates, Russia, Singapore, Hong Kong, 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.

Management Discussion and Analysis

3. Business Review

As discussed in the Section on Financial review, the two main factors which led to the net operating loss for the year 2009 were the overall depressed economic fundamentals, asset impairment losses and the provisions for cost overruns on completion of projects acquired through GME. With the recovery of oil prices, some confidence was seen to have returned to the market as we have received more enquiries and was able to increase our order book in earlier 2010. Even as the price of oil gradually recovered during the course of the year the willingness of oil and gas operators to make capital expenditures or willingness of oilfield service companies to invest in capital equipment remained subdued.

On the positive side, we completed our TSC Qingdao manufacturing facility ahead of schedule in June 2009. The facility has 58,000 square meters of covered work space to carryout indoor fabrications and outfitting work in all weather conditions as well as during nightshifts. It is also equipped with painting facilities to meet stringent painting standards, test stands to ensure that equipment are well tested to meet the required quality standards before delivery and excellent facilities to house engineering and support staff. We have a full crew of skilled manufacturing workers of the various disciplines and being in Qingdao which has a long history in the shipbuilding industry we are able to recruit additional skilled workers on short notice if necessary. The TSC Qingdao facilities are both ISO and API certified and will be able to manufacture deck cranes, mud pumps, derricks, drawworks, rotary tables, top drives, drillfloor tools, mechanical handling and subsea equipment, etc. to meet the various classification society requirements. Additional manufacturing facilities are being set up in Dalian as well to meet with future requirements.

New warehouses and repair facilities were also set up in Brazil, Singapore and Middle East offices in 2009. All locations are now able to stock and offer TSC products to all customers at the various locations. Our office in Brazil has successfully established a reliable and competent team of maintenance and engineering service personnel to meet the growing demand for service in the region. We have also doubled our capacity for rack cutting at TSC-Gear to meet with growth in demand in that sub-segment.

We have made improvements to the commercial structure of the organization in order to work to the respective strengths and advantages of each region. The company recognized the challenges inherent in the management of the multitude of locations and having different phases of projects carried out at the various locations and took measures to overcome this.

We have recently completed our API Q1/IO 9001 and API 2C Surveillance Audit for Patriot Crane, LLC and certification and API 2C Monogram License will be received in due course. API 2C License Audit at TSCOE was issued on 1 February 2010 and the API Q1/ISO 9001 and API 7K Licenses at TSCQD were issued on 7 December 2009.

During the Year, Rig Products and Technology business segment activity comprised mainly the completion of existing projects. No significant new orders were started during the Year and several projects were completed or were nearing completion. Progress on the Super M2 project Rig Turnkey Solutions was delayed due to the change in ownership at the shipyard where the project was being delivered. In the Oilfield Expendables and Supplies business segment we were successful in gaining acceptance as preferred vendors in several large and established distributors. Distribution was also expanded to locations in UAE, Brazil, and Singapore to utilise the existing Group's facilities in those countries which should add to the Group's customer base for the product line of expendables and supplies.

Management Discussion and Analysis

3. Business Review *(continued)*

The Engineering services business segment achieved an increase of over 5 times in 2009. The highest growth was contributed by the North and South American regions where we have available strong teams of service personnel with capability to work on a wide range of TSC and non-TSC equipment. Contribution to this segment revenue also came from the installation and commissioning work for several of the GME projects which were completed during 2009. Good growth prospect is expected to continue from this segment as we have competent personnel and a high standard of work safety, efficiency and ethics.

4. Future Plans for Material Investments, Capital Assets and Capital Commitment

The Company will continue the efforts to improve its in-house manufacturing capability worldwide to increase overall competitiveness in delivery, quantities and prices. The new manufacturing facility in Qingdao, China commenced operation since June 2009. However, the Group shall continuously seek strategic merger and acquisition opportunities that will bring synergies to the Company. The Company does not intend to make any major capital assets investment. We will be expanding our worldwide research and development centers and design and engineering teams in the future.

As at the balance sheet date, there was no capital commitments outstanding not provided for in the financial statement (2008: US$5,583,000).

5. Order Book, Prospect and Strategy

Order Book

As of 31 December 2009, the Group as a whole carried an order backlog of approximately US$81.1 million for rig products and technology, rig turnkey solutions and expendables. Subsequent to 31 December 2009, the Group has secured further new orders amounting to US$30.7 million up to the date of this report.

Prospects

Our business prospects are closely related to the anticipated level of oil and gas drilling activities worldwide. We quote from the Rigzone publication titled 2010 Floater Market Outlook – "Specifically, we believe the deepwater/ultra-deepwater rig count will continue to rise (2010 average forecast to be about 20% above 2009 average), offsetting expected decreases for the midwater fleet (2010 average forecast to be 12% below 2009 average)." With the exception of new nuclear related business, almost all of our products are used on land or offshore drilling rigs. Rig utilization rates are directly correlated with oil prices which have climbed steadily despite the global economy, in general, barely out of the recession.

The business of TSC started as a supplier of rig components. In 2001 it went into manufacturing of electrical equipment for oil rigs and in 2002 expanded into the manufacture of expendable parts. TSC has constantly and aggressively increased its product range either internally through R&D efforts or through the acquisition of related businesses. Whilst the company expanded rapidly, quality has always been a priority and as early as 1 June 2004 TSC had been certified compliant with ISO9001:2000 as well as API Spec Q1. In 2004, it expanded its network overseas and gained recognition for its products internationally. From a supplier of rig electrical systems it rapidly increased its product range to include expendable parts and accessories, mud pump liners, pistons and piston rods, fluid ends and other accessories. In 2007, TSC successfully acquired and integrated another company into the Group to add solids control systems, shale shaker, complex cleaner, centrifugal pumps, injection pump, mixer and mud gun to its range of products. In late 2007, the Group acquired 7% interest in the Friede & Goldman Group indirectly, which sealed its alliance with an internationally renowned offshore rig engineering and design firm with 60 years of experience. In 2008, TSC made two further acquisitions. The first was the GME Group which was listed on the AIM in London and had subsidiaries in USA, UK, Singapore and Brazil, and the second was Zhengzhou Gear which added complete jacking systems and racks for jack-up rigs. Its dynamic growth over less than a decade is testimony to the commitment and the direction that the founders of the Company have envisioned and continually strive to perfect. Presently the Group is already one of three companies in the world with such a comprehensive range of products for the oil and gas drilling industry.

Management Discussion and Analysis

5. Order Book, Prospect and Strategy *(continued)*

Prospects *(continued)*

The acquisition of GME was TSC's first international acquisition and relatively bigger than previous acquisitions, not only in terms of purchase consideration, but also in terms of the diversity, scale of operations and personnel. The GME Group has a broad range of specialist engineering capabilities, a global presence and an expanding blue chip client base which will provide TSC access to compete in the growing offshore deepwater market. The acquisition brought into TSC an immense intrinsic value proposition which is envisioned to leverage the Group to greater heights through its engineering capabilities that will transform the Group to realise its vision to be a total solutions company. Although the key objective was access to the engineering capabilities and intellectual property the acquisition of GME included some contracts which resulted in losses to the Group in excess of what was expected. TSC management accepts that were oversights due to its inexperience with an extensive cross border acquisition. Certain contracts that were taken over were priced below the cost of delivering these contracts with unrealistic delivery schedules. Contracts contained terms which were unfavourable to the Group and had to be renegotiated or expedited at significant cost to the Group. GME has also entered into manufacturing contracts with manufacturers who were not qualified to manufacture offshore mechanical handling equipment. Management has since gained valuable experience in such acquisitions. However, the value proposition of the GME acquisition continues to be valid and is evident in current new orders and business that GME, now known as TSC UK, is able to secure and to take on complete offshore rig packages. The adverse impact of the unfavourable legacy contracts subject to risk factors is likely to have been largely recognized in these financial statements. With this experience behind us, given the likely recovery of the global economy, we see the prospects going forward will be much improved.

The acquisition of Zhengzhou Gear, now renamed TSC Gear, enables TSC to offer its own proprietary jacking system for new build jack-up rigs and upgrading of other brands of jacking systems. It has flame cutting technology and new heat treatment facilities which will 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 only a few companies in the world. Subsequently, tensioning systems and compensation systems for semisubmersible rigs and drill ships were added which strengthens the Group's position in the deepwater rig market.

In addition to the oil and gas industry TSC has been able to make inroads to the nuclear sector. TSC was recently awarded a contract to design and build a box transfer facility in a new building associated with the 'Silos Direct Encapsulation Plant' located at the Sellafield nuclear reprocessing plant in northern England. As part of the works TSC is to supply a specially designed 80 tonne package handling crane required for the import/export of flasks in to and out of the facilities via road transporters. The packages to be handled are heavy steel flasks containing encapsulated nuclear waste.

Furthermore, the Company and YRS have entered into a New Master Agreement to negotiate possible orders from YRS for the two years ending 31 December 2010 and 31 December 2011 from YRS up to approximately US$200 million (equivalent to approximately HK$1,560 million) per year. TSC is actively bidding for new contracts from other potential customers in PRC and from other countries. TSC management has the confidence that the Group will obtain more contract awards in future.

5. Order Book, Prospect and Strategy *(continued)*

Prospects *(continued)*

We were able to secure US$30.7 million worth of new orders up to the date of this report. Meanwhile, with most of the GME contracts which contributed to the loss for the year now completed, the Group will be able to refocus its resources and energies on executing its strategies. The Group now has an established and wide network of international customers and is also well positioned to work with its strategic shareholders to explore areas which TSC would not have been able to have access on its own. We have a very wide and comprehensive range of products we can offer to our customers. More importantly, in addition to products we are able to offer solutions through the variety of products and through our enhanced engineering capabilities. In December 2009, the Company was able to successfully place out 90 million shares at HK$2.53 per share to raise approximately HK$221.9 million and will be able to pursue further plans to develop deepwater rig products and consider potential acquisitions of strategic investments. On balance, we feel optimistic about our prospects both for the short term as well as long term to achieve our vision to be a global product and service provider to the oil and gas industry.

Strategies

As the world economy heads out of the recession, oil consumption will increase and lead to higher oil price and more investments in the industry. The total investment in the offshore sector is expected to increase from US$130 billion in 2009 to over US$220 billion per year over the next 5 years. About US$50 billion per year is estimated to be spent in the offshore rig and related activities.

Our goal is to be a total solutions provider.

Our key strategies are as follows:

Markets and Strategic Alliances

- Build further opportunities with strategic partners
- Penetrate market through oilfield engineering services
- Leverage on wide network, resources and relationships to combine with our technical expertise and capability to offer seamless solutions to our clients
- Develop specialise expertise team for strategic acquisitions

Project Execution and Delivery

- Align global culture, standards, policies and procedures to goals
- Manage risks to execute effectively, efficiently and reliably

Management Discussion and Analysis

5. Order Book, Prospect and Strategy *(continued)*

Strategies *(continued)*

Product Development and Total Solutions

- Accelerate progression of engineering value chain in key technology areas
- Complement knowledge base with product realization at manufacturing centers
- Prioritise key Research and Development to achieve specific product leadership

Deepwater Frontier

- Position to provide niche deepwater solutions and products

2009 was a difficult year for TSC with the global recession, an extremely cautious credit and commodity market and the challenges we met with the takeover and integration of a cross border acquisition of a multi-location company. The consequences have been costly but the rationale behind the acquisition continues to be valid. TSC is now one of the three companies in the world that is able to offer such a range of engineering expertise, specialized equipment and services, a wide range of high quality oilfield expendables and supplies. We have indeed become a company with a capability to provide total solutions to onshore and offshore rigs.

Subsequent Events

On 10 February 2010, the Company (as seller) entered into a new master agreement (the "New Master Agreement") with YRS (as buyer) in relation to the sale of the products (which include the equipment used on offshore platforms including but not limited to power control package, jacking control system, BOP handling and transport, burner boom, etc. 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) by the Company to YRS for the two years ending 31 December 2011 (the "Transaction"). Pursuant to the New Master Agreement, the annual caps for each of the two years ending 31 December 2011 are both US$200 million (equivalent to approximately HK$1,560 million (the "Annual Caps").

YRS, Mr. Brian Chang, China International Marine Containers (Group) Co., Limited and their respective associates shall abstain from voting on the approval of the New Master Agreement and the Annual Caps at the extraordinary general meeting ("EGM"). On 19 March 2010, the New Master Agreement and the Annual Caps were approved by the independent shareholders by poll at the EGM. Details of the Transaction were announced on 10 February 2010 and in the circular dated 3 March 2010 which were all published on the websites of the Stock Exchange and the Company.

