TSC Offshore Group Limited

Stock Code: 8149

2007 Annual Report

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Characteristics of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of TSC Offshore Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to TSC Offshore Group Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

TSC Offshore Group Limited (the "Company", formerly known as EMER International Group Limited) is a global product and service provider to the oil and gas drilling industry. The Company was incorporated in the Cayman Islands and was listed on the GEM of the Stock Exchange. The Company and its subsidiaries (collectively the "Group") has four business lines, namely (i) Rig Products and Technology; (ii) Rig Turnkey Solutions; (iii) Oilfield Expendables and Supplies; and (iv) Consultancy Services. In the Year, the Group generates revenue mainly from 3 areas of business segments, namely (i) Rig Products and Technology (including mud pump, jacking control, rig electric drive and control systems, solid control systems, etc.); (ii) Oilfield Expendables and Supplies (including mud pump expendables, rig expendables and other supplies); and (iii) the provision of consultancy and marketing services to assist overseas oilfield equipment manufacturers and drilling rig engineering companies for the sales and marketing of their products and services in China and other countries.

While the Rig Products and Technology division and the Oilfield Expendables and Supplies division provide equipment and expendables used in both onshore and offshore drilling operations, the Rig Turnkey Solutions division focus on providing complete EPC turnkey packages for offshore rigs, such as jack-up rigs, semi-submersible rigs and platform modular rigs.

In the last few years, the Group has made remarkable progresses in business growth and its capability of offering much broader range of products to its customers. Products increase from only rig electric control products (SCR/VFD) and drilling expendables to a complete line of rig capital equipment used in offshore and onshore rigs. This line of products include mud pumps, drawworks, derricks, rotary tables, iron roughnecks, pipe handling systems, BOP handling systems, riser handling system, drilling cabins and solid control equipment. In August 2007, the Group made a strategic breakthrough by signing contracts to provide three "cantilever and drilling system packages" for three jack-up rigs. This "turnkey" package include the engineering, manufacturing, installation and construction of the complete cantilever section of a jack-up rigs and all the drilling related equipment. This breakthrough has made the Group become one of the few companies in the world that is capable of providing such packages.

To reflect the Group's business focus, the Directors proposed to change the name of the Company from "EMER International Group Limited" to "TSC Offshore Group Limited" on 14 December 2007. The special resolution on the change of the name of the Company was passed by the shareholders of the Company at the extraordinary general meeting held on 22 January 2008. The change of name of the Company to "TSC Offshore Group Limited" took effect from 22 January 2008.

To cater for the needs of global customers and potential investors, the Company from 2007 adopted US dollar as its presenting currency for its annual report.

Contents

BOARD OF DIRECTORS

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

Non-executive Director
Mr. Jiang Longsheng

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

COMPANY SECRETARY
Ms. Cheung Wai Sze, Candy

QUALIFIED ACCOUNTANT
Mr. Wong Kin Ming, Terry

COMPLIANCE OFFICER
Mr. Zhang Hongru

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. Bian Junjiang
Mr. Zhang Hongru
Mr. Chan Ngai Sang, Kenny
Mr. Guan Zhichuan
Ms. Cheung Wai Sze, Candy

WEBSITE ADDRESS
www.tscoffshore.com
(The contents of the website of the Company do not form a part of this Annual Report)

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
Unit 1612, 16/F
China Merchants Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

AUDITORS
KPMG

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

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 Merchants Bank
Bank of China Shaanxi Branch
Hi-Tech Development Zone Sub-branch
China Construction Bank Qingdao Branch
Hang Seng Bank Limited, Guangzhou Branch
Metrobank N.A.

STOCK CODE
8149

Dear Shareholders and Employees,

We are pleased to present our third annual report of the Company since our listing on GEM in November 2005 for the financial year ended 31 December 2007 (the "Year").

OPERATIONAL REVIEW

For the Year, the Group made progresses in every major aspect of operations from product development, sales, manufacturing, and distributions to business acquisitions. Details of the operations can be seen from the following Chief Executive Officer's report. The highlights are summarised below:

- We became one of the few companies in the world with capability of undertaking giant offshore rig turnkey projects.

- We have achieved recorded high in backlog orders. The order book reached at approximately US$138 million at 31 December 2007 compared with approximately US$25 million at the end of year 2006.

- We are able to offer to our global customers a much wider range of rig related products. The product line expansion is the results of both internal product development and acquisitions of and cooperations with other companies.

- We expanded our market in certain regions such as the Middle East, South America and Europe.

- We have increased our manufacturing capacity by adding several new manufacturing facilities and related machinery.

- Many new talent and experienced personnel have joined the TSC sales and marketing team, engineering team, service team and manufacturing staff.

- One investment and two acquisitions were initialised in the Year. We have acquired 28.02% equity interest in Goldman Offshore Design, LLC in Texas, USA which owns 25% equity interest in Freide & Goldman Group. We have completed the acquisition of Top Sino Industrial Ltd. which owns a solid control system producer Zhengzhou Highlight Energy Technology Co., Ltd. ("Highlight") in China. We are now in the process of undergoing a voluntary conditional cash offer to acquire all issued shares of AIM-listed Global Marine Energy, Plc. in U.K. ("GME") other than those already owned by the Company. GME is an offshore rig handling equipment provider.

CHANGE OF COMPANY NAME AND BUSINESS EXPANSION

On 14 December 2007, we proposed to change the Company's name from "EMER International Group Limited" to "TSC Offshore Group Limited", in order to reflect the recent expansion and main focus of the Group's business in future. On 22 January 2008, the special resolution for approving the name change was duly passed at the extraordinary general meeting of the Company.

FINANCIAL RESULTS

The Group realised approximately US$34.3 million sales in 2007 which represented approximately 27% increase compared with the sales of approximately US$27.0 million for 2006. Gross profit generated in the Year was approximately US$13.8 million, representing approximately 14.5% increase over 2006. However, net profit dropped to approximately 3.5 million. The drop in net profit represents approximately 18.5% decrease compared with the net profit of approximately US$4.3 million for the year 2006.

In the Year, the Group's realised approximately 46.6% increase in sales for Rig Products and Technology while the increase in the sales of Oilfield Expendables and Supplies was a moderate 6.4%. Against the above satisfying growth in sales, the net profit for the Year dropped due to a rapid increase in selling, general and administrative expenses.

The revenues to be generated from the six contracts for the sale of cantilever and drilling turnkey packages as disclosed in the Company's announcement dated 16 July 2007 and in the circular dated 7 August 2007 were not recognised in the financial statements for the year ended 31 December 2007 in accordance with Hong Kong Financial Reporting Standards. We expect that the packages will be delivered as scheduled in 2008 and 2009.

FUTURE PROSPECTS

In the year of 2007, the Group has made major steps in positioning itself to be one of a few major players in the world to offer our customers package solutions for their offshore exploration and production needs. As the oil prices at record high and no sign of slowing down in the offshore rig market, we believe that we have come across one of the best periods in history. The Group is able to grasp this market opportunity to bring more value to our shareholders. In realising this potential, the Group will continue with our growth strategy in 2008 and beyond:

- Continue implementing its growing strategies by organic growth and by acquisitions with emphasizing in acquiring companies which provide synergy, profit and long time value to the company.

- Continue implementing the Group's global presences by expanding the product and service offer to all major oil and gas producing regions. Upon the completion of the acquisition of GME, the Group will add operations in the US, Brazil, UK and Singapore so that Group will have offices and facilities in North America, South America, Europe and Central Asia, Middle East, Asia Pacific and South East Asia.

We also realise that we have many challenges ahead of us. With the support of our loyal customers, the understanding of our shareholders, the dedications of our staff and co-workers, we will be able to overcome the difficulties and reach our short term target and long term goal.

APPRECIATION

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

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

Jiang Bing Hua
Executive Chairman

Hong Kong, 26 March 2008

Dear Shareholders and Employees,

OPERATIONAL OVERVIEW

The TSC Offshore Group had a remarkable Year 2007 in all aspects of operations. Our achievements are highlighted in the following areas:

Record High Order Book

As of 31 December 2007, our backlog orders reached a historical high of US$138 million. Although this massive order did not contribute much of the revenue for the year, it provides certain assurance for our continuing revenue growth in 2008.

One of the major contributors for this record high order book is the turnkey contracts which the Group landed in August 2007. The successful award of the three cantilever and drilling system turnkey projects from Yantai Raffles Shipyard is the results of a strategy of expanding our capability of manufacturing from only individual piece of drilling equipment to undertaking offshore rig turnkey packages.

The Rig Turnkey Solutions Division was established in early 2007 to provide clients with seamless turnkey solutions for their offshore rig needs.

Expanded Product Lines

In our Rig Products and Technology division (capital equipment), we have broadened our product lines to include other major rig capital equipment such as:

- mud pumps
- drawworks
- rotary table
- derricks
- solid control equipment
- jacking system
- rack material for jack up
- drilling cabins

Through alliances with other partners, we are also in the position to manufacture a complete line of mechanical handling products for offshore rigs such as:

- iron roughnecks
- pipe handling
- sub-sea BOP handling equipment
- sub-sea tree handling and
- riser handling equipment used on semi-submersible rig and drill ships

It is worth noting that in August 2007, our Rig Turnkey Solutions division successfully received awards on six jack-up cantilever and drilling system packages from Yantai Raffles Shipyard for three jack-ups. The award of such contracts represents a major step for the Group, making the Group one of very few companies in the world that can undertake such turnkey packages.

This turnkey packaging capability will not only minimise the interface problems clients usually have but also shorten the time for overall rig delivery. This will significantly help our clients in their economic returns.

In our Oilfield Supply division, we are continuing adding new products to our wide range of product line. We have added fluid-end modules for additional pumps such as the A-1700 pump. We added ceramic liners which generally has much longer usage life than the conventional alloy liners. A full line of centrifugal pumps was also added to our product line.

Expanded Manufacturing and Service Capacities

The Group also made breakthroughs in streamlining its manufacturing capabilities and its service capabilities.

In the US, we expanded our warehouse and assembly areas in Houston to include a facility at 4330 Brittmoore Road. This new lease has doubled our warehouse capacity and at the same time, the added space has provided more areas for unitizing pumps and for assembling other capital drilling equipment.

In the Middle East, we have secured a lease of warehouse in the Sharjah, UAE, pending the final completion of the warehouse in the first quarter of 2008. Our Middle East supply and service facility is expected to be up running in the second quarter of 2008. Additional revenue is anticipated from the Middle East region.

In China, we have completed a new factory in Xi'an for our rig control and drive manufacturing. This new and modern facility not only increases our production capacity but also provides a better environment for quality control on our products. The start-up of our newly added factory in Qingdao also increased production capabilities for other drilling capital equipment manufacturing such as manufacturing of drawworks, rotary tables and mud pumps.

After the acquisition of Highlight, we have added another 2,000 sq meter workshop to double the Group's manufacturing capabilities for shale shakers, desanders, desilter and mud cleaners.

The expanded manufacturing facility provides a solid base for our anticipated major growth in the years to come.

Market Expansion to the Middle East, South America and Europe

On the marketing side, we have successfully participated two major oil shows. One is the Offshore Technology Conference (OTC) Show in Houston, Texas, USA; the other is the Canadian Oil Show in Edmonton, Alberta, Canada. Rig capital equipment such as mud pumps, rotary tables, and rig control system, has successfully penetrated the markets in the Middle East, South America and Europe. TSC mud pump expendables continue receiving the recognition from our global customers in all major oil producing regions.

New Resource and Talents

In Year 2007, one of the major challenges for the Group was to recruit qualified personnel to support the rapid growth in the company. However, the Group has successfully recruited and added some 35 engineers to our engineering and project management team. We have also expanded our sales and after-sales service team in Houston. Because of these staff increases, our expenses and overhead also reached record highs – one of the reasons for our profit drop in 2007. We strongly believe that with the new added talents and resources in the Group, we are ready to move forward with our growth and expansion plan for the future.

Major Acquisition in the Works

To implement our growth strategy of both organic growth and in-organic growth, we started in the Year with two major acquisitions. The first was the acquisition of Highlight in China; the second was the acquisition of London AIM listed company GME.

The Highlight acquisitions were completed in the second half of 2007. The Highlight acquisition added a complete solid control equipment line to TSC's products, including:

- shale shakers
- mud cleaners
- desander
- desilter
- degasser

- centrifugal pumps, and
- other accessories for the mud solid control system

In September 2007, we started the bidding process for GME. The final offer price was proposed in November 2007 to acquire the entire shares issued or to be issued at 16 pence per share in cash. The Company's cash offer was subsequently recommended by the GME board to their shareholders.

Upon the completion of GME acquisition in near future, the Group will expand its product lines to almost all offshore rig related equipment, including:

- pipe handling system
- iron roughneck
- BOP handling
- sub-sea tree handling
- riser handling
- derrick
- deck cranes for offshore drilling rigs and for offshore production platforms

The Group's customer base will be more diversified to include many major international offshore drilling contractors, ship yards, engineering firms and oil companies. We will add manufacturing, services and/or sales locations in the US, Brazil, Singapore and the UK.

The TSC Offshore Brand Name

TSC is known for the highest quality and our brand name establishment is the result of continuing focus on our product quality and services. HHCT is the name which has been used for our rig drive and control products and TSC is used for other capital drilling equipment and drilling expendables. The Group believes that it will be to its best interests to use one brand name for its overall product line. Management has recommended the strategy to the Board which gave emphasis to the recent name change from "EMER International Group, Ltd" to "TSC Offshore Group, Ltd." While "TSC" stands for the an ultimate Total Solution Company for our customers and clients, "Offshore" indicates our emphasis on providing quality products to the offshore oil and gas industry, in addition to onshore business.

Business Units Re-structuring

In the middle of Year 2007, the Group restructured its business to include three major business units, namely, Rig Products and Technology division, Rig Turnkey Solutions division and the Oilfield Supply division.

In the Rig Products and Technology division, efforts were concentrated in product development, manufacturing, and sale of rig equipment and technology. In the Rig Turnkey Solutions division, major focus is to provide a seamless and smooth interface rig packages to our customer in a timely manner and our Oilfield Supply division will concentrate on the manufacturing and supply of oilfield expendables and supplies.

Quality, Health, Safety and Environment

The Group has made a tremendous progress in implementing its QHSE policy across the whole group spectrum. Our Quality Manual and HSE Manual have been completed and implementation has been made in the Group. The goal is to provide a healthier and safer environment for our employees and associated parties and to provide quality products and services in an environmentally friendly manner.

FINANCIAL RESULTS

As the results of implementing of our growth strategy, the Group's sales achieved remarkable increases. However, in order to prepare for the future growth of the company, overhead and operational expenses also increased. Detailed analysis is to be found in Management Discussion and Analysis.

The non-cash expense increased primarily due to the expenses associated with options granted to management and key employees. In addition, revenues to be generated from the six contracts for the sale of cantilever and drilling turnkey packages as disclosed in the Company's announcement dated 16 July 2007 and in the circular dated 7 August 2007 were not recognised in the financial statements for the year ended 31 December 2007 in accordance with Hong Kong Financial Reporting Standards. We expect the packages will be completed and delivered as scheduled in 2008 and 2009.

FUTURE PLANS

Strategically, the Group will continue to implement its growth strategy through both organic growth and acquisitions. In the acquisition areas, major focus will be on acquisitions of those companies which provide synergy and future growth for the company. We will also continue to differentiate ourselves by offering new technologies and solutions to our clients. Our major emphasis will be in developing products and services which increase the productivity, efficiency and safety of drilling operations in an environment-friendly manner. We will continue to focus on how to reduce the cost of our clients by offer competitively priced products and faster delivery. In today's offshore market, offshore rig day rate ranges from US$100,000 per day to more than US$500,000 per day. Clearly an earlier delivery of an offshore rig to the client will contribute a great degree to the economics of our clients.

Oil industry has enjoyed quite many years of significant growth. With the continuing high demand and limited supply of oil and gas-related products, our sector is expected to enjoy continued growth. In the offshore market, backlog and delivery by a couple of major players has reached to two-three years – depending upon the products. The monopoly by these few players provides the best timing for us to become a viable alternative in the industry. Our broad range of product lines and the ability of providing an interface free turnkey offshore rig package will strengthen our position as one of the major players in this industry.

Conditional on the completion of acquiring GME, we will add several facilities and locations around the world such as the US, Brazil, Singapore, Dubai, UK, China and Russia. Our global presence will facilitate us to provide timely services and local support in all major oil and gas producing regions.

The Group management realises that huge potential come with similar challenges. With the addition of new product lines and new resources, we, more than ever, are today ready to face the challenges to realise the huge potentials and grow the company to a major global player in this industry.

On behalf of the management, I would like to thank our loyal customers for their continuous support. I also thank our co-workers for their efforts and dedication. I also appreciate the general support from our shareholders, investors, venders and business partners. Without all of you, TSC will not be at where it is today.

With the booming market ahead of us, we are confident that TSC will be able to reach its long term goal of being one of the leading players in providing products and services in the oil E&P industry.

Zhang Menggui
President and Chief Executive Officer

Hong Kong, 26 March 2008

A. OVERVIEW

The Group is a product and service provider dedicated to the worldwide oil and gas drilling industry with four business lines, namely (i) Rig Products and Technology; (ii) Rig Turnkey Solutions; (iii) Oilfield Expendables and Supplies; and (iv) Consultancy Services. In the Year, the Group generates revenue mainly from 3 areas of business segments, namely (i) Rig Products and Technology (including mud pump, jacking control, rig electric drive and control systems, solid control systems, etc.); (ii) Oilfield Expendables and Supplies (including mud pump expendables, rig expendables and other supplies); and (iii) the provision of consultancy and marketing services to assist overseas oilfield equipment manufacturers and drilling rig engineering companies for the sales and marketing of their products and services in China and other countries.

During the Year, the Group achieved approximately US$35.7 million in total revenue and approximately US$3.5 million in profit for the year. With the efforts of the Board and the employees of the Group, the number of customers and clients increased rapidly.

It should be noted that under the business line of Rig Turnkey Solutions, no revenue was recognised for six cantilever and drilling system packages in 2007. The management expects the packages will be delivered as scheduled in 2008 and 2009.

B. FINANCIAL REVIEW

Financial Highlights

	Year ended 31 December 2007 US$000	Year ended 31 December 2006 US$000	Percentage of year-to-year increase/ (decrease) %
Total revenue	**35,726**	27,645	29.2
Gross profit	**13,833**	12,077	14.5
Net profit	**3,496**	4,292	(18.5)
Basic earnings per share (US cent)	**1.03**	1.49	(30.9)

Turnover and Other Revenue

During the Year, the Group recorded a total revenue of approximately US$35.7 million, representing an increase of approximately 29.2% from US$27.6 million for 2006. Turnover from the Group's three main business areas reached approximately US$34.3 million, representing a 27.0% increase compared with 2006. Other revenue increased to approximately US$1.4 million which represented an increase of approximately 130.5% from 2006. The increase in the Group's turnover in 2007 was mainly attributable to the increase in sales of mud pumps and solid control and expendable parts due to expansion of customers and clients base that the Group secured in 2007.

B. FINANCIAL REVIEW *(continued)*

Segment Information By Business Segments

Turnover by business segments

	Year ended 31 December 2007 US$'000	**Percentage %**	Year ended 31 December 2006 US$'000	Percentage %	Percentage of year-to-year increase %
Rig Products and Technology	**19,652**	**57.3**	13,401	49.6	46.6
Oilfield Expendables and Supplies	**13,944**	**40.6**	13,109	48.5	6.4
Consultancy Services	**731**	**2.1**	528	1.9	38.4
Total	**34,327**	**100.0**	27,038	100.0	27.0

Rig Products and Technology

The Group's Rig Products and Technology business includes the provision of capital equipment of rig electrical control systems, mud pumps, solid control, jacking control, etc, to oil and gas drilling companies and drilling machinery manufacturers. For the Year, sales derived from this business segment was approximately US$19.7 million, representing an increase of approximately 46.6% over 2006. The increase was mainly attributable to the demand for mud pumps, jacking control and solid control from new and existing customers.

Oilfield Expendables and Supplies

The Group's Oilfield Expendables and Supplies business is operated by TSC (USA) and TSC (QD) whereas the former is responsible for sales and marketing in the USA and the latter is responsible for manufacturing in the PRC. Turnover from this business segment amounted to approximately US$13.9 million in 2007, representing a rise of approximately 6.4%. The flat growth was because of price competition from other suppliers.

Rig Turnkey Solutions

The revenues to be generated from the six contracts for the sale of cantilever and drilling turnkey packages as disclosed in the Company's announcement dated 16 July 2007 and in the circular dated 7 August 2007 were not recognised in the financial statements for the year ended 31 December 2007 in accordance with Hong Kong Financial Reporting Standards. We expect that the packages will be delivered as scheduled in 2008 and 2009.

B. FINANCIAL REVIEW *(continued)*

Segment Information By Geography

Turnover by geographic locations

	Year ended 31 December 2007 US$'000	**Percentage %**	Year ended 31 December 2006 US$'000	Percentage %	Percentage of year-to-year increase/ (decrease) %
Mainland China	**13,124**	**38.2**	13,982	51.7	(6.1)
North America	**16,548**	**48.2**	9,514	35.2	73.9
Others (other part of Asia, Europe, Russia etc.)	**4,655**	**13.6**	3,542	13.1	31.4
Total	**34,327**	**100.0**	27,038	100.0	27.0

For the Year, the significant portion of the Group's sales was derived from the North America market, contributing to approximately 48.2% of total turnover while about 38.2% of sales was realised in China. Sales to other regions were increased to approximately US$4.7 million. Such increase in sales in other regions showed that the Group's strategy of expanding sales and distributors network was productive in the Year.

For the Year, sales from the China market experienced a slight decrease of approximately 6.1% over 2006 to reach to about US$13.1 million. Sales dropped slightly in China in the Year was mainly due to keen market competition.

Cost of Sales and Gross Profit Margin

The Group's cost of sales for 2007 and 2006 amounted to approximately US$20.5 million and US$15.0 million respectively, resulting in a gross profit margin of approximately 40.3% and 44.7% respectively. The decrease in gross profit margin was mainly attributable to the increase in the costs of raw materials and purchased parts as well as labor and keen competition in the industry.

Operating Costs and Profit Attributable to Equity Shareholders

During the Year, the Group's general and administrative expenses surged to approximately US$8.0 million, representing approximately 23.3% of the Group's total sales, as compared to that of approximately 21.3% for 2006. The increase in general and administrative expenses was mainly due to the increase in staff costs to cater for future business expansion.

During the Year, the Group's selling and distribution expenses also increased by approximately 43.2% to US$2.6 million from that of approximately US$1.8 million in 2006. The increase in selling and distribution expenses was due to the increase in sales engineers and marketing expenses to promote the Group's business in major oil producing regions. Also, delivery costs increased as a result of the increase in turnover of the Group.

During the Year, the Group's finance costs amounted to approximately US$296,000, as compared to approximately US$153,000 for 2006. The increase in finance costs was mainly attributable to the Group's interest expenses on loans.

B. FINANCIAL REVIEW *(continued)*

Operating Costs and Profit Attributable to Equity Shareholders *(continued)*

During the Year, the Group's other operating expenses which mainly is comprised of provision, amortisation, impairment losses and exchange losses amounted to approximately US$755,000 as compared the US$262,000 for 2006.