Save as disclosed in this report, no subsequent events occurred after 31 December 2009 which may have significant effects on the assets and liabilities of future operations of the Group.

Profiles of Directors and Senior Management

Executive Directors

Mr. JIANG Bing Hua, age 59, 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 36 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, age 51, 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 27 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.

Non-Executive Director

Mr. JIANG Longsheng, age 65, has been a non-executive Director of the Company since May 2006. Mr. Jiang is a veteran in the offshore oil industry in China and has over 37 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 presently serves as an independent director of China National Pharmaceutical Group Corporation (中國醫藥集團公司), and also serves as an independent non-executive director of Metallurgical Corporation of China Limited, a company listed on the Main Board of the Stock Exchange.

Mr. Brian CHANG, age 67, has been a non-executive Director of the Company since July 2009. Mr. Chang has over 40 years of experience in the marine and offshore industry. He is currently a member of Advisory Committee of the Company. He graduated with an honors degree in electrical engineering from City University London in U.K. in 1965. Mr. Chang founded Promet Berhad in Singapore and Malaysia in 1971. In 1994/5, Mr. Chang sold his interest in Promet and founded Yantai Raffles Shipyard Limited ("YRS" together with its subsidiaries as the "YRS Group") in Singapore, a public Company whose shares are traded on the Oslo Over-the-Counter Market since May 2006. Mr. Chang currently serves as the deputy chairman and chief executive officer of YRS, and also serves as director of certain subsidiaries of YRS.

Profiles of Directors and Senior Management

Independent Non-Executive Directors

Mr. BIAN Junjiang, age 67, is an independent non-executive Director since October 2005. He has many years of working experience in accounting and economic analysis in petroleum organisations.

Mr. CHAN Ngai Sang Kenny, age 45, is an independent non-executive Director since October 2005. Mr. Chan is a partner and founder of Kenny Chan & Co., a firm of Certified Public Accountants. Mr. Chan has over twenty years experience in accounting, taxation, auditing and corporate finance and has involved in several merger and acquisition and initial public offering projects. Mr. Chan holds a Bachelor of Commerce degree from the University of New South Wales 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 is presently serving as the District Governor of Lions Clubs International District 303 – Hong Kong & Macau, China. Mr. Chan also serves on several tribunals of the HKSAR Government which includes The Administration Appeals Board, The Registration of Persons Tribunal and The Solicitors Disciplinary Tribunal Panel. He also serves as a committee member of the Association of International Accountants Hong Kong Branch. Mr. Chan is an independent non-executive director of Goldmond Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange and China Best Group Holding Limited, a company listed on the Main Board of the Stock Exchange.

Mr. GUAN Zhichuan, age 51, 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 professor of the College of Petroleum Engineering of the China University of Petroleum (中國石油大學石油工程學院).

Mr. Robert William FOGAL JR, age 74, has been an independent non-executive Director of the Company since July 2009. Mr. Fogal Jr has over 50 years of experience in the offshore industry having worked in engineering, planning, estimating, production, marketing, sales, project management, contract administrator and yard management in various listed and multinational companies. He obtained a degree in mechanical engineering from Lamar University in the United States in 1957. He was the vice president in marketing, sales and business development at Friede & Goldman Ltd and was responsible for developing over 20 offshore rigs being built in 6 shipyards and various countries. Mr. Fogal Jr has been the vice president of Jackup Structures Alliance, Inc. since 2008, and is responsible for domestic and international sales and business development for a group of companies engaged in the manufacture of critical niche components for offshore drilling rigs, liftboats and other services.

Profiles of Directors and Senior Management

Senior Management

Mr. ZHANG Menggui, age 51, 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 27 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, age 50, 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 worked 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. Robert James REAM, age 62, 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 37 years of working experiences, of which 33 years is in the offshore crane business working in various positions in engineering, senior management and sales. Prior to joining the Group, Mr. Ream had worked for UNIT Mariner Crane, AmClyde and NOV.

Mr. LIM Joo Heng, Paul, age 54, is the chief financial officer and a vice president of the Group. He is responsible for financial management of the Group. He is also responsible for managing the Group's office in Hong Kong. Mr. Lim is a fellow member of the Association of Chartered and Certified Accountants, UK and has many years of experience as a professional accountant with KPMG. Prior to joining the Group, he held the position vice president finance in Yantai Raffles Shipyard Ltd. and prior to that he was the group general manager of Choo Bee Metal Industries Bhd, a company listed on the main board of the Kuala Lumpur Stock Exchange.

Mr. CHEN Yunqiang, aged 44, is a managing director of TSC Offshore China Limited, a subsidiary of the Group. He is also in charge of the whole China 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

Mr. Robert Stuart SHINFIELD, age 39, joined the company as general manager for TSC Offshore Ltda (Brazil), a wholly-owned subsidiary of the Company in August 2004 and was promoted to Group vice president in January 2010. He is responsible for the companies in South American operations and business development. Mr. Shinfield graduated from Derby University with an ONC in mechanical engineering in 1992. He has over 15 years experience in the oil and gas industry and held various technical and management positions within NOV.

Mr. William Richard LEWIS, age 39, is a vice president and general manager of the Group since 2008. He is responsible for drilling equipment for the Group. Mr. Lewis received his bachelor degree in business management. After serving 9 years as a mechanic on a nuclear submarine in the US Navy, he has since worked in the oil and gas industry. Prior to joining the Group, Mr. Lewis worked for Varco (now NOV) and Maritime Hydraulics (now Aker MH) in various positions. He is an active member in several industry organizations, such as International Association of Drilling Contractors, Society of Petroleum Engineers, and the American Association of Drilling Engineers.

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.

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 loss for the year ended 31 December 2009 is set out in the financial statements on pages 62 to 135.

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 2009, are extracted from the audited financial statements of the relevant annual reports of the Company, and are set out on page 136. 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 12 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 30 to the financial statements. Details of the Company's share option schemes are set out in note 29 to the financial statements.

Increase in Authorised Share Capital

The increase in 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 was approved by the shareholders of the Company at the annual general meeting on 18 May 2009.

Report of the Directors

Transfer of listing from the Growth Enterprise Market ("GEM") to the Main Board of the Stock Exchange ("Main Board")

On 7 May 2009, an application was made by the Company to the Stock Exchange for the transfer of listing from GEM to the Main Board. Subsequent to receiving the approval-in-principle for the transfer of listing from the Stock Exchange on 27 May 2009, dealings in the Company's shares on the Main Board commenced at 9:30 a.m. on 5 June 2009. The Board is of the view that the transfer of listing has enhanced the profile of the Group making it more attractive to institutional and retail investors and thus increasing the trading liquidity of its shares. With improved ability to raise capital, the Group is confident of its business development and growth prospects in the long run. In addition, the stock code for trading in the Shares on the Stock Exchange has been changed from "8149" to "206" on 5 June 2009.

Change in Directors and Senior Management

On 10 July 2009, Mr. Brian Chang and Mr. Robert William Fogal Jr were appointed as non-executive Director and independent non-executive Director of the Company respectively. On the same day, the resignation of Mr. Zhang Hongru, who had resigned as chief financial officer, executive Director and compliance officer of the Company and companies within the Group, was taken effect. Mr. Zhang Hongru has resigned to focus on other business interests and family commitments, Mr. Zhang Menggui and Mr. Paul Lim Joo Heng have taken over the positions of compliance officer and chief financial officer of the Company respectively. Mr. Chen Yunqiang also resigned from the positions of executive Director and as director of EMER International Limited, a subsidiary of the Company, with effect from 10 July 2009, so that he can focus more on the operations of the subsidiaries of the Company in Mainland China. Mr. Chen Yunqiang continues to hold his other positions within the Group.

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 30 to the financial statements and in the consolidated statement of changes in equity on page 67, respectively.

Report of the Directors

Distributable Reserves

The Company had approximately US$2,719,000 (2008: US$214,000) of reserves available for cash distribution and/or distribution in species to shareholders of the Company as at 31 December 2009, as computed in accordance with the Companies Law of the Cayman Islands. The details are set in note 30(a) to the financial statements. The Company's share premium account, with a balance of approximately US$116,515,000 (2008: 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 50% of the Group's total sales for the Year and sales to the largest customer included therein accounted for approximately 24% of the Group's total sales.

In the Year under review, the sales to Yantai Raffles Group amounted to US$27 million, accounting for approximately 24% of the total sales of the Group.

Purchases from the Group's five largest suppliers accounted for approximately 19% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 5% 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	(resigned on 10 July 2009)
Mr. Chen Yunqiang	(resigned on 10 July 2009)
Non-executive Directors:	
Mr. Jiang Longsheng	
Mr. Brian Chang	(appointed on 10 July 2009)
Independent non-executive Directors:	
Mr. Chan Ngai Sang, Kenny	
Mr. Bian Junjiang	
Mr. Guan Zhichuan	
Mr. Robert William Fogal Jr	(appointed on 10 July 2009)

Report of the Directors

Directors *(continued)*

In accordance with Article 86 of the Company's articles of association (the "Articles"), Mr. Brian Chang and Mr. Robert William Fogal Jr. who were appointed on 10 July 2009, will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

In accordance with Article 87 of the Company's Articles, Mr. Chan Ngai Sang, Kenny and Mr. Bian Junjiang 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 (except Mr. Robert William Fogal Jr.) 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. Mr. Robert William Fogal Jr. has entered into a letter of appointment with the Company for a term of three years commencing from 10 July 2009 subject to the retirement by rotation and re-election in accordance with the Articles, unless and until terminated by not less than 3 months' prior notice in writing served by either party on the other.

The non-executive Directors: 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, renewable automatically for successive terms of three years from 1 May 2009 unless terminated by giving either party to the other not less than three months' prior written notice. Mr. Brian Chang has entered into a letter of appointment with the Company for a term of three years commencing from 10 July 2009 subject to the retirement by rotation and re-election in accordance with the Articles, unless and until terminated by not less than 3 months' prior notice in writing served by either party on the other.

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 3.13 of the 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.

Report of the Directors

Directors' Interests in Contracts

Apart from the loan agreement with Mr. Jiang on 23 November 2009 as mentioned in the section of "Connected Transactions and Continuing Connected Transactions" on pages 26 and 50, 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 a Post-IPO Share Option Scheme (the "Post-IPO Scheme") respectively.

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 7,678,800 share options remain valid and outstanding as at 31 December 2009.

Pursuant to the Post-IPO 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, (ii) 9,700,000 share options at HK$5.60 each to 51 employees and 2 consultants of the Group on 12 November 2007, (iii) 2,000,000 share options at HK$5.23 each to 3 employees of the Group on 15 January 2008, (iv) 5,000,000 share options at HK$2.32 each to 6 employees of the Group on 12 August 2008 and (v) 16,050,000 share options at HK$0.54 each to 8 Directors and 38 employees of the Group on 29 December 2008.

Based on a valuation report done by an independent valuer of Jones Lang LaSalle Sallmanns, the value of the options granted on 10 May 2007, 12 November 2007, 15 January 2008, 12 August 2008 and 29 December 2008 under the Post-IPO Scheme were HK$7,252,000, HK$21,812,000, HK$4,166,000, HK$4,736,000 and HK$3,499,200 respectively.

The closing prices of the Company's Shares on the preceding option granted on 9 May 2007, 9 November 2007, 14 January 2008, 11 August 2008 and 24 December 2008 under the Post-IPO Scheme were HK$2.50, HK$5.58, HK$5.18, HK$2.22 and HK$0.50 respectively.

On 4 November 2008, the refreshed scheme mandate limit of 54,890,800 Shares in respect of the granting of share options under the Post-IPO 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.

The Post-IPO Scheme including the Refreshment, was conditionally terminated by the Board on 6 May 2009. Upon the transfer of the listing of shares of the Company from the GEM to the Main Board on 5 June 2009, the termination of the Post-IPO Scheme became effective. Thereafter, no further option had been offered or granted under the Post-IPO Scheme. Pursuant to the Post- IPO Scheme, options previously granted but unexercised under the Post-IPO Scheme will remain valid and exercisable in accordance with their terms of issue, of which a total of 34,032,000 share options remain valid and outstanding as at 31 December 2009.

Report of the Directors

Share Option Schemes *(continued)*

On 5 August 2009, the adoption of the new Share Option Scheme up to 56,254,040 Shares (the "New Scheme") which complies with the Listing Rules was approved at the extraordinary general meeting duly convened and held. On 10 August 2009, 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 New Scheme. On 18 September 2009, the Directors granted 20,295,000 share options at HK$2.06 each to 82 employees of the Group under the New Scheme. Based on a valuation report done by an independent valuer of Jones Lang LaSalle Sallmanns, the value of the options granted on 18 September 2009 under the New Scheme was HK$18,701,000. The closing price of the Company's Shares on the preceding option granted on 17 September 2009 under the New Scheme was HK$1.85. Save as disclosed above, no option had been granted or agreed to be granted by the Company pursuant to the New Scheme.

Details of the movement of options under the Pre-IPO Scheme for the twelve months ended 31 December 2009 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 01.01.2009	Exercised during the period (Notes 4)	Cancelled during the period (Note 4)	Lapsed during the period (Note 4)	Balance as at 31.12.2009
Directors:								
Mr. Zhang Menggui	19.10.2005	29.11.2005 to 18.10.2015	0.2383	1,728,000	–	–	–	1,728,000
Mr. Jiang Bing Hua	19.10.2005	29.11.2005 to 18.10.2015	0.2383	1,728,000	–	–	–	1,728,000
				3,456,000	–	–	–	3,456,000
Employees and others	19.10.2005	29.11.2005 to 18.10.2015	0.2383	4,665,600	(442,800)	–	–	4,222,800
Total				8,121,600	(442,800)	–	–	7,678,800

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 becomes vested at stepped semi-annual increments of 10% of the total options originally granted subject to any adjustment due to a 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. The period refers to the twelve months ended 31 December 2009.

Report of the Directors

Share Option Schemes *(continued)*

Details of movement of options under the Post-IPO Scheme including the Refreshment for the twelve months ended 31 December 2009 were as follows:

	Name or category of participant	Date of grant (Notes 1 & 2)	Exercisable period (Notes 1, 2 & 3)	Exercise price per share HK$	Number of share options: Balance as at 01.01.2009	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 31.12.2009
(i)	Employees	10.05.2007	10.11.2007 to 09.05.2017	2.43	6,802,000	–	–	–	(200,000)	6,602,000
	Sub-total				6,802,000	–	–	–	(200,000)	6,602,000
(ii)	Employees	12.11.2007	12.05.2008 to 11.11.2017	5.60	8,850,000	–	–	–	(540,000)	8,310,000
	Consultants	12.11.2007	12.05.2008 to 11.11.2017	5.60	200,000	–	–	–	–	200,000
	Sub-total				9,050,000	–	–	–	(540,000)	8,510,000
(iii)	Employees	15.01.2008	15.07.2008 to 14.01.2018	5.23	2,000,000	–	–	–	–	2,000,000
	Sub-total				2,000,000	–	–	–	–	2,000,000
(iv)	Employees	12.08.2008	12.02.2009 to 11.08.2018	2.32	4,000,000	–	–	–	(2,300,000)	1,700,000
	Sub-total				4,000,000	–	–	–	(2,300,000)	1,700,000
(v)	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. 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	–	(30,000)	–	–	270,000
					3,950,000	–	(30,000)	–	–	3,920,000
	Employees and other	29.12.2008	29.06.2009 to 28.12.2018	0.54	12,100,000	–	(400,000)	–	(400,000)	11,300,000
	Sub-total				16,050,000	–	(430,000)	–	(400,000)	15,220,000
	Total				37,902,000	–	(430,000)	–	(3,440,000)	34,032,000

Report of the Directors

Share Option Schemes *(continued)*

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 becomes 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 2009.

Details of movement of options under the New Scheme for the twelve months ended 31 December 2009 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 01.01.2009	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 31.12.2009
Employees	18.09.2009	18.03.2010 to 17.09.2019	2.06	–	20,295,000	–	–	–	20,295,000
Total				–	20,295,000	–	–	–	20,295,000

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 becomes 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 2009.

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.

Report of the Directors

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2009, 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 Model Code for Securities Transactions by Directors of the Company, were as follows:

Long position in ordinary shares and underlying shares of the Company:

	Number of issued ordinary Shares of HK$0.10 each in the Company					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 Post-IPO 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	21.69%
Mr. Jiang Bing Hua (Note 1)	1,728,000	–	136,871,200	–	138,599,200	1,728,000	1,200,000	21.69%
Mr. Jiang Longsheng	–	–	–	–	–	–	400,000	0.06%
Mr. Brian Chang (Note 2)	–	–	108,872,800	–	108,872,800	–	–	16.68%
Mr. Chan Ngai Sang, Kenny	–	–	–	–	–	–	500,000	0.08%
Mr. Bian Junjiang	–	–	–	–	–	–	350,000	0.05%
Mr. Guan Zhichuan	30,000	–	–	–	30,000	–	270,000	0.05%

Report of the Directors

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. 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 31% 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 31% interest of the issued share capital of YRSI and he currently serves as Deputy Chairman of YRS and serves as director of certain subsidiaries of YRS. 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.

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 2009, 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 Model Code for Securities Transactions by Directors of the Company.

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 29 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.

Report of the Directors

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2009, 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	21.69%
Madam Zhang Jiuli (Note 2)	Interest of the spouse	138,599,200 Shares and 2,928,000 share options	21.69%
Global Energy Investors, LLC. (Note 3)	Corporate	136,871,200 Shares	20.97%
Windmere International Limited (Note 4)	Corporate	50,000,000 Shares	7.66%
Bright Touch Investment Limited (Note 4)	Corporate	42,800,000 Shares	6.56%
Leung Kee Holdings Limited (Note 4)	Corporate	42,800,000 Shares	6.56%
Yantai Shipyard Pte Limited (Note 4)	Corporate	42,800,000 Shares	6.56%
YRS Investments Limited (Note 4)	Corporate	42,800,000 Shares	6.56%
Yantai Raffles Shipyard Limited (Note 4)	Corporate	42,800,000 Shares	6.56%
Keywise Greater China Opportunities Master Fund (Note 5)	Corporate	33,747,000 Shares	5.17%

Report of the Directors

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
Keywise Capital Management (HK) Limited (Note 5)	Corporate	33,747,000 Shares	5.17%
China International Marine Corporate Containers (Group) Co., Ltd. (Note 6)	Corporate	92,800,000 Shares	14.22%
China International Marine Corporate Containers (Hong Kong) Ltd. (Note 6)	Corporate	50,000,000 Shares	7.66%
Sharp Vision Holdings Corporate Limited (Note 6)	Corporate	50,000,000 Shares	7.66%
DnB NOR Asset Management (Asia) Limited (Note 7)	Corporate	43,750,000 Shares	6.70%

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".

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: *(continued)*

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 approximately 31% by Mr. Brian Chang and his associates through his wholly-owned companies, Bright Touch Investment Limited, Leung Kee Holdings Limited and Yantai Shipyard Pte. Limited. Mr. Brian Chang is shown in the above section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES". Mr. Brian Chang is deemed to be interested in 42,800,000 Shares held by YRSI as he holds 31% interest of the issued share capital of YRSI and he currently serves as Deputy Chairman of YRS and serves as director of certain subsidiaries of YRS. Mr. Brian Chang is also deemed to be interested in 16,072,800 Shares and 50,000,000 Shares through 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 is deemed to be interested in the 50,000,000 Shares held by Sharp Vision under Part XV of the SFO. Besides, from the public available information and to the best of the Directors' knowledge, YRS is being, directly or indirectly, held 50.01% by CIMC Group in January 2010, therefore CIMC Group is deemed to be interested in the 92,800,000 Shares of the Company.

7. DnB NOR Asset Management (Asia) Limited ("DnB NOR HK") is an asset management company registered in Hong Kong. DnB NOR HK is ultimately owned by DnB NOR ASA, a company is incorporated in Norway and its shares are listed in the Oslo Stock Exchange.

(ii) long positions in shares of subsidiaries of the company:

Name of subsidiary	Name of substantial shareholder	Percentage of shareholding
TSC Deepwater Systems, LLC	Mr. Doug E. Wheeler	29%

Save as disclosed above, as at 31 December 2009, 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.

Report of the Directors

Related Party Transactions

Details of the related party transactions for the year are set out in note 34 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 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 2009:

Exempt Connected Transaction

(a) On 23 October 2008, a loan of HK$16 million was made to the Company by Mr. Jiang Bing Hua ("Mr. Jiang"), a Director of the Company. The purpose of the loan was to meet short term bridging financing purposes and was guaranteed by another Director, Mr. Zhang Menggui ("Mr. Zhang"). The loan was unsecured, non-interest-bearing and was due to 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 from 30 December 2008 to 1 March 2010 (the "Revised Latest Repayment Date"), with the Company having the right to repay any time 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 were unchanged.

On 3 March 2009, the Company repaid HK$10 million to Mr. Jiang and the balance of HK$6 million was fully repaid to Mr. Jiang on 13 July 2009.

(b) On 23 November 2009, Mr. Jiang made a further loan of US$3 million to the Company for short term bridging financing purpose. The loan is guaranteed by Mr. Zhang and is unsecured, interest-free and to be repaid in full on or before 22 February 2010. On 17 December 2009, Mr. Jiang was fully repaid the loan of US$3 million.

Non-Exempt Continuing Connected Transactions

In June 2008, the Group conducted the following continuing connected transactions with connected parties of the Company, namely Yantai Raffles Shipyard Limited ("YRS"). YRS owned over 80% equity interest of YRO during 2008, and YRS wholly owned YRS Investments Limited ("YRSI"). 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 in 2008. 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 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 2008.

Report of the Directors

Connected Transactions and Continuing Connected Transactions *(continued)*

Non-Exempt Continuing Connected Transactions *(continued)*

The Fabrication of BOP Handling and Transport System

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 websites of the Stock Exchange and the Company. The master agreement was approved by independent shareholders at extraordinary general meeting on 18 July 2008.

During the Year, the Group transacted a contract 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 contract cover the fabrication of BOP Handling and Transport System with a total contract value with VAT of RMB15.65 million, which is within the cap of RMB1,028 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 RMB8,533,000 for the year ended 31 December 2009.

In addition, the actual sales amount of four supply contracts with YRS signed during 2008 was approximately RMB3,077,000 for the year ended 31 December 2009 (2008: RMB3,766,000).

Report of the Directors

Connected Transactions and Continuing Connected Transactions *(continued)*

Non-Exempt Continuing Connected Transactions *(continued)*

The independent non-executive Directors, who were not interested in any of the above continuing connected transactions, have reviewed and confirmed that the above 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.

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 14A.45 of the 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 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 2009.

Auditors

KPMG will retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

Report of the Directors

Corporate Governance

A report on the principle corporate governance practices adopted by the Company is set out on pages 54 to 59 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, 22 April 2010

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 14 of the Listing Rules under the periodical review.

Despite the removal of the requirement for a qualified accountant in the 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 Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required 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 decisions in relation to the overall strategic development of the Group's business. Responsibilities 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

Board of Directors *(continued)*

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 two executive Directors, namely Mr. Jiang Bing Hua and Mr. Zhang Menggui; two non-executive Directors, namely Mr. Jiang Longsheng and Mr. Brian Chang; and four independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny, Mr. Bian Junjiang, Mr. Guan Zhichuan and Mr. Robert William Fogal Jr. As over 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. Under the Articles, the Board may from time to time appoint a director either to fill a casual vacancy or as an addition to the Board. Any such new director shall hold office until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board) and shall then be eligible for re-election at the same general meeting.

All Directors (including non-executive Directors) have entered into a service contract with the Company for a term of three years, are subject to retirement by rotation once every three years, are subject to re-election in accordance with the Articles, unless and until terminated by not less than three months' prior notice in writing served by either party on the other. During the Year, Mr. Brian Chang and Mr. Robert William Fogal Jr were recommended by the Company's nomination committee to be appointed as non-executive Director and independent non-executive Director of the Company respectively on 10 July 2009. Both Mr. Brian Chang and Mr. Robert William Fogal Jr have entered into a letter of appointment with the Company for a term of three years commencing from 10 July 2009 subject to the retirement by rotation and re-election in accordance with the Articles, unless and until terminated by not less than 3 months' prior notice in writing served by either party on the other. Pursuant to Article 86, Mr. Brian Chang and Mr. Robert William Fogal Jr., and pursuant to Article 87, Mr. Chan Ngai Sang, Kenny and Mr. Bian Junjiang will retire, and being eligible for election, offer themselves for re-election at the forthcoming annual general meeting to be held on 2 June 2010.

Members of the Board held a total of eleven 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) transfer of listing from GEM to main board of the Stock Exchange, (iv) appointment of directors; (v) grant of share option; and (vi) placing of existing shares and subscription of new shares.