During the Year, the Group achieved profit attributable to equity shareholders of approximately US$3.5 million, the decrease of approximately 18.5% from approximately US$4.3 million in 2006. Net profit margin for the Group in the Year was approximately 10.2% which was lower than a net profit margin of 15.9% for 2006. The drop in net profit margin was mainly due to a rapid increase in selling, general and administration expenses.

Group's Liquidity and Capital Resources

As at 31 December 2007, the Group had total intangible assets of approximately US$2.8 million.

As at 31 December 2007, the Group carried fixed assets of approximately US$8.1 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 2007, the Group had an interest in associates of approximately US$14.4 million.

As at 31 December 2007, the Group had current assets of approximately US$89.1 million. Current assets mainly comprised cash and bank balances of approximately US$44.3 million, and pledged bank deposits of approximately US$1.1 million, inventories of approximately US$14.7 million, trade and other receivables of approximately US$28.2 million, amount due from a related company of approximately US$79,000, other financial assets of US$676,000 and amounts due from directors approximately US$38,000.

As at 31 December 2007, current liabilities amounted to approximately US$41.0 million, mainly comprising trade and other payables of approximately US$37.3 million, bank loans of approximately US$3.3 million, current tax payables of approximately US$454,000, and amount due to a related company of approximately US$2,000.

As at 31 December 2007, the Group had a non-current liabilities of approximately US$736,000, comprising bank loans of approximately US$405,000 and deferred tax liabilities of approximately US$331,000.

Gearing ratio, total liabilities to equity shareholders' fund was 55.2%, as compared to 58.5% in 2006.

During the Year, the Company made two placements of new shares to raise funds. The first placement of 24,300,000 new shares of HK$0.10 each in the capital of the Company with aggregate nominal value of the placing shares was HK$2,430,000, to the placee being Keywise Greater China Opportunities Master Fund, was made in April 2007 at the placing price at HK$1.88 per share (net price per share at approximately HK$1.85) to raise approximately HK$45 million (equivalent to approximately US$5.8 million) net of expenses and the net proceeds were used as general working capital of the Group. The placing price was fixed on the date of the placing agreement based on the closing price on 29 March 2007 of HK$1.97. The second placement of 53,468,000 new shares of HK$0.10 each in the capital of the Company with aggregate nominal value of the placing shares was HK$5,346,800, to not less than six independent professional, institutional and/or individual investors, was made in July 2007 at the placing price at HK$5.80 per share (net price per share at approximately HK$5.61) to raise approximately HK$300 million (equivalent to approximately US$38.4 million) net of expenses and the net proceeds were used as general working capital of the Group and acquisition and investments in synergies businesses with the Company's existing business. The placing price was fixed on 19 July 2007, with the closing price of HK$6.8 at that day.

B. FINANCIAL REVIEW *(continued)*

In addition, the Group had received advance payments in relation to the construction contracts of approximately US$27 million.

Significant Investments and Disposals

On 29 August 2007, the Group completed the acquisition of all issued share capital of Top Sino Industrial Limited which owns a solid control system producer Zhengzhou Highlight Energy Technology Co. Ltd. ("Highlight") in China.

On 31 October 2007, the Group completed the acquisition of approximately 28.02% equity interest in Goldman Offshore Design, LLC which in turn holds 25% equity interest in an internationally recognised offshore rig platform engineering and design firm Freide & Goldman Group.

On 18 December 2007, the Group acquired 20,992,498 shares of Global Marine Energy Plc. ("GME") at a price of 15.5 pence per share through an open market trade. The acquisition of 20,992,498 shares of GME, representing approximately 28.73% of the issued share capital of GME, was completed on 21 December 2007. The Group made a conditional cash offer to all shareholders of GME at 16 pence per GME share conditional on, among others, the approval by shareholders of the Company. The approval was obtained at the extraordinary meeting of shareholders held on 17 March 2008.

As at 25 March 2008, shareholders of GME holding 35,822,153 GME share accepted validly in all respects the voluntary conditional cash offer made by the Company at 16 pence per GME share. The acceptance level was about 49.02% of the GME's issued share capital. In addition to 28.73% of GME's issued shares already owned by the Company, the Company held or had received valid acceptance in respect of a total of 56,814,651 GME shares over a total of 73,074,952 GME shares in issue, representing an approximately 77.75% of GME's issued share capital. The Company has waived other conditions and declared the offer unconditioned in all respects on 25 March 2008. It is expected that the acquisition of 49.02% GME shares in issue will be completed in April 2008.

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

Capital Structure

As at 31 December 2006, there were 241,044,000 shares in issue and the Company carried a share capital of approximately US$3,103,000.

During the Year, the Company issued 3,823,200 shares to Pre-IPO option holders and other option holders who exercised their options, and issued 146,937,604 shares for placements, bonus issue and acquisitions. As at 31 December 2007, the Company carried 391,804,804 shares in issue, and a capital of approximately US$5,041,000.

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, property under development, buildings, machinery and bank deposits with carrying value at 31 December 2007 of US$710,000, US$1,070,000, US$2,552,000, US$384,000 and US$608,000 respectively.

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

B. FINANCIAL REVIEW *(continued)*

Foreign Currency Exchange Exposure

Most of the Group's production was carried out by the Group's entities in China which use Chinese Renminbi as functional currency while over 50% of the Group's sales were made in United States dollars, therefore, the Group has foreign exchange exposure. As at 31 December 2007, no related hedges were made by the Group. The Group will actively explore ways to hedge or reduce currency exchange risk in future.

Contingent Liability

As at 31 December 2007 and the date of the report, no contingent liability was known to the management and board of directors.

Connected Transactions

During the Year, the Group conducted the following connected transactions with connected parties of the Company, namely Yantai Raffles Offshore Limited ("YRO") and Yantai Raffles Shipyard Limited ("YRS"). YRS owned during the Year over 80% equity interest of YRO, and YRS wholly owned YRS Investments Limited ("YRSI") which in turn during the Year held over 10% issued share capital of the Company. In accordance with the GEM Listing Rules, YRSI, YRS and YRO are connected persons of the Company and the Group.

1. *Offshore rig turnkey solutions of cantilever and drilling system packages*

Transaction Date	13 July 2007
Transaction with	YRS and YRO
Purpose of Transaction	Supply agreements with YRO and YRS for providing offshore rig turnkey solutions of three cantilever and drilling system turnkey packages
Contract Values and Other Details	Total value for 6 contracts were approximately US$106 million assuming a US dollar exchange rate of 7.7531 to Renminbi. The Group shall obtain payments from YRO and YRS by 10 milestone payments. The packages under the supply agreements shall be delivered 14 months from the date of agreements.
Detailed Announcements and Shareholder Approval	Details of the transaction were announced on 16 July 2007 and in the circular dated 7 August 2007 which were all published on the website of www.hkgem.com and www.tscoffshore.com. The supply agreements were approved by shareholders at extraordinary general meeting on 27 August 2007.

B. FINANCIAL REVIEW *(continued)*

Connected Transactions *(continued)*

2. *Detailed design for three jack-up rigs' cantilever and drilling system*

Transaction Date	27 November 2007
Transaction with	YRS
Purpose of Transaction	Three designed agreements with YRS by which the Group shall provide three sets of structural design drawings for three cantilever and drilling turnkey packages.
Contract Values and Other Details	Total value for three contracts were approximately US$1.2 million. The Group shall obtain payments from YRS by 5 progress milestone payments. The draws under the contracts shall be delivered 7 months from the date of agreements.
Detailed Announcements and Shareholder Approval	Details of the transaction were announced on 27 November 2007 and in the circular dated 12 December 2007 which were all published on the website of www.hkgem.com and www.tscoffshore.com. The design agreements were approved by shareholders at extraordinary general meeting on 28 December 2007.

3. *Three sets of electric power control system for jack-up rigs*

Transaction Date	27 November 2007
Transaction with	YRO
Purpose of Transaction	Three supply agreements with YRO by which the Group shall provide three sets of electric power control system for jack-up rigs to be built by YRO.
Contract Values and Other Details	Total value for three contracts were approximately US$9.2 million assuming a US dollar exchange rate of 7.5697 to Renminbi. The Group shall obtain payments from YRO by 5 progress milestone payments. The systems under the agreements shall all be delivered in 2008.
Detailed Announcements and Shareholder Approval	Details of the transaction were announced on 27 November 2007 and in the circular dated 12 December 2007 which were all published on the website of www.hkgem.com and www.tscoffshore.com. The supply agreements were approved by shareholders at extraordinary general meeting on 28 December 2007.

B. FINANCIAL REVIEW *(continued)*

Connected Transactions *(continued)*

4. Burner boom for offshore rigs

Transaction Date	12 December 2007
Transaction with	YRO
Purpose of Transaction	Two supply agreements with YRO by which the Group shall provide four sets of burner boom to YRO.
Contract Values and Other Details	Total value for two agreements were approximately US$890,000 assuming a US dollar exchange rate of 7.3647 to Renminbi. The Group shall obtain payments from YRO by 4 progress milestone payments. The products under the agreements shall all be delivered in 2008.
Detailed Announcements and Shareholder Approval	Details of the transaction were announced on 12 December 2007 and in the circular dated 31 December 2007 which were all published on the website of www.hkgem.com and www.tscoffshore.com. The design agreements were approved by shareholders at extraordinary general meeting on 22 January 2008.

Employees and Remuneration Policy

As at 31 December 2007, the Group had approximately 430 full-time staff in USA, Hong Kong and the PRC. The Group's remuneration policy is basically determined by the performance of individual employee and the market condition. The Group also provides other benefits to its employees, including medical schemes, pension contributions and share option schemes.

C. BUSINESS REVIEW

Rig Turnkey Solutions

Although there was no revenue recognised in the Year for Rig Turnkey Solutions business, the Group achieved a remarkable progress in this segment since early 2007. As announced by the Group on 16 July 2007, the Group was awarded 6 contracts on 13 July 2007 for providing Cantilever and Drilling System Packages for three ship sets jack-up rigs to be built by Yantai Raffles Shipyard – the biggest offshore rig builder in China. The total contract value was approximately RMB828 million. By these EPC type of contracts, the Group is due to deliver three packages to Yantai Raffles Shipyard in September 2008, November 2008 and January 2009 respectively. At the end of 2007, the progresses for completion of these contracts were made in accordance with planned work schedule.

The management believes that obtaining EPC type of turnkey contracts from a major international offshore builder and the biggest offshore rig builder in China indicates that the Group became one of few major players in international markets who are capable of providing offshore rig turnkey solutions. The Group shall make its endeavors to complete these contracts in time and to the satisfaction of customer, and will continue its efforts of obtaining more of such turnkey contracts from global customers.

Rig Products and Technology

The business development in this sector in the Year was very exciting and encouraging. Although only 27 sets of rig electrical control systems were sold and less than what were sold in 2006, the Group obtained contracts from an international client to develop 4 sets of jacking control system. Three sets were completed and passed ABS approval before delivery to the customer. The success in development of jacking control system and in obtaining ABS approval represent another break through for the Group to provide key equipment for jack-up rigs. The second exciting business development was that the Group obtained contracts for providing three sets of power and drilling control systems for use on Super M2 jack-up rigs to be built in Yantai shipyard. The systems would be all delivered in 2008 by contracts. This second development shows that the Group is capable to provide an integrated power and drilling rig control to a jack-up rig. The third encouraging progress was that the Group achieved a major step forward in completing the development of product of drilling cabin.

C. BUSINESS REVIEW *(continued)*

Rig Products and Technology *(continued)*

Upon the completion of acquisition of Highlight, the Group moved quickly to promote solid control systems to customers which led to more orders and increased sales to both China market and international markets.

In the Year, TSC-branded mud pumps were under a massive production. The Group delivered about 90 sets of mud pumps to customers in North America and South America.