Corporate Governance Report

Board of Directors *(continued)*

The Directors have complied with the Code for the convening of Board meeting which should be held at least four times a year at approximately quarterly intervals, to review the financial performance, results of each period, material investments and other matters of the Group that require resolutions of the Board. Simultaneous conference calls 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	Nomination Committee
Executive Directors				
Mr. Jiang Bing Hua	11/11		3/3	1/1
Mr. Zhang Menggui	11/11		3/3	1/1
Non-executive Directors				
Mr. Jiang Longsheng	9/11			
Mr. Brian Chang*	4/4			
Independent non-executive Directors				
Mr. Chan Ngai Sang, Kenny	7/11	3/3	2/3	0/1
Mr. Bian Junjiang	8/11	1/3	3/3	1/1
Mr. Guan Zhichuan	10/11	3/3	3/3	1/1
Mr. Robert William Fogal Jr.*	3/4			

* *Appointed as a Director of the Company on 10 July 2009*

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.

Remuneration Committee *(continued)*

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 2008/2009 and the remuneration of executive Directors, non-executive Directors 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 Committee

The nomination committee was established on 5 June 2009. A majority of its current members are independent non-executive Directors. Currently, the members of the committee are Mr. Jiang Bing Hua (being the Chairman), Mr. Zhang Menggui, Mr. Chan Ngai Sang, Kenny, Mr. Bian Junjiang and Mr. Guan Zhichuan.

Prior to the establishment of the nomination committee, the executive chairman and chief executive officer were 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 would propose the appointment of such candidates to the Board for consideration and the members of the Board would 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 might be approved by majority of the members of the Board.

During the Year, one meeting of the nomination committee was held and the nomination committee of the Company approved the appointment of Mr. Brian Chang and Mr. Robert William Fogal Jr. as Directors of the Company, the Chairman of the nomination committee then reported and provided recommendations to the Board after the meeting.

The remit of the nomination committee is to identify candidates for appointment to the Board and to review the structure, size and composition of the Board. Before an appointment is made, the nomination committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment. If deemed appropriate, external consultants may be used to identify suitable candidates.

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 pages 60 to 61 of this annual report.

Corporate Governance 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$611,000 (2008: US$624,000) 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, the 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 3.10(2) of the Listing Rules. The Company considers these Directors to be independent under the guidelines set out in Rule 3.13 of the 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 three 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 2009, has been reviewed by the audit committee.

Corporate Governance Report

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 established an internal audit function for conducting internal auditing, reviewing the current internal control system and implementing measures to strengthen the implementation of the system. The responsibility for maintaining the Group's internal controls are divided between the Board and management. These internal controls are intended to safeguard the shareholders' investments and the Group's assets. The Company will continue to make efforts in improving its internal control system.

Shareholder Rights and Investor Relations

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Articles. Pursuant to Rule 13.39(4) of the Listing Rules effective from 1 January 2009, all votes of shareholders have been taken by poll in all 2009 general meetings of the Company. Representatives of the share registrar of the Company were appointed as scrutineers to monitor and count the poll votes cast at each general meeting. The Chairman of the meeting explained the detailed procedures for conducting a poll, and then answered questions from shareholders. The results of poll was published 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. Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors. 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.

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 62 to 135, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, 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 2009 and of the Group's loss 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

22 April 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Note	2009 US$'000	2008 US$'000
Turnover	3 & 11	**112,842**	160,113
Cost of sales		**(91,578)**	(116,470)
Gross profit		**21,264**	43,643
Other revenue	4	**1,194**	881
Selling and distribution expenses		**(4,884)**	(5,172)
General and administrative expenses		**(22,910)**	(20,122)
Other operating expenses		**(9,051)**	(4,587)
(Loss)/profit from operations		**(14,387)**	14,643
Finance costs	5(a)	**(1,338)**	(500)
Share of results of associates		**1,399**	(2,063)
(Loss)/profit before taxation	5	**(14,326)**	12,080
Income tax credit/(expense)	6(a)	**4,088**	(1,753)
(Loss)/profit for the year		**(10,238)**	10,327
Attributable to:			
Equity holders of the Company	9	**(10,238)**	10,336
Minority interests		**–**	(9)
(Loss)/profit for the year		**(10,238)**	10,327
(Loss)/earnings per share	10		
Basic		**US(1.81) cents**	US2.23 cents
Diluted		**US(1.76) cents**	US2.19 cents

The notes on pages 70 to 135 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009 US$'000	2008 US$'000
(Loss)/profit for the year	**(10,238)**	10,327
Other comprehensive income for the year:		
Exchange differences on translation of financial statements of subsidiaries and associates	**4,621**	(11,752)
Total comprehensive income for the year	**(5,617)**	(1,425)
Attributable to:		
Equity holders of the Company	**(5,617)**	(1,416)
Minority interests	**–**	(9)
Total comprehensive income for the year	**(5,617)**	(1,425)

The notes on pages 70 to 135 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2009

	Note	2009 US$'000	2008 US$'000
Non-current assets			
Property, plant and equipment	12(a)	**23,552**	16,624
Property under development	13	**–**	4,282
Interest in leasehold land held for own use under operating leases	14	**3,132**	3,279
Goodwill	15	**24,290**	22,253
Other intangible assets	16	**16,449**	17,770
Interest in associates	18	**9,810**	9,141
Deferred tax assets	25(b)	**14,649**	7,483
		91,882	80,832
Current assets			
Inventories	19	**26,613**	31,318
Trade and other receivables	20	**64,461**	67,363
Amount due from a related company	22	**101**	85
Tax recoverable	25(a)	**–**	72
Pledged bank deposits		**2,317**	924
Cash at bank and in hand		**38,519**	16,156
		132,011	115,918
Current liabilities			
Trade and other payables	23	**48,404**	59,946
Bank loans	24	**22,776**	7,811
Current taxation	25(a)	**3,213**	1,136
Provisions	26	**2,343**	2,555
		76,736	71,448
Net current assets		**55,275**	44,470
Total assets less current liabilities		**147,157**	125,302

Consolidated Balance Sheet

At 31 December 2009

	Note	**2009 US$'000**	2008 US$'000
Non-current liabilities			
Bank loans	24	**2,661**	2,744
Loan from a director	27	**–**	2,056
Deferred tax liabilities	25(b)	**4,453**	4,948
		7,114	9,748
NET ASSETS		**140,043**	115,554
CAPITAL AND RESERVES			
Share capital	30(b)	**8,393**	7,225
Reserves		**131,650**	108,329
Total equity attributable to equity holders of the Company		**140,043**	115,554
Minority interests		**–**	–
TOTAL EQUITY		**140,043**	115,554

Approved and authorised for issue by the board of directors on 22 April 2010

Jiang Bing Hua
Director

Zhang Menggui
Director

The notes on pages 70 to 135 form part of these financial statements.

Balance Sheet

At 31 December 2009

	Note	2009 US$'000	2008 US$'000
Non-current assets			
Property, plant and equipment	12(b)	**43**	36
Interest in subsidiaries	17	**107,212**	99,690
		107,255	99,726
Current assets			
Other receivables, prepayments and deposits	20	**38**	81
Dividends receivable		**–**	2,309
Cash at bank and in hand		**25,575**	454
		25,613	2,844
Current liabilities			
Other payables and accrued charges	23	**368**	641
Amounts due to subsidiaries	17	**26**	10
		394	651
Net current assets		**25,219**	2,193
Total assets less current liabilities		**132,474**	101,919
Non-current liability			
Loan from a director	27	**–**	2,056
NET ASSETS		**132,474**	99,863
CAPITAL AND RESERVES	30(a)		
Share capital		**8,393**	7,225
Reserves		**124,081**	92,638
TOTAL EQUITY		**132,474**	99,863

Approved and authorised for issue by the board of directors on 22 April 2010

Jiang Bing Hua
Director

Zhang Menggui
Director

The notes on pages 70 to 135 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to equity holders of the Company											
	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
Balance at 1 January 2008	5,041	52,912	2,161	1,473	597	512	–	1,640	11,687	76,023	–	76,023
Changes in equity for 2008:												
Issues of ordinary shares	2,121	36,517	–	–	–	–	–	–	–	38,638	–	38,638
Share issue expenses	–	(720)	–	–	–	–	–	–	–	(720)	–	(720)
Acquisition of subsidiaries	–	–	–	–	–	–	627	–	–	627	–	627
Shares issued under share option schemes	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
Total comprehensive income for the year	–	–	–	(11,752)	–	–	–	–	10,336	(1,416)	(9)	(1,425)
Transferred to reserve funds	–	–	–	–	–	–	–	216	(216)	–	–	–
Balance at 31 December 2008 and 1 January 2009	**7,225**	**89,087**	**2,161**	**(10,279)**	**2,558**	**512**	**627**	**1,856**	**21,807**	**115,554**	**–**	**115,554**
Changes in equity for 2009:												
Issues of ordinary shares	**1,157**	**28,111**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**29,268**	**–**	**29,268**
Share issue expenses	**–**	**(743)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(743)**	**–**	**(743)**
Shares issued under share option schemes (note 30(b)(iii))	**11**	**60**	**–**	**–**	**(27)**	**–**	**–**	**–**	**–**	**44**	**–**	**44**
Equity-settled share-based transactions	**–**	**–**	**–**	**–**	**1,537**	**–**	**–**	**–**	**–**	**1,537**	**–**	**1,537**
Total comprehensive income for the year	**–**	**–**	**–**	**4,621**	**–**	**–**	**–**	**–**	**(10,238)**	**(5,617)**	**–**	**(5,617)**
Transferred to reserve funds	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**450**	**(450)**	**–**	**–**	**–**
Balance at 31 December 2009	**8,393**	**116,515**	**2,161**	**(5,658)**	**4,068**	**512**	**627**	**2,306**	**11,119**	**140,043**	**–**	**140,043**

The notes on pages 70 to 135 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 US$'000	2008 US$'000
Operating activities			
(Loss)/profit before taxation		**(14,326)**	12,080
Adjustments for:			
– Depreciation	5(c)	**2,081**	1,289
– Impairment losses on doubtful debts	5(c)	**4,764**	2,075
– Amortisation of interest in leasehold land held for own use under operating leases	5(c)	**155**	45
– Amortisation of intangible assets	5(c)	**2,792**	2,298
– Finance costs	5(a)	**1,338**	500
– Interest income	4	**(94)**	(388)
– Share of results of associates		**(1,399)**	2,063
– Loss on disposal of property, plant and equipment and intangible assets	5(c)	**8**	8
– Equity-settled share-based payment expenses	5(b)	**1,537**	2,174
– Foreign exchange gain		**(2,170)**	(2,115)
Operating (loss)/profit before changes in working capital		**(5,314)**	20,029
Decrease/(increase) in inventories		**5,959**	(1,702)
Decrease/(increase) in trade and other receivables		**1,213**	(12,366)
Decrease in amounts due from directors		**–**	38
Increase in amount due from a related company		**(16)**	(6)
Decrease in trade and other payables		**(13,707)**	(30,832)
Decrease in amount due to a related company		**–**	(2)
Decrease in provisions		**(212)**	(6,686)
Cash used in operations		**(12,077)**	(31,527)
People's Republic of China ("PRC") enterprise income tax and overseas tax paid		**(958)**	(1,217)
Net cash used in operating activities		**(13,035)**	(32,744)

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 US$'000	2008 US$'000
Investing activities			
Payment for purchase of property, plant and equipment		**(3,764)**	(3,614)
Payment for purchase of interest in leasehold land held for own use under operating leases		**–**	(1,995)
Construction expenditure on property under development		**(969)**	(6,011)
Interest received		**94**	388
Proceeds from sale of other financial assets		**–**	676
Dividend received from associates		**732**	62
(Increase)/decrease in pledged bank deposits		**(1,393)**	143
Payment for purchase of intangible assets		**(28)**	(201)
Payment for purchase of subsidiaries, net of cash acquired		**–**	(14,614)
Proceeds from sale of property, plant and equipment		**113**	195
Net cash used in investing activities		**(5,215)**	(24,971)
Financing activities			
Proceeds from issue of share capital		**28,525**	36,735
Proceeds from shares issued under share option scheme		**44**	228
Capital contribution received by non-wholly owned subsidiary from minority shareholder		**–**	9
Interest paid		**(1,338)**	(600)
Proceeds from new bank loans		**23,524**	10,737
Repayment of bank loans		**(8,665)**	(20,875)
(Repayment of)/proceeds from loan from a director		**(2,056)**	2,056
Net cash generated from financing activities		**40,034**	28,290
Net increase/(decrease) in cash and cash equivalents		**21,784**	(29,425)
Cash and cash equivalents at 1 January		**16,156**	44,334
Effect of foreign exchange rate changes		**579**	1,247
Cash and cash equivalents at 31 December		**38,519**	16,156

Major non-cash transaction

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.

The notes on pages 70 to 135 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2009

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 Stock Exchange of Hong Kong Limited ("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 2009 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.

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 significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 36.

Notes to the Financial Statements

For the year ended 31 December 2009

1 Significant accounting policies *(continued)*

(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 holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the equity holders of the Company.

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(n) or (o) 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(j)), unless the investment is classified as held for sale.

Notes to the Financial Statements

For the year ended 31 December 2009

1 Significant accounting policies *(continued)*

(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, unless it is classified as held for sale. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(e) and 1(j)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When 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 investee. For this purpose, the Group's interest 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 investee, 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, an investment in an associate is stated at cost less impairment losses (see note 1(j)), unless the investment is classified as held for sale.

(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 arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(j)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note 1(j)).

Notes to the Financial Statements

For the year ended 31 December 2009

1 Significant accounting policies *(continued)*

(e) Goodwill *(continued)*

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) 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(j)):

– 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(i)); 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(v)).

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.

Notes to the Financial Statements

For the year ended 31 December 2009

1 Significant accounting policies *(continued)*

(g) Property under development

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

(h) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(v)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(j)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other 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(j)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

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.

(i) 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.

Notes to the Financial Statements

For the year ended 31 December 2009

1 Significant accounting policies *(continued)*

(i) Leased assets *(continued)*

(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.

(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.

(j) Impairment of assets

(i) Impairment of investments in associates and receivables

Investments in associates 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.

Notes to the Financial Statements

For the year ended 31 December 2009

1 Significant accounting policies *(continued)*

(j) Impairment of assets *(continued)*

(i) Impairment of investments in associates and receivables *(continued)*

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

– For investments in associates recognised using the equity method (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1 (j)(ii). The impairment loss is reversed it there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(j)(ii).

– For trade and other current receivables and other financial assets 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.

Notes to the Financial Statements

For the year ended 31 December 2009

1 Significant accounting policies *(continued)*

(j) 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
– 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 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. 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 if 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.

Notes to the Financial Statements

For the year ended 31 December 2009

1 Significant accounting policies *(continued)*

(j) 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 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(j)(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.

(k) 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 2009

1 Significant accounting policies *(continued)*

(l) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 1(t)(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".

(m) 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(j)), 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.

(n) 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.

(o) 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(s)(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.

Notes to the Financial Statements

For the year ended 31 December 2009

1 Significant accounting policies *(continued)*

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on 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.

(q) 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 resulting 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).

(r) 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 in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Notes to the Financial Statements

For the year ended 31 December 2009

1 Significant accounting policies *(continued)*

(r) Income tax *(continued)*

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2009

1 Significant accounting policies *(continued)*

(r) Income tax *(continued)*

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.

(s) 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(s)(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.

Notes to the Financial Statements

For the year ended 31 December 2009

1 Significant accounting policies *(continued)*

(s) 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.

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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) Engineering services fee income

Engineering 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.

Notes to the Financial Statements

For the year ended 31 December 2009

1 Significant accounting policies *(continued)*

(u) 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.

The results of the group entities with functional currency other than United States dollars are translated into United States dollars at the exchange rates approximating the foreign exchange rates 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 closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(v) Borrowing costs

Borrowing costs that are 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 are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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 in suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Notes to the Financial Statements

For the year ended 31 December 2009

1 Significant accounting policies *(continued)*

(w) 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.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Notes to the Financial Statements

For the year ended 31 December 2009

2 Changes in accounting policies

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

– HKFRS 8, *Operating segments*
– HKAS 1 (revised 2007), *Presentation of financial statements*
– Amendments to HKFRS 7, *Financial instruments: Disclosures – improving disclosures about financial instruments*
– Improvements to HKFRSs (2008)
– Amendments to HKAS 27, *Consolidated and separate financial statement – cost of an investment in a subsidiary, jointly controlled entity or associate*
– HKAS 23 (revised 2007), *Borrowing costs*
– Amendments to HKFRS 2, *Share-based payment – vesting conditions and cancellations*
– HK(IFRIC) 15, *Agreements for the construction of real estate*
– HK(IFRIC) 16, *Hedges of a net investment in a foreign operation*

The improvements to HKFRSs (2008), amendments to HKAS 27, HKAS 23, HKFRS 7 and HKFRS 2 and Interpretations HK(IFRIC) 15 and HK(IFRIC) 16 have had no material impact on the Group's financial statements as the improvements, amendments and interpretations were consistent with policies already adopted by the Group or were not relevant to the Group's and the Company's operation. The impact of the remainder of these developments is as follows:

– HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management. Corresponding amounts have been provided on a basis consistent with the revised segment information.

– As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity holders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

Notes to the Financial Statements

For the year ended 31 December 2009

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 engineering services.

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

	2009 US$'000	2008 US$'000
Rig products and technology		
– Sales of rig electrical control system	**12,386**	16,250
– Sales of other rig equipment	**6,559**	10,785
– Construction contracts revenue	**62,795**	68,490
	81,740	95,525
Rig turnkey solutions		
– Construction contracts revenue	**14,334**	46,488
Oilfield expendables and supplies		
– Sales of expendables and supplies	**11,539**	17,276
Engineering services		
– Service fee income	**5,229**	824
	112,842	160,113

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenues. In 2009 revenues from sales of rig products and technology and revenues from rig turnkey solutions construction contracts to this customer, including sales to entities which are known to the Group to be under common control with this customer, amounted to approximately US$27 million (2008: US$52 million). Details of concentrations of credit risk arising from this customer are set out in 31(a).

Further details regarding the Group's principal activities are disclosed in note 11 to these financial statements.

4 Other revenue

	2009 US$'000	2008 US$'000
Gain on sales of accessories	**894**	460
Interest income	**94**	388
Others	**206**	33
	1,194	881

Notes to the Financial Statements

For the year ended 31 December 2009

5 (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging:

		2009 US$'000	2008 US$'000
(a)	Finance costs:		
	Interest on bank loans wholly repayable within five years	**1,155**	412
	Interest on other bank loan	**183**	188
	Less: borrowing costs capitalised into property under development*	**–**	(100)
		1,338	500

* Borrowing costs were capitalised at rates of 6.93%–8.22% per annum

		2009 US$'000	2008 US$'000
(b)	Staff costs:#		
	Contributions to defined contribution retirement plans	**1,242**	1,000
	Equity-settled share-based payment expenses (note 29)	**1,537**	2,174
	Salaries, wages and other benefits	**18,673**	18,268
		21,452	21,442
(c)	Other items:		
	Amortisation of interest in leasehold land held for own use under operating leases#	**155**	45
	Amortisation of intangible assets	**2,792**	2,298
	Depreciation#	**2,081**	1,289
	Impairment losses on doubtful debts	**4,764**	2,075
	Research and development costs	**1,121**	728
	Net foreign exchange loss	**1,301**	77
	Loss on disposal of property, plant and equipment and intangible assets	**8**	8
	Auditors' remuneration	**611**	624
	Minimum lease payments under operating leases in respect of land and buildings	**1,580**	912
	Cost of inventories# (note 19(b))	**91,578**	116,470

\# Cost of inventories includes US$8,780,000 (2008: US$9,778,000) 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.

Cost of inventories includes US$3,052,000 (2008: US$799,000) relating to write down of inventories as disclosed in note 19(b).

Notes to the Financial Statements

For the year ended 31 December 2009

6 Income tax in the consolidated income statement

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

	2009 US$'000	2008 US$'000
Current tax		
Provision for the year		
– PRC enterprise income tax	**1,297**	1,138
– United States corporation income tax	**1,454**	662
– Other corporation income tax	**322**	–
	3,073	1,800
(Over)/under-provision in respect of prior years		
– PRC enterprise income tax	**(94)**	(4)
– United States corporation income tax	**128**	31
	34	27
	3,107	1,827
Deferred tax		
Origination and reversal of temporary differences (note 25(b))	**(7,195)**	(74)
	(4,088)	1,753

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 the United States and other jurisdictions is charged at the appropriate current rates of taxation ruling in the United States and the relevant jurisdictions respectively. During the year, certain PRC subsidiaries are subject to tax at reduced rates of 12.5% to 15% (2008: 15% or fully exempted from income tax) under the relevant PRC tax rules and regulations.

Notes to the Financial Statements

For the year ended 31 December 2009

6 Income tax in the consolidated income statement *(continued)*

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

	2009 **US$'000**	2008 US$'000
(Loss)/profit before taxation	**(14,326)**	12,080
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to (losses)/profits in the jurisdictions concerned	**(3,854)**	3,782
Tax effect of non-deductible expenses	**1,448**	1,919
Tax effect of non-taxable income	**(522)**	(589)
Tax effect of profits entitled to tax reductions/exemptions in the PRC	**(1,247)**	(3,279)
Under-provision in prior years	**34**	27
Others	**53**	(107)
Actual tax (credit)/expense	**(4,088)**	1,753

Notes to the Financial Statements

For the year ended 31 December 2009

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	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	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	**–**	–	**241**	294	**12**	18	**253**	312	**53**	38	**306**	350
Mr Jiang Bing Hua	**–**	–	**241**	284	**12**	18	**253**	302	**53**	38	**306**	340
Mr Chen Yunqiang (resigned on 10 July 2009)	**–**	–	**56**	160	**2**	4	**58**	164	**17**	25	**75**	189
Mr Zhang Hongru (resigned on 10 July 2009)	**–**	–	**262**	223	**1**	2	**263**	225	**16**	23	**279**	248
Independent non-executive directors:												
Mr Bian Junjiang	**15**	15	**–**	–	**–**	–	**15**	15	**4**	–	**19**	15
Mr Chan Ngai Sang, Kenny	**19**	19	**–**	–	**–**	–	**19**	19	**6**	–	**25**	19
Mr Guan Zhichuan	**15**	15	**–**	–	**–**	–	**15**	15	**4**	–	**19**	15
Mr Robert William Fogal Jr. (appointed on 10 July 2009)	**7**	–	**–**	–	**–**	–	**7**	–	**–**	–	**7**	–
Non-executive directors:												
Mr Jiang Longsheng	**15**	15	**–**	–	**–**	–	**15**	15	**5**	–	**20**	15
Mr Brian Chang (appointed on 10 July 2009)	**7**	–	**–**	–	**–**	–	**7**	–	**–**	–	**7**	–
	78	64	**800**	961	**27**	42	**905**	1,067	**158**	124	**1,063**	1,191

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(q)(ii). The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share Option Scheme" in the report of the directors and note 29.

Notes to the Financial Statements

For the year ended 31 December 2009

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2008: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2008: two) individuals are as follows:

	2009 US$'000	2008 US$'000
Salaries and other emoluments	**403**	431
Share-based payment	**73**	64
Retirement scheme contributions	**29**	30
	505	525

The emoluments of the two (2008: two) individuals with the highest emoluments are within the following bands:

	2009 Number of individuals	2008 Number of individuals
HK$1,500,001–HK$2,000,000	**1**	1
HK$2,000,001–HK$2,500,000	**1**	1

9 (Loss)/profit attributable to equity holders of the Company

The consolidated (loss)/profit attributable to equity holders of the Company includes a loss of US$2,570,000 (2008: US$3,363,000) which has been dealt with in the financial statements of the Company.

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

	2009 US$'000	2008 US$'000
Amount of consolidated loss attributable to equity holders dealt with in the Company's financial statements	**(2,570)**	(3,363)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**5,075**	–
Company's profit/(loss) for the year (note 30(a))	**2,505**	(3,363)

Notes to the Financial Statements

For the year ended 31 December 2009

10 (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity holders of the Company of US$10,238,000 (2008: profit attributable to ordinary equity holders of the Company of US$10,336,000) and the weighted average number of 565,867,000 (2008: 463,319,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2009 **'000**	2008 '000
Issued ordinary shares at 1 January	**561,738**	391,805
Effect of ordinary shares issued	**3,699**	69,385
Effect of share options exercised (note 30(b)(iii))	**430**	2,129
Weighted average number of ordinary shares	**565,867**	463,319

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the loss attributable to ordinary equity holders of the Company of US$10,238,000 (2008: profit attributable to ordinary equity holders of the Company of US$10,336,000) and the weighted average number of 580,725,000 (2008: 471,948,000) ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2009 **'000**	2008 '000
Weighted average number of ordinary shares	**565,867**	463,319
Effect of deemed issue of shares under the Company's share option schemes (note 29)	**14,858**	8,629
Weighted average number of ordinary shares (diluted)	**580,725**	471,948

Notes to the Financial Statements

For the year ended 31 December 2009

11 Segment reporting

The Group manages its business by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following four reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, goodwill, intangible assets and current assets with the exception of interest in associates, cash balances, tax balances and other unallocated head office and corporate assets. Segment liabilities include trade and other payables and provisions attributable to the activities of the individual segment, with the exception of loans, tax balances and other unallocated head office and corporate liabilities.