On the production facility front, the Group completed the construction of a new factory for Xian production base, the construction of a new workshop annex to Qingdao production base, as well as the improvement of workshop in Highlight. As a result, the Group's production capacity for Rig Products and Technology was greatly improved.

In the Year, the Group completed the development of new rig equipment for offshore rigs, such as 2000 HP mud pump, 3000 HP draw-works and 49.5 inches rotary table. The Group has received orders for these products. The Group also made solid steps to achieve the capability of assembling or fabricating derricks and jacking systems and of cutting rack for jack-ups. Development of disk brake and top drive was initiated in the Year as well.

Oilfield Expendables and Supplies

The Group's Oilfield Expendables and Supplies business in the Year experienced a moderate growth in sales. However, the Group expanded product scope of expendables to include ceramic liners, new A-1700 modules, and central-fugal pumps, etc. In addition, the Group set up a subsidiary in UAE, and prepared to supply expendables and other parts to our existing and new potential customers in the Middle East.

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

In the Year, the Group made new efforts in promoting and marketing the Group's products as well as rig turnkey solutions to dozens of potential customers and clients in North and South America, Europe and Asia.

Consultancy Services

In the Year, the Group focused its business of consultancy services on offshore drilling equipment. The Group's efforts in supplying equipment to customers in China directly produced a positive trading results.

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

The Company made a conditional cash offer to shares of GME issued and to be issued (excluding shares of GME already owned by the Company) at 16 pence in November 2007. As at 31 December 2007, the Company held 20,992,498 shares of GME. The remaining shares of GME not owned by the Company as at 31 December 2007 were 52,082,454. Conditional on the shareholders of the Company approving the cash offer, the Company is obligated to pay a maximum of GBP8,333,192 to shareholders of GME, assuming that the offer is 100% accepted by shareholders of GME and that no additional shares are to be issued on top of 52,082,454 not owned by the Company. On 17 March 2008, the Company's shareholders meeting approved the offer. In accordance with the Code of Take Over in UK, a company during a period of offer, can not issue any new shares. All options of GME outstanding carries exercise prices higher than 16 pence. Hence the maximum investment commitment on part of the Company as of 31 December 2007 was GBP8,333,192. The Company shall fulfill its payment obligation from its internal resources.

As at 31 December 2007, the Group had a commitment for construction of property amounted to approximately US$1,137,000.

Save as disclosed above, the Group had no significant commitment as at 31 December 2007.

E. PROSPECT AND STRATEGY

The Group is a product and service provider in the world oil and gas drilling industry onshore and offshore. The Group is principally engaged in the provision of Rig Products and Technology, Offshore Rig Turnkey Solutions, and Oilfield Expendables and Supplies.

As the oil prices are at record high and no sign of slowing down in the offshore rig market, the Group are facing one of the best booming periods in history. Although the demand from the onshore drilling activities for the Group's products and services may experience some volatility in near future, the demand from offshore sector shall remain strong in future. Timely catching this market opportunity shall bring more value to the shareholders of the Group. In realising this potential, the Group will continue our growth strategy in 2008 and beyond:

- Continue implementing its growing strategy by organic growth and by acquisitions with emphasizing in acquiring companies which provide synergy, profit and long time value to the Company.

- Continue implementing the Group's global presences by expanding the product and service offer to all major oil and gas producing regions. Upon the completion of the acquisition of GME, the Group has added locations in US, Brazil, UK and Singapore. The Group will have offices and facilities in North America, South America, Europe and Central Asia, Middle East, Asia Pacific and South East Asia.

F. SUBSEQUENT EVENTS

1. Change of company name and change of board lot size

   Pursuant to resolutions passed by the shareholders of the Company at its extraordinary general meeting held on 22 January 2008:

   - under the laws of the Cayman Islands, the name of the Company was changed from "EMER International Group Limited" to "TSC Offshore Group Limited" (with "TSC海洋集團有限公司" being adopted as its new Chinese name for identification purpose only). The certificate of incorporation on change of name was issued by the Registrar of Companies in the Cayman Islands on 22 January 2008 and the certificate of registration of change of name of overseas company was issued by the Registrar of Companies in Hong Kong on 27 February 2008. The stock short name for trading in the Shares on GEM was change from "EMER" to "TSC Offshore" in English and from "埃謨國際" to "TSC海洋集團" in Chinese with effect from 5 March 2008. The stock code of "8149" of the Company remains unchanged.

   - the board lot size for trading in the Shares was changed from 4,000 Shares to 1,000 Shares with effect from 29 February 2008.

2. The shareholders of the Company approved the conditional cash offer on 17 March 2008 at its extraordinary general meeting to the shareholders of GME.

3. As at 25 March 2008, shareholders of GME holding 35,822,153 GME share accepted validly in all respects the conditional cash offer made by the Company at 16 pence per GME share. The acceptance level was 49.02% of the GME's issued share capital. In addition to 28.73% of GME's issued shares already owned by the Company, the Company held or had received valid acceptance in respect of a total of 56,814,651 GME shares over a total of 73,074,952 GME shares in issue, representing an approximately 77.75% of GME's issued share capital. The Company has waived other conditions and declared the offer unconditioned in all respects on 25 March 2008. It is expected that the acquisition of 49.02% of GME shares in issue will be completed in April 2008.

4. On 29 February 2008, Qingdao TSC Offshore Equipment Co., Ltd, the wholly-owned subsidiary of the Company, entered into one conditional supply agreement (the "Supply Agreement") with YRO. The Supply Agreement was related to the sale of BOP handling and transport system to YRO. The contract value was in the sum of RMB19,600,000 (equivalent to approximately US$2,758,000).

   YRO is a non-wholly owned subsidiary of YRS. As at the date of this report, YRS through its wholly-owned subsidiary, YRSI, owns approximately 10.9% of the issued share capital of the Company. Therefore, YRO is a connected person of the Company and the Supply Agreement constitutes connected transaction of the Company under Chapter 20 of the GEM Listing Rules. The Supply Agreement is subject to the approval by the independent shareholders by poll at the extraordinary general meeting to be held on 8 April 2008.

The following is a comparison between the actual business progresses and the business objectives as set out in the prospectus of the Company dated 21 November 2005 (the "Prospectus") for the period from 1 July 2007 to 31 December 2007.

Business objectives as stated in the Prospectus	Actual business progress
Development and introduction of new products:	
– commence field test for development of air-drilling or nitrogen drilling packages	– old plan was postponed to future – top drive and disk brake were put under development
– continue the development of expandable parts for drilling industry and new lines of electrical equipment	– ceramic liners and new type of module A-1700 were introduced – jacking control systems were developed and sold

Business objectives as stated in the Prospectus	Actual business progress
Expansion of sales and marketing network:	
– recruit 1 sales for the promotion of new lines of expandables	– recruited
– commence global sales campaign for building up of the Group's brand name	– company name and product name are to under a unified name TSC
– participate in oil show held in the Middle East and South-east Asia	– absence from shows in the Middle East and Southeast Asia, but take part in show in Canada
	– will take part in large scale shows and meetings in Beijing in 2008
– continue the running of advertisement in major industrial magazines and journals	– completed

The net proceeds from the listing of the Company in 2005 of approximately RMB33.47 million (US$4.14 million assuming an exchange of US dollar to RMB of 8.0815) (after deducting relevant listing expenses) were fully used up before 1 January 2007.

EXECUTIVE DIRECTORS

Mr. Jiang Bing Hua, aged 57, is one of the two founders of the Group. He joined the Company as executive Director, the Co-chairman of the Board, the Chief Operating Officer and President since the Company was listed in November 2005 and re-designated as Executive Chairman of the Company while continue to serve as executive Director on 8 June 2007. He is responsible for the Group's overall strategy planning and business development. Mr. Jiang 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 USA in 1993. Mr. Jiang has 34 years of experience in the oil and gas industry. Prior to founding the Group's business, he worked for the Sinopec group, the CNPC group and China National Offshore Oil Corporation (CNOOC) for various positions such as driller, drilling superintendent, drilling manager, operation manager and company representative.

Mr. Zhang Menggui, aged 49, is the founder of the Group. He joined the Company as executive Director, the Chairman of the Board and the Chief Executive Officer since the Company was listed in November 2005 and re-designated as President of the Company while continue to serve as executive Director and Chief Executive Officer of the Company. He is responsible for the Group's overall performance, strategy implementation and day-to-day operations. Mr. Zhang 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 USA in 1989. Mr. Zhang has 25 years of experience in the oil and gas industry. Prior to founding the Group, he had worked for a subsidiary of the CNPC group in China and for Cook Inlet Region Inc. in Alaska as an oil optrations 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.

Mr. Chen Yunqiang, aged 42, is an executive Director and Senior Vice President and direct of China Sales of the Group. He is responsible for marketing and sales of the Group's product in China market. Mr. Chen studied industrial enterprise management in Hangzhou University of Electronic Science and Technology (杭州電子科技大學). Mr. Chen joined HHCT in August 2001 and held the position of general manager since then. 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.

Mr. Zhang Hongru, aged 44, is an executive Director, the Chief Financial Officer and Senior Vice President of the Group. He also serve as Compliance Officer of the Company. He is responsible for financial management, compliance and investors relationship. He is also responsible for managing the Group's office in Hong Kong. Mr. Zhang holds a master degree in geography obtained from the Chinese Academy of Science in 1986 and a master degree in economics of natural resources obtained from University of Alaska-Fairbanks, USA in 1989. Mr. Zhang has 18 years of experience in the field of banking, finance and corporate management. Prior to joining the Group in October 2004, Mr. Zhang held various positions in DBS Asia Capital Limited, Grand Generale Asia Limited, Crosby Securities Limited and The Hongkong and Shanghai Banking Corporation Limited. Mr. Zhang once was the chief financial officer and an executive director of a GEM listed company from February 2001 to April 2003 and served as an independent non-executive director of another GEM listed company from September 2004 to November 2005.

NON-EXECUTIVE DIRECTOR

Mr. Jiang Longsheng, aged 63, was appointed a non-executive Director in May 2006. Mr. Jiang is a veteran in offshore oil industry in China and has over 36 years of experience in the onshore and offshore oil industry in China. He received a Bachelor of Science degree from the Beijing Petroleum Institute (北京石油學院) in China in 1969. He was appointed as an executive director of CNOOC Limited ("CNOOC") (a company listed on the Main Board of the Stock Exchange) in 2000 to 2005 and had been the vice president of CNOOC from 1998 to 2005. From 1994 to 1998, he was the general manager of China Offshore Oil Southern Drilling Company. From 1991 to 1994, Mr. Jiang served as the deputy chief drilling engineer and was later appointed as the chief drilling engineer of China Offshore Oil Western South China Sea Corporation. Mr. Jiang has been the independent director of China National Pharmaceutical Group Corporation (中國醫藥集團公司) since December 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Bian Junjiang, aged 65, is an independent non-executive Director since October 2005. Mr. Bian presently serves as the chairman of CGC Overseas Construction Company Limited (中地海外建設有限公司責任公司) and an independent director of CITIC Securities Co., Ltd. (中信證券股份有限公司). He has many years of working experience in accounting and economic analysis in petroleum organisations.

Mr. Chan Ngai Sang, Kenny, aged 43, is an independent non-executive Director since October 2005. Mr. Chan holds a bachelor degree in commerce from the University of New South Wales in Australia and is a member of the Institute of Chartered Accountants of New Zealand, the Association of International Accountants, CPA Australia, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. Mr. Chan currently also serves as the Committee Member of the Association of International Accountants Hong Kong Branch. He is a partner and founder of Kenny Chan & Co., a firm of Certified Public Accountants and holds position as an independent non-executive director of Golding Soft Limited, a company listed on GEM in Hong Kong.