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

The measure used for reporting segment profit is "segment results" i.e. "adjusted earnings before finance costs and taxes" of individual segment. To arrive at segment results, the Group's earnings are further adjusted for share of results of associates and items not specifically attributed to individual segment, such as directors' and auditors' remuneration and other head office or corporate income and expenses.

In addition to receiving segment information concerning segment results, management is provided with segment information concerning revenue (including inter-segment revenue), interest expense from borrowings managed directly by the segments, depreciation and amortisation and additions to non-current segment assets used by the segments in their operations.

Notes to the Financial Statements

For the year ended 31 December 2009

11 Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2009 and 2008 is set out below.

	Rig products and technology		Rig turnkey solutions		Oilfield expendables and supplies		Engineering services		Total	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Revenue from external customers	81,740	95,525	14,334	46,488	11,539	17,276	5,229	824	112,842	160,113
Inter-segment revenue	424	27	–	–	3,187	6,878	–	–	3,611	6,905
Reportable segment revenue	82,164	95,552	14,334	46,488	14,726	24,154	5,229	824	116,453	167,018
Reportable segment results	(14,233)	5,598	3,545	12,184	386	896	1,028	482	(9,274)	19,160
Depreciation and amortisation for the year	4,516	3,135	–	–	489	454	–	22	5,005	3,611
Reportable segment assets	134,864	137,232	7,669	12,587	15,355	12,899	331	46	158,219	162,764
Additions to non-current segment assets during the year	4,638	11,589	–	–	87	175	–	57	4,725	11,821
Reportable segment liabilities	(30,017)	(44,543)	(15,036)	(13,093)	(5,175)	(4,065)	(121)	(93)	(50,349)	(61,794)

Notes to the Financial Statements

For the year ended 31 December 2009

11 Segment reporting *(continued)*

(b) Reconciliation of reportable segment revenue, loss or profit, assets and liabilities

	2009 US$'000	2008 *US$'000*
Revenue		
Reportable segment revenue	116,453	167,018
Elimination of inter-segment revenue	(3,611)	(6,905)
Consolidated turnover	112,842	160,113
(Loss)/profit		
Segment results	(9,274)	19,160
Share of results of associates	1,399	(2,063)
Finance costs	(1,338)	(500)
Unallocated head office and corporate income and expenses	(5,113)	(4,517)
Consolidated (loss)/profit before taxation	(14,326)	12,080
Assets		
Reportable segment assets	158,219	162,764
Interest in associates	9,810	9,141
Pledged bank deposits	2,317	924
Cash at bank and in hand	38,519	16,156
Deferred tax assets	14,649	7,483
Tax recoverable	–	72
Unallocated head office and corporate assets	379	210
Consolidated total assets	223,893	196,750
Liabilities		
Reportable segment liabilities	(50,349)	(61,794)
Bank loans	(25,437)	(10,555)
Loan from a director	–	(2,056)
Current taxation	(3,213)	(1,136)
Deferred tax liabilities	(4,453)	(4,948)
Unallocated head office and corporate liabilities	(398)	(707)
Consolidated total liabilities	(83,850)	(81,196)

Notes to the Financial Statements

For the year ended 31 December 2009

11 Segment reporting *(continued)*

(c) Geographic information

The following table sets out information about the geographical locations of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, property under development, interest in leasehold land held for own use under operating lease, goodwill, other intangible assets and interest in associates ("specified non-current assets"). The geographical location of customers is based on the location of the customers. The geographical location of the specified non-current assets is based on the physical location of the assets, in the case of property, plant and equipment, property under development, interest in leasehold land held for own use under operating leases and the location of the operations to which they are allocated, in the case intangible assets and goodwill, and the location of operations, in the case of interest in associates.

	Revenue from external customers		Specified non-current assets	
	2009	2008	**2009**	2008
	US$'000	*US$'000*	**US$'000**	*US$'000*
Hong Kong	**–**	–	**50**	39
Mainland China	**46,549**	56,507	**28,028**	26,017
North America	**28,158**	36,635	**13,622**	13,054
South America	**7,811**	14,055	**42**	60
Europe	**11,599**	11,118	**35,230**	34,146
Singapore	**12,255**	36,838	**239**	33
Others (Other part of Asia, India, Russia etc.)	**6,470**	4,960	**22**	–
	112,842	160,113	**77,233**	73,349

Notes to the Financial Statements

For the year ended 31 December 2009

12 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 2008	2,570	827	2,520	124	922	6,963
Exchange adjustments	313	(11)	323	(116)	31	540
Additions						
– through acquisition of subsidiaries	3,925	147	782	221	233	5,308
– others	159	700	2,237	18	500	3,614
Transfer from property under development	2,933	–	–	–	–	2,933
Disposals	–	(154)	–	–	(150)	(304)
At 31 December 2008	9,900	1,509	5,862	247	1,536	19,054
At 1 January 2009	9,900	1,509	5,862	247	1,536	19,054
Exchange adjustments	10	26	3	(5)	48	82
Additions	112	391	3,100	48	113	3,764
Transfer from property under development (note 13)	5,259	–	–	–	–	5,259
Disposals	–	(53)	(59)	(31)	(168)	(311)
At 31 December 2009	**15,281**	**1,873**	**8,906**	**259**	**1,529**	**27,848**
Accumulated depreciation:						
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
At 1 January 2009	194	440	1,115	160	521	2,430
Exchange adjustments	2	4	(24)	(11)	6	(23)
Charge for the year	518	358	853	43	309	2,081
Written back on disposal	–	(41)	(9)	(28)	(114)	(192)
At 31 December 2009	**714**	**761**	**1,935**	**164**	**722**	**4,296**
Net book value:						
At 31 December 2009	**14,567**	**1,112**	**6,971**	**95**	**807**	**23,552**
At 31 December 2008	9,706	1,069	4,747	87	1,015	16,624

Notes to the Financial Statements

For the year ended 31 December 2009

12 Property, plant and equipment *(continued)*

(b) The Company

	Office equipment, furniture and fixtures US$'000
Cost:	
At 1 January 2008	–
Additions	54
At 31 December 2008	54
At 1 January 2009	54
Additions	28
At 31 December 2009	**82**
Accumulated depreciation:	
At 1 January 2008	–
Charge for the year	18
At 31 December 2008	18
At 1 January 2009	18
Charge for the year	21
At 31 December 2009	**39**
Net book value:	
At 31 December 2009	**43**
At 31 December 2008	36

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

	The Group	
	2009 US$'000	2008 US$'000
Outside Hong Kong		
– long leases	**3,711**	3,858
– medium-term leases	**10,856**	5,848
	14,567	9,706

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For the year ended 31 December 2009

13 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 2009, completed property of US$5,259,000 (2008: US$2,933,000) has been transferred to property, plant and equipment (note 12).

14 Interest in leasehold land held for own use under operating leases

	The Group	
	2009	2008
	US$'000	US$'000
Cost:		
At 1 January	**3,380**	1,256
Exchange adjustments	**8**	129
Additions	**–**	1,995
At 31 December	**3,388**	3,380
Accumulated amortisation:		
At 1 January	**101**	54
Exchange adjustments	**–**	2
Charge for the year	**155**	45
At 31 December	**256**	101
Net book value:		
At 31 December	**3,132**	3,279

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

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For the year ended 31 December 2009

15 Goodwill

	The Group	
	2009	2008
	US$'000	US$'000
Cost		
At 1 January	**22,253**	2,272
Exchange adjustments	**2,037**	(7,156)
Additions through acquisition of subsidiaries	**–**	27,137
At 31 December	**24,290**	22,253

Impairment test for cash-generating units containing goodwill

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

	2009	2008
	US$'000	US$'000
Rig products and technology	**24,290**	22,253

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 used 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:

	2009	2008
– Gross margin	**23%–35%**	21.6%–35%
– Growth rate	**2%**	3%
– Discount rate	**12%–15%**	15%–18.3%

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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For the year ended 31 December 2009

16 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 2008	1,220	–	–	1,705	127	3,052
Exchange adjustments	(1,582)	(3,844)	(390)	136	(30)	(5,710)
Additions:						
– Through acquisition of subsidiaries	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
At 1 January 2009	6,306	10,361	1,114	1,841	332	19,954
Exchange adjustments	462	1,046	106	5	16	1,635
Additions	–	–	–	–	28	28
Disposal	–	–	–	–	(2)	(2)
At 31 December 2009	**6,768**	**11,407**	**1,220**	**1,846**	**374**	**21,615**
Accumulated amortisation:						
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
At 1 January 2009	613	690	390	453	38	2,184
Exchange adjustments	44	89	50	2	5	190
Charge for the year	729	1,022	600	340	101	2,792
At 31 December 2009	**1,386**	**1,801**	**1,040**	**795**	**144**	**5,166**
Net book value:						
At 31 December 2009	**5,382**	**9,606**	**180**	**1,051**	**230**	**16,449**
At 31 December 2008	5,693	9,671	724	1,388	294	17,770

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

Notes to the Financial Statements

For the year ended 31 December 2009

17 Interest in subsidiaries

	The Company	
	2009	2008
	US$'000	US$'000
Unlisted shares/capital contributions, at cost	**26,245**	26,245
Amounts due from subsidiaries	**80,967**	73,445
	107,212	99,690
Amounts due to subsidiaries	**(26)**	(10)
	107,186	99,680

Amounts due from subsidiaries are unsecured, interest-free and not expected to be recovered within one year, except for an amount of US$5,350,000 (2008: US$5,350,000) 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.

			Proportion of ownership interest			
Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	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
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
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

Notes to the Financial Statements

For the year ended 31 December 2009

17 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 Manufacturing and Supply, LLC. ("TSCMS")	USA	1,612,000 shares of US$1 each	100%	–	100%	Trading of rig equipment and oilfield expendables and supplies and provision of rig turnkey solutions
Qingdao TSC Offshore Equipment Co., Ltd. ("TSCOE")# (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. ("ZZHL")# (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.#* (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")	United Kingdom	73,074,952 shares of GBP0.025 each	100%	100%	–	Investment holding

Notes to the Financial Statements

For the year ended 31 December 2009

17 Interest in subsidiaries *(continued)*

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

Notes to the Financial Statements

For the year ended 31 December 2009

17 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 Offshore Limiteda	Brazil	BRL600,000	100%	–	100%	Provision of engineering services
Patriot Crane, LLC.	USA	US$1	100%	–	100%	Design and manufacture of offshore deck cranes
TSC Winches Limited	United Kingdom	GBP1	100%	–	100%	Design and manufacture of mechanical handling equipment
TSC Deep Water Systems, LLC.	USA	US$30,000	71%	–	71%	Trading of tensioning equipment
8655 Golden Spike, LLC. (“Golden Spike”)	USA	US$1,039,500	100%	–	100%	Property holding

Registered under the laws of the PRC as foreign investment enterprises

* Unofficial English translation

18 Interest in associates

	The Group 2009 US$'000	2008 US$'000
Share of net assets	**9,810**	9,141

Notes to the Financial Statements

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18 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.	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 English translation

Summary financial information on associates

	Assets US$'000	Liabilities US$'000	Equity US$'000	Revenue US$'000	Profit/(loss) US$'000
2009					
100 per cent	**35,718**	**(519)**	**35,199**	**655**	**4,993**
Group's effective interest	**9,948**	**(138)**	**9,810**	**164**	**1,399**
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)

Notes to the Financial Statements

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19 Inventories

(a) Inventories in the balance sheet comprise:

	The Group	
	2009	2008
	US$'000	US$'000
Raw materials	**6,265**	6,026
Work in progress	**9,222**	15,893
Finished goods	**11,126**	9,399
	26,613	31,318

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group	
	2009	2008
	US$'000	US$'000
Carrying amount of inventories sold	**88,526**	115,671
Write down of inventories	**3,052**	799
	91,578	116,470

20 Trade and other receivables

	The Group		The Company	
	2009	2008	**2009**	2008
	US$'000	US$'000	**US$'000**	US$'000
Trade debtors and bills receivable	**42,139**	44,919	**–**	–
Less: allowance for doubtful debts (note 20(b))	**(7,126)**	(2,302)	**–**	–
	35,013	42,617	**–**	–
Other receivables, prepayments and deposits	**7,024**	5,464	**38**	81
Gross amount due from customers for contract work (note 21)	**22,424**	19,282	**–**	–
	64,461	67,363	**38**	81

20 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	
	2009	2008
	US$'000	US$'000
Current	**18,952**	25,689
Less than 1 month past due	**4,572**	8,758
1 to 3 months past due	**4,766**	5,766
More than 3 months but within 12 months past due	**5,924**	2,275
More than 12 months but within 24 months past due	**799**	129
Amounts past due	**16,061**	16,928
	35,013	42,617

The credit terms offered by the Group to its customers differ with each product/service. The credit terms offered to customers of oilfield expendables and supplies and engineering services are normally 30 to 90 days. The credit terms offered to customers of 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$1,035,000 (2008: US$495,000).