Mr. Guan Zhichuan, aged 49, is an independent non-executive Director since October 2005. Mr. Guan obtained a doctorate in engineering from the University of Petroleum (Beijing) (石油大學) in 1995 and pursued his research in the field of oil and gas drilling engineering and fluid mechanic. He presently serves as the vice president of the College of Petroleum Engineering of the China University of Petroleum (中國石油大學石油工程學院).

SENIOR MANAGEMENT

Mr. Robert Sliva, aged 49, joined the Group as Senior Vice President of TSC(USA) in April 2007 and was promoted to the Vice President of the Group in August 2007. He is responsible for the product development for the Rig Products and Technology Division and the marketing and sales for the division. Mr. Sliva received his bachelor degree in mechanical engineering from the University of Houston in 1982 with Master courses at the University of Houston, and has since working in the oil and gas industry for years. Prior to joining the Group, Mr. Sliva had 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, USA.

SENIOR MANAGEMENT *(continued)*

Mr. Zhang Chunhai, aged 47, is a Vice President of the Group and Chief Representative of the Group in China. He is responsible for overall performance of the Group's Beijing representative office and the Group procurement and corporate support. Mr. Zhang obtained his bachelor degree majoring in oilwell drilling (鑽井專業) from the China University of Petroleum (中國石油大學) in 1982. Prior to joining the Group, Mr. Zhang had approximately 20 years working experience in the petroleum industry. Mr. Zhang joined the Group in February 2005.

Mr. Zhang Jingyao, aged 57, is the Vice President of the Group since December 2005. He is charged with the responsibility of corporate planning and internal audit of the Group. Before joining the Group, Mr. Zhang serve as Vice Chairman of Jinxi Axle Company Limited (晉西車軸股份有限公司), a company listed in China and has many years of corporate management experience in a listed company environment.

Mr. Ba Pingji, aged 42, is general manager and chief technology officer of HHCT who is responsible for overall management of HHCT. Mr. Ba graduated from Hunan University (湖南大學) in the PRC with a bachelor degree in electric engineering (電氣工程) in 1988. Mr. Ba joined the Group in February 2002 and before that he had been working in the 11th Research Institute of Aerospace Industry Department (航天工業部第十一研究所) for approximately 12 years, responsible for the design, research, development and installation of transmission control system and factory-use transformer.

Mr. Zhang Mengzhen, aged 41, is the Vice President of the Group since June 2007. Mr. Zhang is responsible for sales and marketing of the Group's Oilfield Supply Division in international markets and overall management of TSC (USA). Mr. Zhang graduated from Xi'an Institute of Metallurgy & Construction Engineering (西安冶金建築學院) in 1989. Previously, Mr. Zhang worked as the engineer for Emer International for three years and then joined TSC (USA) as vice president on 20 August 2002. He is the younger brother of Mr. Zhang Menggui, an executive Director.

Mr. Zhang Shitong, aged 51, joined the Group in 2006, and now serves as general manager of Highlight and is responsible for the Group's solid control business. He founded Highlight and has served as general manager ever since. Mr. Zhang graduated from China University of Petroleum (中國石油大學) in 1982 with a bachelor degree in drilling engineering.

Mr. Wong Kin Ming, Terry, aged 40, is the qualified accountant of the Company. Mr. Wong graduated from the University of Windsor, Canada with a bachelor degree in commerce and obtained his master degree in business (accounting) from Monash University, Australia. He became an associate member of CPA Australia in 1996 and advanced to Certified Practising Accountant in 2003. He is also an associate member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Company in March 2005, Mr. Wong held several positions in the areas of finance, accounting, taxation and audit for different private companies. He has over 16 years of financial and accounting experience.

Ms. Cheung Wai Sze, Candy, aged 32, is the company secretary of the Company since June 2006. She graduated from Curtin University of Technology, Australia with a bachelor degree in commerce and obtained her master degree in professional accounting and information systems from City University of Hong Kong. She is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She has over 7 years of company secretarial and corporate affairs experience.

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2007.

CHANGE OF COMPANY NAME

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

CHANGE OF REPORTING CURRENCY

To cater for the need of the Group's global customers, the board made a decision to use US dollar as reporting currency in 2007 annual reports and in future financial reports.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 is set out in the financial statements on pages 50 to 123.

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 2007, are extracted from the audited financial statements of the Prospectus and the relevant annual reports of the Company, and are set out on page 124. This summary does not form part of the audited financial statements of the Group for the Year.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

The movements in the Company's authorised and issued share capital during the Year are set out in note 32 to the financial statements. Details of the Company's share option schemes are set out in note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, 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 32 to the financial statements and in the consolidated statement of changes in equity on page 54, respectively.

DISTRIBUTABLE RESERVES

The Company had of approximately US$3,577,000 (2006: US$2,330,000) reserves available for cash distribution and/or distribution in specie to shareholders of the Company as at 31 December 2007, as computed in accordance with the Companies Law of the Cayman Islands. The details are set in note 32 to the financial statements. The Company's share premium account, with a balance of approximately US$52,912,000, 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 43.1% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 21% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 30.1% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 9% 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 report were:

Executive Directors:

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

Non-executive Director:

Mr. Jiang Longsheng

Independent non-executive Directors:

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

In accordance with Article 87 of the Company's articles of association, Mr. Jiang Bing Hua, Mr. Zhang Hongru and Mr. Guan Zhichuan will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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 unless terminated by giving either party to the other not less than three month's prior written notice.

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

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

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

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

On 1 February 2005, Oxford Asia Investments Limited ("Oxford"), a wholly-owned subsidiary of the Company, adopted a share option scheme pursuant to which 1,690 share options were granted to certain employees of the Group. On 19 October 2005, the Company adopted a share option scheme ("Pre-IPO Share Option Scheme") to replace the share option scheme of Oxford which was cancelled on the same date. The total number of shares in the Company that are subject to the Pre-IPO Share Option Scheme is 15,210,000 shares at HK$0.286 each, and all the options under the Pre-IPO Share Option Scheme were granted to the option holders of the Oxford's option scheme in the same proportion with their original holding. No further options will be granted under the Pre-IPO Share Option Scheme after 28 November 2005. Details of the Pre-IPO Share Option Scheme are summarised in the paragraph headed "Summary of terms of the Pre-IPO Share Option Scheme" in Appendix 5 to the prospectus of the Company dated 21 November 2005.

SHARE OPTION SCHEMES *(continued)*

On 26 March 2007, the directors of the Company announced in its annual results for the year ended 31 December 2006 of a bonus issue of shares (the "Bonus Issue") to those shareholders whose names appear on the register of members of the Company on 7 May 2007 on the basis of one bonus share for every five existing shares held. The above adjustments to the subscription price and the number of shares subject to the Pre-IPO Share Option became effective on the day of the Bonus Issue becoming unconditional on 10 May 2007 (the "Adjustments").

Particulars of the Pre-IPO Scheme and the Share Option Scheme are set out in note 31 to the financial statements.

Details of the adjusted outstanding options which have been granted and remaining unexercised under the Pre-IPO Scheme during the year ended 31 December 2007 were as follows:

			Number of share options								
			Before Adjustments			After Adjustments					
Name or category of participant	Date of grant (Notes 1 & 2)	Exercisable period (Notes 1, 2 & 3)	Exercise price per share HK$	Balance as at 1.1.2007	Exercised during the period prior to the Adjustments (Notes 5 & 6)	Exercise price per share (Note 4) HK$	Balance after Adjustments (Note 4)	Exercised during the period after the Adjustments (Notes 4, 5 & 6)	Cancelled during the period (Notes 4 & 6)	Lapsed during the period (Notes 4 & 6)	Outstanding as at 31.12.2007 (Note 4)
Directors:											
Mr. Zhang Menggui	19.10.2005	29.11.2005 to 18.10.2015	0.286	3,600,000	720,000	0.2383	3,456,000	432,000	–	–	3,024,000
Mr. Jiang Bing Hua	19.10.2005	29.11.2005 to 18.10.2015	0.286	3,600,000	720,000	0.2383	3,456,000	432,000	–	–	3,024,000
Mr. Chen Yunqiang	19.10.2005	29.11.2005 to 18.10.2015	0.286	2,340,000	468,000	0.2383	2,246,400	280,800	–	–	1,965,600
Mr. Zhang Hongru	19.10.2005	29.11.2005 to 18.10.2015	0.286	1,728,000	–	0.2383	2,073,600	259,200	–	–	1,814,400
				11,268,000	1,908,000		11,232,000	1,404,000	–	–	9,828,000
Employees	19.10.2005	29.11.2005 to 18.10.2015	0.286	2,898,000	90,000	0.2383	3,369,600	421,200	–	–	2,948,400
Total				14,166,000	1,998,000		14,601,600	1,825,200	–	–	12,776,400

Notes:

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

2. The vesting period of the options is 5 years and starts from the date of grant and become vested at stepped semi-annual increments of 10% of the total options originally granted subject to any adjustment due to the bonus issue, for a period of 5 years from the date of grant.

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

4. Adjustments had been made to the subscription price and the number of shares of the unexercised Pre-IPO Share Options as a result of the bonus issue became unconditional on 10 May 2007.

5. 1,998,000 share options were exercised at an exercise price of HK$0.286 per share and the 1,825,200 share options were exercised at an exercise price of HK$0.2383 per share and the weighted average closing price at the date of exercise of options was HK$1.98.

6. The period refers to the twelve months ended 31 December 2007.

SHARE OPTION SCHEMES *(continued)*

Pursuant to the share option scheme adopted by the Company on 20 October 2005 ("Share Option Scheme"), the Directors granted 7,280,000 share options at HK$2.43 each to 14 employees of the Group on 10 May 2007 and granted 9,700,000 share options at HK$5.60 each to 51 employees and 2 consultants of the Group on 12 November 2007. Based a valuation report done by an independent valuer Jones Lang LaSalle Sallmanns, the value of the option granted on 10 May 2007 and on 12 November 2007 were HK$7,252,000 and HK$21,812,000 respectively.

The closing prices of the Company shares on the preceding option granted date 9 May 2007 and 9 November 2007 were HK$2.50 and HK$5.58 respectively.

Details of share options under the Share Option Scheme during the year ended 31 December 2007:

				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$	Outstanding as at 1.1.2007	Granted during the period (Note 4)	Exercised during the period (Note 4)	Cancelled during the period (Note 4)	Lapsed during the period (Note 4)	Outstanding as at 31.12.2007
Employees	10.05.2007	10.11.2007 to 09.05.2017	2.43	–	7,280,000	–	–	–	7,280,000
Total				–	7,280,000	–	–	–	7,280,000
Employees	12.11.2007	12.05.2008 to 11.11.2017	5.60	–	9,500,000	–	–	–	9,500,000
Consultant	12.11.2007	12.05.2008 to 11.11.2017	5.60	–	200,000	–	–	–	200,000
Total				–	9,700,000	–	–	–	9,700,000

Notes:

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

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

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

4. The period refers to the twelve months ended 31 December 2007.

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

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

As at 31 December 2007, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to the required standard of dealings by the Directors as referred to in Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Name of Directors	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 Share Option Scheme) (Note 3)	Approximate percentage of the Company's issued share capital
	Personal interests	Family interests	Corporate interests	Other interests	Total		
Mr. Zhang Menggui (Note 1)	432,000	–	136,871,200	–	137,303,200	3,024,000	35.82%
Mr. Jiang Bing Hua (Note 1)	432,000	–	136,871,200	–	137,303,200	3,024,000	35.82%
Mr. Zhang Hongru (Note 2)	4,431,600	–	16,228,800	–	20,660,400	1,814,400	5.74%
Mr. Chen Yunqiang	842,400	–	–	–	842,400	1,965,600	0.72%

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.

2. Mr. Zhang Hongru personally holds 4,431,600 shares and indirectly holds 16,228,800 shares through Osbeck Investments Limited which is an investment holding company wholly owned by him. He is deemed to be interested in the shares held by Osbeck Investments Limited under Part XV of the SFO.

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

Save as disclosed above, as at 31 December 2007, none of the Directors or chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to the required standard of dealings by the Directors as referred to in Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the paragraph headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" above and in the share option scheme disclosures in note 31 to the financial statements, at no time during the Year under review, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company was granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2007, 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:

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**
Ms. Chen Fengying (Note 1)	Interest of spouse	137,303,200 shares and 3,024,000 share options	35.82%
Ms. Zhang Jiuli (Note 2)	Interest of spouse	137,303,200 shares and 3,024,000 share options	35.82%
Global Energy Investors, LLC (Note 3)	Corporate	136,871,200 shares	34.93%
Yantai Raffles Shipyard Limited (Note 4)	Interest in a controlled entity	42,800,000 shares	10.92%
YRS Investments Limited (Note 4)	Corporate	42,800,000 shares	10.92%
Asian Infrastructure Limited (Note 4)	Corporate	16,072,800 shares	4.10%
Mr. Brian Chang (Note 4)	Interest in a controlled entity	58,872,800 shares	15.03%

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

(continued)

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)	Interest in a controlled entity	38,164,000 shares	9.74%
Keywise Greater China Opportunities Master Fund (Note 5)	Corporate	38,164,000 shares	9.74%
NESTOR Investment Management S.A. (Note 6)	Corporate	22,828,000 shares	5.83%
NESTOR Fernost Fonds (Note 6)	Interest in a controlled entity	22,828,000 shares	5.83%
Ms. Gao Haiping (Note 7)	Interest of spouse	20,660,400 shares and 1,814,400 share options	5.74%

Notes:

1. These interests represent the same block of shares held by Mr. Zhang Menggui in the previous section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and share options held by Mr. Zhang Menggui in the below section headed "SHARE OPTION SCHEMES". Since Ms. 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 held by Mr. Jiang Bing Hua in the previous section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and share options held by Mr. Jiang Bing Hua in the below section headed "SHARE OPTION SCHEMES". Since Ms. Zhang Jiuli is the spouse of Mr. Jiang Bing Hua, she is deemed to be interested in the shares and share options held by him under Part XV of the SFO.

3. 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.

4. YRS Investments Limited ("YRSI") is ultimately wholly-owned by Yantai Raffles Shipyard Limited ("YRS"), a company incorporated in Singapore and the shares of which are traded on the Oslo Over-the-Counter Market. Accordingly, YRS is deemed to be interested in 42,800,000 Shares held by YRSI. YRS is owned as to approximately 45% by Mr. Brian Chang and his associates. Mr. Brian Chang is deemed to be interested in 42,800,000 Shares held by YRSI as he holds more than one-third interest of the issued share capital of YRSI. Mr. Brian Chang is also deemed to be interested in 16,072,800 Shares held through his wholly-owned subsidiary, Asian Infrastructure Limited.

5. Keywise Greater China Opportunities Master Fund is an independent investment fund registered in the Cayman Islands and is managed by Keywise Capital Management (HK) Limited, a company incorporated in Hong Kong. Accordingly, both are deemed to be interested in the 38,164,000 shares under Part XV of the SFO.

6. NESTOR Investment Management S.A. held 22,828,000 Shares on behalf of NESTOR Fernost Fonds, an undertaking for collective investments under the Laws of the Grand Duchy von Luxembourg.

7. These interests represent the same block of shares held by Mr. Zhang Hongru in the previous section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and share options held by Mr. Zhang Hongru in the below section headed "SHARE OPTION SCHEMES". Since Ms. Gao Haiping is the spouse of Mr. Zhang Hongru, she is deemed to be interested in the shares and share options held by him under Part XV of the SFO.

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

(continued)

Save as disclosed above, as at 31 December 2007, there was no person (other than the Directors and chief executives of the Company whose interests are set out under the paragraph headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES" above and section headed "SHARE OPTION SCHEMES" below), had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 37 to the financial statements. Save as disclosed therein, there were no other transactions to be disclosed as related party transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

CONNECTED TRANSACTIONS

The Group entered into the following connected transactions during the year ended 31 December 2007:

The Group conducted four connected transactions with connected parties of the Company, namely Yantai Raffles Offshore Limited ("YRO") and Yantai Raffles Shipyard Limited ("YRS"). YRS owned during the Year over 80% equity interest of YRO, and YRS wholly owned YRS Investments Limited ("YRSI") which in turn during the Year held over 10% issued share capital of the Company. In accordance with the GEM Listing Rules, YRSI, YRS and YRO are connected persons of the Company and the Group.

1. Offshore rig turnkey solutions of cantilever and drilling system packages

Transaction Date	13 July 2007
Transaction with	YRS and YRO
Purpose of Transaction	Supply agreements with YRO and YRS for providing offshore rig turnkey solutions of three cantilever and drilling system turnkey packages
Contract Values and Other Details	Total value for 6 contracts were approximately US$106 million assuming a US dollar exchange rate of 7.7531 to Renminbi. The Group shall obtain payments from YRO and YRS by 10 milestone payments. The packages under the supply agreements shall be delivered 14 months from the date of agreements.

CONNECTED TRANSACTIONS *(continued)*

1. Offshore rig turnkey solutions of cantilever and drilling system packages *(continued)*

Detailed Announcements and Shareholder Approval	Details of the transaction were announced on 16 July 2007 and in the circular dated 7 August 2007 which were all published on the website of www.hkgem.com and www.tscoffshore.com. The supply agreements were approved by shareholders at extraordinary general meeting on 27 August 2007.

2. Detailed design for three jack-up rigs' cantilever and drilling system

Transaction Date	27 November 2007
Transaction with	YRS
Purpose of Transaction	Three designed agreements with YRS by which the Group shall provide three sets of structural design drawings for three cantilever and drilling turnkey packages.
Contract Values and Other Details	Total value for three contracts were approximately US$1.2 million. The Group shall obtain payments from YRS by 5 progress milestone payments. The draws under the contracts shall be delivered 7 months from the date of agreements.
Detailed Announcements and Shareholder Approval	Details of the transaction were announced on 27 November 2007 and in the circular dated 12 December 2007 which were all published on the website of www.hkgem.com and www.tscoffshore.com. The design agreements were approved by shareholders at extraordinary general meeting on 28 December 2007.

3. Three sets of electric power control system for jack-up rigs

Transaction Date	27 November 2007
Transaction with	YRO
Purpose of Transaction	Three supply agreements with YRO by which the Group shall provide three sets of electric power control system for jack-up rigs to be built by YRO.

CONNECTED TRANSACTIONS *(continued)*

3. Three sets of electric power control system for jack-up rigs *(continued)*

Contract Values and Other Details	Total value for three contracts were approximately US$9.2 million assuming a US dollar exchange rate of 7.5697 to Renminbi. The Group shall obtain payments from YRO by 5 progress milestone payments. The systems under the agreements shall all be delivered in 2008.
Detailed Announcements and Shareholder Approval	Details of the TRANSACTION were announced on 27 November 2007 and in the circular dated 12 December 2007 which were all published on the website of www.hkgem.com and www.tscoffshore.com. The supply agreements were approved by shareholders at extraordinary general meeting on 28 December 2007.

4. Burner boom for offshore rigs

Transaction Date	12 December 2007
Transaction with	YRO
Purpose of Transaction	Two supply agreements with YRO by which the Group shall provide four sets of burner boom to YRO.
Contract Values and Other Details	Total value for two agreements were approximately US$890,000 assuming a US dollar exchange rate of 7.3647 to Renminbi. The Group shall obtain payments from YRO by 4 progress milestone payments. The products under the agreements shall all be delivered in 2008.
Detailed Announcements and Shareholder Approval	Details of the transaction were announced on 12 December 2007 and in the circular dated 31 December 2007 which were all published on the website of www.hkgem.com and www.tscoffshore.com. The design agreements were approved by shareholders at extraordinary general meeting on 22 January 2008.

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

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

(b) on terms no less favourable to the Company than those to be offered to independent third parties; and

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

COMPETITION AND CONFLICT OF INTERESTS

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

INTERESTS OF COMPLIANCE ADVISER

Pursuant to a compliance adviser agreement dated 18 October 2006 made between the Company and Quam Capital Limited ("Quam"), Quam has been appointed as the compliance adviser to the Company as required under the GEM Listing Rules at a fee for the period from 18 October 2006 to the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the period from 18 October 2006 to 31 December 2007.

None of Quam, its directors, employees nor their respective associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other member of the Group (including options or rights to subscribe for such securities) as at 31 December 2007.

PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2007.

AUDITORS

The financial statements of the Company for the year ended 31 December 2007 were audited by KPMG. A resolution to re-appoint the retiring auditors, KPMG, will be proposed at the forthcoming annual general meeting of the Company.

CCIF CPA Limited ("CCIF") tendered their resignation as auditors of the Company with effect from 20 November 2007 and KPMG were appointed as auditors of the Company to fill the casual vacancy created by the resignation of CCIF on 26 November 2007.

The financial statements of the Company for the years ended 31 December 2005 and 2006 were audited by CCIF and there have been no other changes of auditors of the Company in the past two years.

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 43 to 47 of this report.

ON BEHALF OF THE BOARD
TSC Offshore Group Limited

Jiang Bing Hua	**Zhang Menggui**
Executive Chairman	*President and Chief Executive Officer*

Hong Kong, 26 March 2008

The Board of Directors (the "Board") is pleased to present this Corporate Governance Report in the Company's annual report for the Year.

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

CORPORATE GOVERNANCE PRACTICES

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

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

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

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 the Company's 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 Company fully supports the division of responsibility between the executive chairman of the Board and the chief executive officer to ensure a balance of power and authority. Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

At the Board meeting of the Company held on 8 June 2007, the Company had approved the separation of the posts of chairman and chief executive officer of the Company. An executive Director, Mr. Jiang Bing Hua is acting as executive chairman of the Company whereas Mr. Zhang Menggui, another executive Director, is acting as president and chief executive officer of the Company.

The positions of the executive chairman and chief executive officer of the Company are held by Mr. Jiang Bing Hua and Mr. Zhang Menggui respectively since 8 June 2007.

The Board comprises 8 Directors, including 4 executive Directors, namely Mr. Jiang Bing Hua, Mr. Zhang Menggui, Mr. Chen Yunqiang and Mr. Zhang Hongru; 1 non-executive Director, namely Mr. Jiang Longsheng; and 3 independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny, Mr. Bian Junjiang and Mr. Guan Zhichuan. As half of the members of the Board being non-executive and they have not participated into the management of the Company, the Board is therefore able to exercise independent judgment on corporate affairs and provide the management with a diverse and objective perspective on issues. The Board believes that current board size is appropriate based on the Company's present circumstances and will periodically evaluate the need for increasing or decreasing its size.

The articles of association of the Company (the "Articles") have stated clearly the procedures for the appointment of new directors, re-election and removal of directors. The service contracts with the executive, independent non-executive and non-executive Directors commenced on 28 November 2005, 20 October 2005 and 1 May 2006 respectively, with a specific term of 3 years provided that the appointments may be terminated by the Company or respective Director with a written notice of not less than 3 months. Pursuant to Article 87, Mr. Jiang Bing Hua, Mr. Zhang Hongru and Mr. Guan Zhichuan will retire, and being eligible for election, offer themselves for re-election at the forthcoming annual general meeting to be held on 22 April 2008.

Members of the Board held a total of 18 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, policies, annual budgets and business plans; (ii) the approval of the Group's quarterly, interim and annual results; (iii) change of auditors (iv) change of company name (v) significant investments and acquisitions; (vi) the sales of equipment to connected person and (vii) issue of new shares.