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For the year ended 31 December 2009

20 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(j)(i)).

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

	The Group	
	2009	2008
	US$'000	US$'000
At 1 January	**2,302**	497
Exchange adjustments	**60**	(270)
Impairment loss recognised	**4,764**	2,075
At 31 December	**7,126**	2,302

At 31 December 2009, the Group's trade debtors and bills receivable of US$11,501,000 (2008: US$3,188,000) 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$7,126,000 (2008: US$2,302,000) were recognised. The Group does not hold any collateral over these balances.

(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	
	2009	2008
	US$'000	US$'000
Neither past due nor impaired	**17,735**	25,689
Less than 1 month past due	**3,786**	8,758
1 to 3 months past due	**4,603**	5,307
More than 3 months but within 12 months past due	**4,514**	1,977
	12,903	16,042
	30,638	41,731

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For the year ended 31 December 2009

20 Trade and other receivables *(continued)*

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

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.

21 Construction contracts

The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the gross amount due from/to customers for contract work at 31 December 2009, is US$109,315,000 (2008: US$114,978,000).

22 Amount due from a related company

	The Group	
	2009	2008
	US$'000	US$'000
Katy International Inc.:		
Balance at 1 January	**85**	79
Balance at 31 December	**101**	85
Maximum balance outstanding during the year	**101**	85

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 2008 and 2009.

Notes to the Financial Statements

For the year ended 31 December 2009

23 Trade and other payables

	The Group		The Company	
	2009	2008	**2009**	2008
	US$'000	US$'000	**US$'000**	US$'000
Trade creditors and bills payable	**36,007**	33,727	**–**	–
Other payables and accrued charges	**4,589**	5,290	**368**	641
Amount due to an associate	**18**	36	**–**	–
Gross amount due to customers for contract work	**6,207**	19,702	**–**	–
Advances received in relation to construction contracts	**1,583**	1,191	**–**	–
	48,404	59,946	**368**	641

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

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	
	2009	2008
	US$'000	US$'000
Within 1 month	**14,359**	16,791
More than 1 month but within 3 months	**8,736**	10,337
More than 3 months but within 12 months	**8,961**	6,476
More than 12 months but within 24 months	**3,951**	123
	36,007	33,727

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24 Bank loans

At 31 December 2009, the bank loans were repayable as follows:

	The Group	
	2009	2008
	US$'000	US$'000
Within 1 year or on demand	**22,776**	7,811
After 1 year but within 2 years	**89**	83
After 2 years but within 5 years	**305**	206
After 5 years	**2,267**	2,455
	2,661	2,744
	25,437	10,555

At 31 December 2009, the bank loans were secured as follows:

	The Group	
	2009	2008
	US$'000	US$'000
Secured	**16,808**	9,826
Unsecured	**8,629**	729
	25,437	10,555

The bank loans carried interest at rates ranging from 5.31% to 6.58% per annum (2008: 6.14% to 8.96% per annum) and were secured by:

(i) Interest in leasehold land held for own use under operating leases, buildings, plant and machinery, bank deposits, inventories and trade receivables of five subsidiaries namely TSC (Qingdao), TSCMS, Golden Spike, TSCOE and TSC-HHCT. The aggregate net book value of assets pledged amounted to US$32,854,000 (2008: US$19,908,000).

(ii) Corporate guarantees given by the Company, ZZHL, TSC (Qingdao) and TSC-HHCT to the extent of banking facilities outstanding of US$12,725,000 (2008: US$1,897,000) as at 31 December 2009.

Notes to the Financial Statements

For the year ended 31 December 2009

24 Bank loans *(continued)*

Certain bank loans of the Group are subject to the fulfillment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down loan balances would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 31(b). As at 31 December 2009, none of the covenants relating to the Group's bank loans had been breached, except that the Group did not fulfil the financial covenants of a short term bank loan of US$1,755,000. Subsequent to 31 December 2009, the Group has obtained a letter from the bank to waive the strict compliance with the financial covenants for the year ended 31 December 2009.

25 Income tax in the balance sheet

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

	The Group	
	2009	2008
	US$'000	US$'000
Provision for the year	**3,073**	1,800
Provisional income tax paid	**(622)**	(943)
	2,451	857
Balance of income tax provision relating to prior years	**762**	207
	3,213	1,064
Represented by:		
Tax recoverable	**–**	(72)
Tax payable	**3,213**	1,136
	3,213	1,064

Notes to the Financial Statements

For the year ended 31 December 2009

25 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 2008	–	(47)	(10)	331	(161)	(518)	56	(349)
Exchange adjustments	–	(66)	(10)	(1,504)	2,644	–	–	1,064
Addition through acquisition of subsidiaries	–	–	–	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)
At 1 January 2009	116	(451)	(265)	4,781	(6,622)	(238)	144	(2,535)
Exchange adjustments	(20)	50	–	346	(842)	–	–	(466)
Credited to profit or loss (note 6(a))	(173)	(1,400)	(890)	(674)	(3,598)	(316)	(144)	(7,195)
At 31 December 2009	**(77)**	**(1,801)**	**(1,155)**	**4,453**	**(11,062)**	**(554)**	**–**	**(10,196)**

	2009 US$'000	2008 US$'000
Deferred tax included in the consolidated balance sheet:		
Net deferred tax assets	**(14,649)**	(7,483)
Net deferred tax liabilities	**4,453**	4,948
	(10,196)	(2,535)

At 31 December 2009, the Group had not recognised deferred tax liabilities in respect of undistributed profits of subsidiaries of US$4,519,000 (2008: US$3,976,000) 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 foreseeable future.

Notes to the Financial Statements

For the year ended 31 December 2009

26 Provisions

Provision for loss making construction contracts:

	The Group US$'000
At 1 January 2009	**2,555**
Additional provisions made	**6,183**
Provisions realised	**(6,395)**
At 31 December 2009	**2,343**

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 are expected to be realised over the next 12 months.

27 Loan from a director

The loan in 2008 represented the working capital loan borrowed from a director, Mr Jiang Bing Hua and was guaranteed by another director, Mr Zhang Menggui. The loan was unsecured, non-interest-bearing and was repaid during the year ended 31 December 2009.

28 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 3%–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.

29 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 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, 442,800 (2008: 4,654,800) share options were exercised and the Company had 7,678,800 (2008: 8,121,600) share options outstanding as at the balance sheet date.

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.

Notes to the Financial Statements

For the year ended 31 December 2009

29 Equity-settled share-based transactions *(continued)*

Share Option Scheme *(continued)*

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.

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, 430,000 (2008: 278,000) share options under the Share Option Scheme were exercised and 3,440,000 (2008: 1,850,000) share options were lapsed.

Notes to the Financial Statements

For the year ended 31 December 2009

29 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	9,828,000	Note	10 years
– on 29 December 2008	5,550,000	Note	10 years
Options granted to employees:			
– on 19 October 2005	2,948,400	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
– on 18 September 2009	20,295,000	Note	10 years
Total share options granted	73,101,400		

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.

Notes to the Financial Statements

For the year ended 31 December 2009

29 Equity-settled share-based transactions *(continued)*

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

	2009 Weighted average exercise price	**2009** Number of options	2008 Weighted average exercise price	2008 Number of options
Outstanding at the beginning of the year	**HK$2.12**	**46,023,600**	HK$2.52	29,756,400
Exercised during the year	**HK$0.39**	**(872,800)**	HK$0.36	(4,932,800)
Lapsed during the year	**HK$2.63**	**(3,440,000)**	HK$3.48	(1,850,000)
Granted during the year	**HK$2.06**	**20,295,000**	HK$1.33	23,050,000
Outstanding at the end of the year	**HK$2.10**	**62,005,800**	HK$2.12	46,023,600
Exercisable at the end of the year	**HK$1.94**	**18,638,800**	HK$1.47	11,977,600

The weighted average share price at the date of exercise for share options exercised during the year was HK$1.4 (2008: HK$2.48).

The options outstanding at 31 December 2009 had an exercise price of HK$0.2383, HK$2.43, HK$5.6, HK$5.23, HK$2.32, HK$0.54 and HK$2.06 (2008: HK$0.2383, HK$2.43, HK$5.6, HK$5.23, HK$2.32 and HK$0.54) and a weighted average remaining contractual life of 8.5 years (2008: 8.8 years).

(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	**18 September 2009**	**29 December 2008**	**12 August 2008**	**15 January 2008**	**12 November 2007**	**10 May 2007**	**19 October 2005**
Fair value at measurement date	US$0.12	US$0.03	US$0.12	US$0.27	US$0.29	US$0.13	US$0.09
Share price	HK$2.06	HK$0.54	HK$2.32	HK$5.22	HK$5.6	HK$2.43	HK$0.6083
Exercise price	HK$2.06	HK$0.54	HK$2.32	HK$5.23	HK$5.6	HK$2.43	HK$0.2383
Expected volatility	50%	45%	41%	42%	42%	42%	51%
Option life	10 years	10 years	10 years	10 years	10 years	10 years	10 years
Expected dividends	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate (based on Exchange Fund Notes)	2.36%	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.

Notes to the Financial Statements

For the year ended 31 December 2009

30 Capital and reserves

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

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
Balance at 1 January 2008	5,041	52,912	973	597	3,577	63,100
Changes in equity for 2008:						
Issue of ordinary shares	2,121	36,517	–	–	–	38,638
Shares issue expenses	–	(720)	–	–	–	(720)
Shares issued under share option schemes	63	378	–	(213)	–	228
Equity-settled share-based transactions	–	–	–	2,174	–	2,174
Total comprehensive income for the year	–	–	(194)	–	(3,363)	(3,557)
Balance at 31 December 2008 and 1 January 2009	7,225	89,087	779	2,558	214	99,863
Changes in equity for 2009:						
Issue of ordinary shares	1,157	28,111	–	–	–	29,268
Shares issue expenses	–	(743)	–	–	–	(743)
Shares issued under share option schemes (note 30(b)(iii))	11	60	–	(27)	–	44
Equity-settled share-based transactions	–	–	–	1,537	–	1,537
Total comprehensive income for the year	–	–	–	–	2,505	2,505
Balance at 31 December 2009	8,393	116,515	779	4,068	2,719	132,474

Notes to the Financial Statements

For the year ended 31 December 2009

30 Capital and reserves *(continued)*

(b) Share capital

(i) Authorised and issued share capital

	2009 No. of shares '000	2009 Amount US$'000	2008 No. of shares '000	2008 Amount US$'000
Authorised:				
Ordinary share of HK$0.1 each	**2,000,000**	**25,746**	1,000,000	12,873
Ordinary shares, issued and fully paid:				
At 1 January	**561,738**	**7,225**	391,805	5,041
Issue of ordinary shares	**90,000**	**1,157**	165,000	2,121
Shares issued under share option schemes	**873**	**11**	4,933	63
At 31 December	**652,611**	**8,393**	561,738	7,225

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) Increase in authorised share capital

By an ordinary resolution passed at the annual general meeting held on 18 May 2009, the Company's authorised ordinary share capital was increased to HK$200,000,000 by the creation of an additional 1,000,000,000 ordinary shares of HK$0.1 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

(iii) Shares issued under share option schemes

During the year ended 31 December 2009, options were exercised to subscribe for 872,800 ordinary shares in the Company at a consideration of US$44,000 of which US$11,000 was credited to share capital and the balance of US$33,000 was credited to the share premium account. US$27,000 has been transferred from the employee share-based compensation reserve to the share premium account in accordance with the policy set out in note1(q)(ii).

Notes to the Financial Statements

For the year ended 31 December 2009

30 Capital and reserves *(continued)*

(b) Share capital *(continued)*

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

Exercise period	Exercise price	2009 Number	2008 Number
29 November 2005 to 18 October 2015	HK$0.2383	**7,678,800**	8,121,600
10 November 2007 to 9 May 2017	HK$2.43	**6,602,000**	6,802,000
12 May 2008 to 11 November 2017	HK$5.6	**8,510,000**	9,050,000
15 July 2008 to 14 January 2018	HK$5.23	**2,000,000**	2,000,000
12 February 2009 to 11 August 2018	HK$2.32	**1,700,000**	4,000,000
29 June 2009 to 28 December 2018	HK$0.54	**15,220,000**	16,050,000
18 March 2010 to 17 September 2019	HK$2.06	**20,295,000**	–
		62,005,800	46,023,600

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 29 to the financial statements.