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

During the Year, Board, Audit Committee and Remuneration Committee meetings were held, with details as follows:

	Meetings attended/held		
Name of Directors	Board	Audit Committee	Remuneration Committee
Executive Directors			
Mr. Jiang Bing Hua	18/18		1/1
Mr. Zhang Menggui	16/18		1/1
Mr. Chen Yunqiang	14/18		
Mr. Zhang Hongru	17/18		
Non-executive Director			
Mr. Jiang Longsheng	8/18		
Independent Non-executive Directors			
Mr. Chan Ngai Sang, Kenny	14/18	5/5	0/1
Mr. Bian Junjiang	10/18	4/5	1/1
Mr. Guan Zhichuan	11/18	3/5	1/1

REMUNERATION COMMITTEE

The remuneration committee was established on 20 October 2005 comprising 3 independent non-executive Directors, namely Mr. Bian Junjiang (being the Chairman), Mr. Chan Ngai Sang, Kenny, Mr. Guan Zhichuan; and 2 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.

The remuneration packages of each Director have been considered and approved by the Board in preparation for listing and an extraordinary general meeting of the then shareholders on 20 October 2005. During the Year, one meeting of the remuneration committee was held and the remuneration committee of the Company revised Director's salary, reviewed the remuneration policy for 2006/2007 and the remuneration of executive Directors, non-executive Director and independent non-executive Directors.

NOMINATION OF DIRECTORS

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

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

Additionally, the executive chairman together with members of the Board will consider the past performance, qualification, general market conditions and the Articles in selecting and recommending candidates for directorship during the Year under review. In accordance with Article 87, Mr. Jiang Bing Hua, Mr. Zhang Hongru and Mr. Guan Zhichuan will retire, being eligible, offer themselves for re-election at the forthcoming annual general meeting to be held on 22 April 2008.

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 statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 48 of this annual report.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing non-audit functions (if any) performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the Year under review, the Company has paid an aggregate of approximately US$189,000 (2006: US$96,000) 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 Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises three members, namely Mr. Chan Ngai Sang, Kenny (being the chairman), Mr. Bian Junjiang and Mr. Guan Zhichuan. All of them are independent non-executive Directors.

Throughout the Year, the audit committee held 5 meetings in appointing of new auditors, 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.

INTERNAL CONTROL

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

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

SHAREHOLDER RIGHTS AND INVESTORS RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Articles. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained.

Poll results will be published and posted on the websites of the Stock Exchange and the Company respectively.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT 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 50 to 123, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. 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 HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

BASIS FOR QUALIFIED OPINION

Included in the Group's interest in associates as at 31 December 2007 is an investment in an associate, Goldman Offshore Design, LLC ("Goldman Offshore"), which was acquired during the year at a cost of US$7,453,000. Goldman Offshore is an investment holding company, it has not carried on any businesses and operations save for holding a 25% equity interest in each of its three associates.

As stated in notes 1(a) and 19 to the financial statements, the Group's investment in Goldman Offshore is stated at cost less impairment losses. The accounting treatment of the investment in this associate does not comply with Hong Kong Accounting Standard 28 ("HKAS 28"), *Investments in associates*, issued by the HKICPA, which states that an investment in an associate should be accounted for using the equity method. Had the investment in Goldman Offshore been equity accounted for as required by HKAS 28, the Group would have recognised its share of Goldman Offshore's results since the date of acquisition and net assets as at 31 December 2007.

In addition, as indicated in note 19 to the financial statements, the summarised financial information of associates disclosed as required under HKAS 28 does not include the financial information of Goldman Offshore since no management accounts or audited financial statements of Goldman Offshore (after equity accounting for its own associates) were available.

In the absence of the relevant financial information of Goldman Offshore, it is not practical for us to quantify the effect of the non-compliance with HKAS 28 as referred to above. Any adjustments to the figures may have a consequential effect on the Group's profit for the year and the Group's net assets as at 31 December 2007.

QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENT

In our opinion, except for the effect on the financial statements of the matters described in the basis for qualified opinion paragraph, 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 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
26 March 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 US$'000	2006 US$'000
Turnover	3 & 12	**34,327**	27,038
Cost of sales		**(20,494)**	(14,961)
Gross profit		**13,833**	12,077
Other revenue	4	**1,399**	607
Selling and distribution expenses		**(2,551)**	(1,782)
General and administrative expenses		**(7,989)**	(5,770)
Other operating expenses		**(755)**	(262)
Profit from operations		**3,937**	4,870
Finance costs	5(a)	**(296)**	(153)
Share of results of associates		**91**	(1)
Profit before taxation	5	**3,732**	4,716
Income tax	6(a)	**(236)**	(424)
Profit for the year and attributable to equity shareholders of the Company	9 & 32	**3,496**	4,292
Dividend	10	**–**	–
Earnings per share	11		
Basic		**US1.03 cent**	US1.49 cent
Diluted		**US0.98 cent**	US1.44 cent

The notes on pages 57 to 123 form part of these financial statements.

	Notes	2007 US$'000	2006 US$'000
Non-current assets			
Property, plant and equipment	13	**5,812**	3,078
Property under development	14	**1,070**	293
Interest in leasehold land held for own use under operating leases	15	**1,202**	1,161
Intangible assets	16	**2,824**	59
Goodwill	17	**2,272**	–
Interest in associates	19	**14,410**	318
Deferred tax assets	29(b)	**680**	294
		28,270	5,203
Current assets			
Other financial asset	20	**676**	–
Inventories	21	**14,701**	7,340
Trade and other receivables	22	**28,169**	11,567
Amounts due from directors	23	**38**	13
Amount due from an officer	24	**–**	12
Amount due from a related company	25	**79**	80
Pledged bank deposits		**1,067**	195
Cash at bank and in hand		**44,334**	2,778
		89,064	21,985
Current liabilities			
Trade and other payables	26	**37,258**	7,191
Amount due to a related company	27	**2**	1
Bank loans	28	**3,298**	2,393
Current taxation	29(a)	**454**	413
		41,012	9,998
Net current assets		**48,052**	11,987
Total assets less current liabilities		**76,322**	17,190

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 US$'000	2006 US$'000
Non-current liabilities			
Bank loans	28	**405**	–
Deferred tax liabilities	29(b)	**331**	35
		736	35
NET ASSETS		**75,586**	17,155
CAPITAL AND RESERVES	32		
Share capital		**5,041**	3,103
Reserves		**70,545**	14,052
TOTAL EQUITY		**75,586**	17,155

Approved and authorised for issue by the board of directors on 26 March 2008

Zhang Menggui
Director

Jiang Bing Hua
Director

The notes on pages 57 to 123 form part of these financial statements.

Balance Sheet

At 31 December 2007

	Notes	2007 US$'000	2006 US$'000
Non-current assets			
Investments in subsidiaries	18	**20**	20
Investment in an associate	19	**6,540**	–
		6,560	20
Current assets			
Other receivables, prepayments and deposits	22	**417**	14
Amounts due from subsidiaries	18	**33,136**	3,427
Dividend receivable		**4,760**	2,920
Cash at bank and in hand		**18,534**	709
		56,847	7,070
Current liabilities			
Other payables and accrued charges	26	**277**	115
Amounts due to subsidiaries	18	**30**	1
		307	116
Net current assets		**56,540**	6,954
NET ASSETS		**63,100**	6,974
CAPITAL AND RESERVES	32		
Share capital		**5,041**	3,103
Reserves		**58,059**	3,871
TOTAL EQUITY		**63,100**	6,974

Approved and authorised for issue by the board of directors on 26 March 2008

Zhang Menggui
Director

Jiang Bing Hua
Director

The notes on pages 57 to 123 form part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

	2007	2006
	US$'000	US$'000
Total equity at 1 January	**17,155**	12,445
Net income recognised directly in equity:		
Exchange differences on translation of financial statements of foreign subsidiaries and associates	**933**	387
Others	**–**	(168)
	933	219
Profit for the year	**3,496**	4,292
Total recognised income and expense for the year	**4,429**	4,511
Movements in equity arising from capital transactions:		
Issue of ordinary shares, net of share issue expenses	**53,505**	–
Shares issued under share option scheme	**130**	39
Equity-settled share-based transactions	**367**	160
	54,002	199
Total equity at 31 December	**75,586**	17,155

The notes on pages 57 to 123 form part of these financial statements.

	Notes	2007 US$'000	2006 US$'000
Operating activities			
Profit before taxation		**3,732**	4,716
Adjustments for:			
Depreciation	5(c)	**503**	316
Impairment losses on doubtful debts	5(c)	**115**	121
Reversal of impairment losses on doubtful debts	4	**(19)**	(131)
Amortisation of interest in leasehold land held for own use under operating leases	5(c)	**24**	24
Amortisation of intangible assets	5(c)	**151**	12
Finance costs	5(a)	**296**	153
Interest income	4	**(733)**	(58)
Share of results of associates	19	**(91)**	1
Loss on disposal of property, plant and equipment	5(c)	**40**	21
Equity-settled share-based payment expenses	5(b)	**367**	160
Foreign exchange gain		**(480)**	(667)
Operating profit before changes in working capital		**3,905**	4,668
Increase in inventories		**(6,420)**	(4,404)
Increase in amounts due from directors		**(25)**	(1)
Decrease in amount due from an officer		**12**	153
Decrease/(increase) in amount due from a related company		**1**	(17)
Increase in trade and other receivables		**(15,812)**	(4,471)
Increase in trade and other payables		**29,446**	3,437
Decrease in amounts due to directors		**–**	(67)
Increase in amount due to a related company		**1**	1
Cash generated from/(used in) operations		**11,108**	(701)
People's Republic of China ("PRC") enterprise income tax and United States corporation income tax paid		**(604)**	(179)
Net cash generated from/(used in) operating activities		**10,504**	(880)

	Notes	2007 US$'000	2006 US$'000
Investing activities			
Payment for purchase of property, plant and equipment		**(1,747)**	(1,688)
Construction expenditure on property under development		**(2,552)**	(293)
Interest received		**733**	58
Increase in pledged bank deposits		**(872)**	(195)
Payment for purchase of other financial asset		**(676)**	–
Payment for purchase of intangible assets		**(123)**	–
Payment for purchase of subsidiaries, net of cash acquired	34	**(301)**	–
Payment for purchase of associates		**(10,256)**	(319)
Proceeds from sale of property, plant and equipment		**576**	–
Net cash used in investing activities		**(15,218)**	(2,437)
Financing activities			
Proceeds from issue of share capital		**44,150**	–
Proceeds from shares issued under share option scheme	32	**130**	39
Interest paid		**(341)**	(104)
Proceeds from new bank loans		**3,608**	1,796
Repayment of bank loans		**(2,481)**	(383)
Capital element of finance lease rentals paid		**–**	(19)
Interest element of finance lease rentals paid		**–**	(49)
Net cash generated from financing activities		**45,066**	1,280
Net increase/(decrease) in cash and cash equivalents		**40,352**	(2,037)
Cash and cash equivalents at 1 January		**2,778**	3,860
Effect of foreign exchange rate changes		**1,204**	955
Cash and cash equivalents at 31 December		**44,334**	2,778

Major non-cash transactions

(a) On 29 August 2007, the Group acquired all the issued and paid up capital of Top Sino Industrial Limited and part of the consideration was settled by the allotment and issue of 10,000,000 shares of HK$0.1 each in the share capital of the Company (note 34).

(b) On 31 October 2007, the Group acquired 28% equity interest in Goldman Offshore Design, LLC and part of the consideration was settled by the allotment and issue of 5,701,204 shares of HK$0.1 each in the share capital of the Company (note 19).

The notes on pages 57 to 123 form part of these financial statements.

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, except that as explained in note 19, one of the investments in associates is stated at cost less impairment losses which does not comply with HKAS 28, *Investments in associates*. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules").

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 2007 comprise the Company and its subsidiaries and the Group's interest in associates.