(c) 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(u).

(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(q)(ii).

Notes to the Financial Statements

For the year ended 31 December 2009

30 Capital and reserves *(continued)*

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

(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.

(vii) 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 holders of the Company as at 31 December 2009, as computed in accordance with the Companies Law (Revised) of the Cayman Islands amounted to US$119,234,000 (2008: US$89,301,000).

(e) Dividend

The directors do not recommend the payment of a dividend for the year ended 31 December 2009 (2008: Nil).

(f) 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 2008 and 2009.

30 Capital and reserves *(continued)*

(f) 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 holders' funds, as at 31 December 2009 was 60% (2008: 70%).

Except for the bank loans which require the fulfilment of covenants relating to certain of the Group's financial ratios as disclosed in note 24 to the financial statements, neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

31 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are 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 are 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 20(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 23% (2008: 2%) and 38% (2008: 17%) 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 20.

Notes to the Financial Statements

For the year ended 31 December 2009

31 Financial risk management and fair values *(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 its liquidity requirements and its compliance with lending covenants, 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 tables show 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

	2009						2008					
		Contractual undiscounted cash outflow						Contractual undiscounted cash outflow				
	Carrying amount US$'000	Total contractual undiscounted cash flow US$'000	Within 1 year or on demand US$'000	More than 1 year but within 2 years US$'000	More than 2 years but within 5 years US$'000	More than 5 years US$'000	Carrying amount US$'000	Total contractual undiscounted cash flow US$'000	Within 1 year or on demand US$'000	More than 1 year but within 2 years US$'000	More than 2 years but within 5 years US$'000	More than 5 years US$'000
Trade and other payables	**40,614**	**40,614**	**40,614**	**–**	**–**	**–**	39,053	39,053	39,053	–	–	–
Bank loans	**25,437**	**28,012**	**23,617**	**261**	**783**	**3,351**	10,555	12,967	8,311	261	783	3,612
Loan from a director	**–**	**–**	**–**	**–**	**–**	**–**	2,056	2,056	–	2,056	–	–
	66,051	**68,626**	**64,231**	**261**	**783**	**3,351**	51,664	54,076	47,364	2,317	783	3,612

The Company

	2009						2008					
		Contractual undiscounted cash outflow						Contractual undiscounted cash outflow				
	Carrying amount US$'000	Total contractual undiscounted cash flow US$'000	Within 1 year or on demand US$'000	More than 1 year but within 2 years US$'000	More than 2 years but within 5 years US$'000	More than 5 years US$'000	Carrying amount US$'000	Total contractual undiscounted cash flow US$'000	Within 1 year or on demand US$'000	More than 1 year but within 2 years US$'000	More than 2 years but within 5 years US$'000	More than 5 years US$'000
Other payables and accrued charges	**368**	**368**	**368**	**–**	**–**	**–**	641	641	641	–	–	–
Amounts due to subsidiaries	**26**	**26**	**26**	**–**	**–**	**–**	10	10	10	–	–	–
Loan from a director	**–**	**–**	**–**	**–**	**–**	**–**	2,056	2,056	–	2,056	–	–
	394	**394**	**394**	**–**	**–**	**–**	2,707	2,707	651	2,056	–	–
Financial guarantee issued: – Maximum amount guaranteed (note 33)	**–**	**2,000**	**2,000**	**–**	**–**	**–**	438	438	438	–	–	–

Notes to the Financial Statements

For the year ended 31 December 2009

31 Financial risk management and fair values *(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

	2009 Effective interest rate	2009 US$'000	2008 Effective interest rate	2008 US$'000
Fixed rate borrowings:				
Bank loans	**5.31%–6.58%**	**21,173**	6.14%–8.96%	7,929
Variable rate borrowings/ (deposits):				
Bank loans	**5.31%–6.5%**	**4,264**	6.5%–8.22%	2,626
Less: Pledged bank deposits	**2.08%**	**(2,317)**	2.25%	(924)
Cash at bank and in hand	**0.01%–0.36%**	**(38,519)**	0.01%–2%	(16,156)
		(36,572)		(14,454)
Total net deposits		**(15,399)**		(6,525)

Notes to the Financial Statements

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31 Financial risk management and fair values *(continued)*

(c) Interest rate risk *(continued)*

(i) Interest rate profile *(continued)*

The Company

	2009 Effective interest rate	2009 US$'000	2008 Effective interest rate	2008 US$'000
Variable rate deposits:				
Cash at bank and in hand	**0.01%**	**(25,575)**	0.01%	(454)
Total net deposits		**(25,575)**		(454)

(ii) Sensitivity analysis

At 31 December 2009, it is estimated that a general increase/decrease of one percentage point in interest rates, with all other variables held constant, would have decreased/increased the Group's loss before tax by approximately US$366,000 (2008: increased/decreased the Group's profit before tax by approximately US$145,000).

The sensitivity analysis above indicates the instantaneous change in the Group's (loss)/profit before tax that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure these financial instruments held by the Group which expose the Group to fair value interest rate risk 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 (loss)/profit before tax is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2008.

(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 ("RMB") as functional currency while over 50% of the Group's turnover was denominated in United States dollars. At 31 December 2009, no related hedges were made by the Group.

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

Notes to the Financial Statements

For the year ended 31 December 2009

31 Financial risk management and fair values *(continued)*

(d) Currency risk *(continued)*

(ii) Exposure to currency risk

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in United States dollars, translated using the spot rate at the year end date.

The Group

Exposure to United States dollars (expressed in United States dollars)

	2009 **US$'000**	2008 US$'000
Trade and other receivables	**1,010**	8,755
Cash at bank and in hand	**3,152**	–
Trade and other payables	**(952)**	(11,185)
Net exposure arising from recognised assets and liabilities	**3,210**	(2,430)

(iii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's (loss)/profit before tax that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

The Group

	2009		2008	
	Increase/ (decrease) in foreign exchange rates **%**	**Effect on loss before tax** **US$'000**	Increase/ (decrease) in foreign exchange rates %	Effect on profit before tax US$'000
United States dollars	**5%**	**(161)**	5%	(122)
	(5%)	**161**	(5%)	122

Notes to the Financial Statements

For the year ended 31 December 2009

31 Financial risk management and fair values *(continued)*

(d) Currency risk *(continued)*

(iii) Sensitivity analysis *(continued)*

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' (loss)/profit before tax measured in the respective functional currencies, translated into United States dollars at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excluded differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2008.

(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 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.

Notes to the Financial Statements

For the year ended 31 December 2009

32 Commitments

(a) Capital commitments outstanding at 31 December 2009 not provided for in the financial statements were as follows:

	The Group	
	2009	2008
	US$'000	US$'000
Contracted for	**–**	4,273
Authorised but not contracted for	**–**	1,310
	–	5,583

(b) At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2009	2008
	US$'000	US$'000
Within 1 year	**1,013**	957
After 1 year but within 5 years	**899**	1,357
After 5 years	**43**	585
	1,955	2,899

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.

33 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$Nil (2008: US$438,000).

Notes to the Financial Statements

For the year ended 31 December 2009

34 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:

	2009 US$'000	2008 US$'000
Salaries and other emoluments	**1,400**	1,391
Share-based payments	**255**	207
Retirement scheme contributions	**55**	69
	1,710	1,667

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

(b) During the year ended 31 December 2009, the Group purchased raw materials from an associate amounted to US$53,000 (2008: US$Nil).

35 Comparative figures

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statements*, and HKFRS 8 *Operating segments*, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

36 Accounting judgements and estimates

Judgements and estimates 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.

Notes 15, 29 and 31 contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of share option granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(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 other intangible assets. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment and other 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 subsidiary, associate, property, plant and equipment, property under development, interest in leasehold land held for own use under operating leases, goodwill and other 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.

Notes to the Financial Statements

For the year ended 31 December 2009

36 Accounting judgements and estimates *(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

As explained in policy notes 1(l) and 1(t)(iii), revenue and profit recognition on an incompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated.

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 2009, the directors of the Company have reviewed the construction contracts and consider that the provision for loss is adequate. 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.

Notes to the Financial Statements

For the year ended 31 December 2009

37 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2009

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2009 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
HKFRS 3 (Revised), *Business combinations*	1 July 2009
Amendments to HKAS 27, *Consolidated and separate financial statements*	1 July 2009
Amendments to HKAS 39, *Financial instruments: Recognition and measurement — Eligible hedged items*	1 July 2009
HK(IFRIC) 17, *Distributions of non-cash assets to owners*	1 July 2009
Improvements to HKFRSs 2009	1 July 2009 or 1 January 2010

The Group is in the process of making an assessment of what the impact of these amendments 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.

Five Years Financial Summary

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

	2009 US$'000	2008 US$'000	2007 US$'000	2006 US$'000	2005 US$'000
Turnover	**112,842**	160,113	34,327	27,038	13,525
Cost of sales	**(91,578)**	(116,470)	(20,494)	(14,961)	(7,804)
Gross profit	**21,264**	43,643	13,833	12,077	5,721
Other revenue	**1,194**	881	1,399	607	415
Selling and distribution expenses	**(4,884)**	(5,172)	(2,551)	(1,782)	(541)
General and administration expenses	**(22,910)**	(20,122)	(7,989)	(5,770)	(2,707)
Other operating expenses	**(9,051)**	(4,587)	(755)	(262)	(320)
Finance costs	**(1,338)**	(500)	(296)	(153)	(107)
Share of results of associates	**1,399**	(2,063)	528	(1)	–
(Loss)/profit before taxation	**(14,326)**	12,080	4,169	4,716	2,461
Income tax credit/(expense)	**4,088**	(1,753)	(236)	(424)	(124)
(Loss)/profit for the year	**(10,238)**	10,327	3,933	4,292	2,337

ASSETS AND LIABILITIES

	As at 31 December				
	2009 US$'000	2008 US$'000	2007 US$'000	2006 US$'000	2005 US$'000
Non-current assets	**91,882**	80,832	28,707	5,203	3,218
Current assets	**132,011**	115,918	89,064	21,985	14,126
Current liabilities	**76,736**	71,448	41,012	9,998	4,882
Net current assets	**55,275**	44,470	48,052	11,987	9,244
Non-current liabilities	**7,114**	9,748	736	35	17
Net assets	**140,043**	115,554	76,023	17,155	12,445

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 2009 are as set out on page 62 of the audited financial statements.

2. The consolidated balance sheet of the Group as at 31 December 2009 are as set out on pages 64 to 65 of the audited financial statements.

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Jiang Bing Hua
Mr. Zhang Menggu

Non-executive Directors
Mr. Jiang Longsheng
Mr. Brian Chang

Independent non-executive Directors
Mr. Chan Ngai Sang, Kenny
Mr. Bian Junjiang
Mr. Guan Zhichuan
Mr. Robert William Fogal Jr

COMPANY SECRETARY
Ms. Cheung Wai Sze, Candy

QUALIFIED ACCOUNTANT
Mr. Wong Kin Ming, Terry

COMPLIANCE OFFICER
Mr. Zhang Menggui

AUTHORISED REPRESENTATIVES
Mr. Zhang Menggui
Mr. Jiang Bing Hua

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

REMUNERATION COMMITTEE
Mr. Bian Junjiang
Mr. Zhang Menggui
Mr. Jiang Bing Hua
Mr. Chan Ngai Sang, Kenny
Mr. Guan Zhichuan

COMPLIANCE COMMITTEE
Mr. Zhang Menggui
Mr. Bian Junjiang
Mr. Chan Ngai Sang, Kenny
Mr. Guan Zhichuan
Mr. Chung Man Lai
Ms. Cheung Wai Sze, Candy

NOMINATION COMMITTEE
Mr. Jiang Bing Hua
Mr. Zhang Menggui
Mr. Chan Ngai Sang, Kenny
Mr. Bian Junjiang
Mr. Guan Zhichuan

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

OPERATIONS HEADQUARTERS
8655 Golden Spike
Houston
Texas 77086
U.S.A.

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Unit 910, 9/F
China Merchants Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
HSBC Trustee (Cayman) Limited
P.O. Box 484, HSBC House
68 West Bay Road
Grand Cayman
KYI-1106
Cayman Islands

HONG KONG SHARE REGISTRAR
Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS
Standard Chartered Bank
China Construction Bank, Qingdao Branch
China Construction Bank, Shaanxi Branch Hi-Tech Development Zone Sub-branch
Metrobank N.A.
The Royal Bank of Scotland

AUDITORS
KPMG

WEBSITE
www.tscoffshore.com

STOCK CODE
206

TSC Offshore Group Limited

Stock Code: 206