The functional currency of the Company is Hong Kong dollars. Subsidiaries established/incorporated in the PRC and the United States of America ("USA") have their functional currencies in Chinese Renminbi and United States dollars respectively. The Group changed its presentation currency from Chinese Renminbi to United States dollars in 2007. During the year ended 31 December 2007, the Group acquired two foreign associates and further expands its international operations. Following the increased 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 cater for the need of the Group's global customers. The change in presentation currency has no significant impact on the financial position of the Group as at 31 December 2006 and 2007, or the results and cash flows of the Group for the year ended 31 December 2006 and 2007.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 40.

A summary of the significant accounting policies adopted by the Group is set out below.

(c) Subsidiaries

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.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Associates

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

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

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

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

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(k)).

(e) Goodwill

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Other financial assets

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

(g) Property, plant and equipment

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

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

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, borrowing costs, 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.

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 following 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%
– Plant and machinery	10% – 20%
– 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Property under development

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

(i) Intangible assets

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)).

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	10 years
– Patents	5 – 6 years
– Computer software	10 years

Both the period and method of amortisation are reviewed annually.

(j) Leased assets

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

(i) Classification of assets leased to the Group

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Leased assets *(continued)*

(ii) Operating lease charges

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

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

(k) Impairment of assets

(i) Impairment of investments and receivables

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

(i) Impairment of investments and receivables (continued)

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

(ii) Impairment of other assets

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

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

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

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

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

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

(l) Inventories

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Inventories *(continued)*

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.

(m) Construction contracts

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

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the 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". Amount received before the related work is performed are included in the balance sheet, as a liability, as "Advances received".

(n) Trade and other receivables

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

(o) Interest-bearing borrowings

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Trade and other payables

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

(q) Cash and cash equivalents

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

(r) Employee benefits

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

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

(ii) Share-based payments

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Income tax

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Income tax *(continued)*

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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

(ii) Other provisions and contingent liabilities

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

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

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

(u) Revenue recognition

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

(i) Sale of goods

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

(ii) Consultancy services fee income

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

(iii) Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the completion of physical proportion of the contract work. When the outcome of a construction contract cannot estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Revenue recognition *(continued)*

(iv) Interest income

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

(v) Rental income

Rental income is recognised on a straight-line basis over the periods of the respective leases.

(v) Translation of foreign currencies

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

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

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

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

(w) Borrowing costs

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Research and development costs

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

(y) Related parties

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

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

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Segment reporting

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

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

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

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

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

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures,* there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation.* These disclosures are provided throughout these financial statements, in particular in note 33.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 32(e).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 41).

3 TURNOVER

The principal activities of the Group are the manufacturing and trading of rig products and technology (including rig electrical control system and other rig equipment) and oilfield expendables and supplies, and the provision of consultancy services. In addition, the Group commenced rig turnkey solutions business to offshore rigs in 2007.

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

	2007	2006
	US$'000	US$'000
Rig products and technology		
– Sales of rig electrical control system	**11,912**	13,401
– Sales of other rig equipment	**7,740**	–
	19,652	13,401
Oilfield expendables and supplies		
– Sales of expendables and supplies	**13,944**	13,109
Consultancy services		
– Services fee income	**731**	528
	34,327	27,038

4 OTHER REVENUE

	2007	2006
	US$'000	US$'000
Interest income	**733**	58
Rental income	**7**	156
Gain on sales of accessories	**491**	261
Reversal of impairment losses on doubtful debts	**19**	131
Others	**149**	1
	1,399	607

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		2007 US$'000	2006 US$'000
(a)	Finance costs:		
	Interest on bank loans wholly repayable within five years	**341**	85
	Interest on other loans	**–**	19
	Finance charges on obligations under finance lease	**–**	49
	Total borrowing costs	**341**	153
	Less: borrowing costs capitalised into property under development*	**(45)**	–
		296	153

* Borrowing costs have been capitalised at rates of 6.93%-8.22% per annum.

		2007 US$'000	2006 US$'000
(b)	Staff costs#:		
	Contributions to defined contribution retirement plan	**268**	193
	Equity-settled share-based payment expenses (notes 31 and 32)	**367**	160
	Salaries, wages and other benefits	**4,584**	3,527
		5,219	3,880
(c)	Other items:		
	Amortisation of interest in leasehold land held for own use under operating leases#	**24**	24
	Amortisation of intangible assets	**151**	12
	Depreciation#	**503**	316
	Impairment losses on doubtful debts	**115**	121
	Research and development costs	**137**	170
	Net foreign exchange loss	**405**	98
	Loss on disposal of property, plant and equipment	**40**	21
	Auditors' remuneration	**189**	96
	Minimum lease payments under operating leases in respect of land and buildings	**323**	252
	Cost of inventories# (note 21(b))	**20,494**	14,961

Cost of inventories includes US$820,000 (2006: US$503,000) relating to staff costs, depreciation and amortisation expenses which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX

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

	2007 US$'000	2006 US$'000
Current tax		
Provision for the year		
– PRC enterprise income tax	**645**	183
– United States corporation income tax	**–**	67
	645	250
Under-provision of PRC enterprise income tax in respect of prior years	**–**	85
	645	335
Deferred tax		
Origination and reversal of temporary differences (note 29(b))	**(409)**	89
	236	424

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 the Group's operations in the PRC and the USA is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions. During the year, certain PRC subsidiaries are subject to tax at 50% of the standard tax rates/reduced rates or fully exempt from income tax under the relevant PRC tax rules and regulations.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which became effective on 1 January 2008. According to the new tax law, the standard PRC Enterprise Income Tax rate is 25%. Dividends declared by the PRC subsidiaries to parent companies incorporated in Hong Kong and the British Virgin Islands are subject to withholding tax of 5% and 10% respectively. Furthermore, the State Council of the PRC passed the implementation guidance ("Implementation Guidance") on 26 December 2007, which sets out the details of how the existing preferential income tax rate will be adjusted to the standard rate of 25%. According to the Implementation Guidance, income tax rate for the PRC subsidiaries of the Group, which are eligible to a 100% or 50% relief from PRC Enterprise Income Tax, will be changed to the standard rate of 25% when the relief expired. The enactment of the new tax law has no significant financial effect on the amounts accrued in the balance sheet in respect of current tax payable and deferred taxation.

6 INCOME TAX *(continued)*

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

In accordance with Caishui (2008) No.1 issued by the Ministry of Finance and the State Administration of Taxation of the PRC, undistributed profits from the PRC subsidiaries up to 31 December 2007 will be exempted from withholding tax when they are distributed in future. As a result, no provision for withholding tax is made as at 31 December 2007.

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

	2007	2006
	US$'000	US$'000
Profit before taxation	**3,732**	4,716
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**1,422**	1,398
Tax effect of non-deductible expenses	**735**	368
Tax effect of non-taxable income	**(490)**	(472)
Tax effect of profits entitled to tax exemptions in the PRC	**(1,431)**	(1,082)
Tax effect of unused tax loss not recognised	**–**	127
Under-provision in prior years	**–**	85
	236	424

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	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	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	–	–	259	307	18	12	277	319	36	38	313	357
Mr Jiang Bing Hua	–	–	259	307	16	12	275	319	36	38	311	357
Mr Chen Yunqiang	–	–	137	136	2	1	139	137	23	24	162	161
Mr Zhang Hongru	–	–	208	175	1	2	209	177	22	23	231	200
Independent non-executive directors:												
Mr Bian Junjiang	16	16	–	–	–	–	16	16	–	–	16	16
Mr Chan Ngai Sang, Kenny	19	19	–	–	–	–	19	19	–	–	19	19
Mr Guan Zhichuan	16	16	–	–	–	–	16	16	–	–	16	16
Non-executive director:												
Mr Jiang Long Shang	16	10	–	–	–	–	16	10	–	–	16	10
	67	61	863	925	37	27	967	1,013	117	123	1,084	1,136

Note: The share-based payments represent the estimated value of share options granted to the directors pursuant to the Company's share option schemes. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(r)(ii). Details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share Option Scheme" in the report of the directors and note 31.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2006: four) are directors whose emoluments are disclosed in note 7. The emolument in respect of the other one (2006: one) individual is as follows:

	2007	2006
	US$'000	US$'000
Salaries and other emoluments	**147**	145
Share-based payment	**14**	4
Retirement scheme contributions	**13**	8
	174	157

The emolument of the one (2006: one) individual with the highest emolument is within the band between HK$1,000,001 (equivalent to US$128,000) to HK$1,500,000 (equivalent to US$192,000).

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of US$664,000 (2006: US$494,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2007	2006
	US$'000	US$'000
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	**(664)**	(494)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**1,908**	2,873
Company's profit for the year	**1,244**	2,379

10 DIVIDEND

The directors do not recommend the payment of a cash dividend for the year ended 31 December 2007 (2006: Nil).

On 26 March 2007, the directors proposed a bonus issue of shares on the basis of one bonus share for every five existing shares (see note 32(a)(ii)).

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of US$3,496,000 (2006: US$4,292,000) and the weighted average number of 340,172,000 (2006: 288,056,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2007	2006
	’000	’000
Issued ordinary shares at 1 January	**241,044**	240,000
Effect of ordinary shares issued	**44,129**	–
Effect of capitalisation issue (note 32(a)(ii))	**51,644**	48,009
Effect of share options exercised (note 32(a)(iii))	**3,355**	47
Weighted average number of ordinary shares	**340,172**	288,056

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of US$3,496,000 (2006: US$4,292,000) and the weighted average number of 355,081,000 (2006: 297,343,000) ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2007	2006
	’000	’000
Weighted average number of ordinary shares	**340,172**	288,056
Effect of deemed issue of shares under the Company’s share option schemes (note 31)	**14,909**	9,287
Weighted average number of ordinary shares (diluted)	**355,081**	297,343

12 SEGMENT REPORTING

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

Business segments

The Group comprises the following main business segments:

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

12 SEGMENT REPORTING *(continued)*

(a) Business segments

	Rig products and technology		Rig turnkey solutions		Oilfield expendables and supplies		Consultancy services		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue from external customers	19,652	13,401	–	–	13,944	13,109	731	528	34,327	27,038
Other revenue from external customers	435	261	–	–	231	157	–	131	666	549
Total	20,087	13,662	–	–	14,175	13,266	731	659	34,993	27,587
Segment results	4,347	4,201	–	–	682	373	666	545	5,695	5,119
Unallocated operating income and expenses									(1,758)	(249)
Profit from operations									3,937	4,870
Finance costs									(296)	(153)
Share of results of associates	91	(1)	–	–	–	–	–	–	91	(1)
Profit before taxation									3,732	4,716
Income tax									(236)	(424)
Profit for the year									3,496	4,292
Depreciation for the year	217	70	–	–	281	232	5	14		
Amortisation for the year	151	12	–	–	24	24	–	–		
Significant non-cash expense (other than depreciation and amortisation)	220	11	–	–	24	46	–	64		
Segment assets	43,772	12,358	7,081	–	29,009	13,411	446	362	80,308	26,131
Interest in associates	14,410	318	–	–	–	–	–	–	14,410	318
Unallocated assets									22,616	739
Total assets									117,334	27,188
Segment liabilities	5,385	2,835	27,132	–	4,464	4,056	1	77	36,982	6,968
Unallocated liabilities									4,766	3,065
Total liabilities									41,748	10,033
Capital expenditure incurred during the year	2,971	463	–	–	1,349	1,530	2	1		

12 SEGMENT REPORTING *(continued)*

(b) Geographical segments

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

	Revenue from external customers		**Segment assets**		**Capital expenditure incurred during the year**	
	2007	2006	**2007**	2006	**2007**	2006
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Hong Kong	**–**	–	**277**	481	**2**	1
Mainland China	**13,124**	13,982	**56,772**	18,222	**4,233**	1,155
North America	**16,548**	9,514	**23,259**	7,428	**87**	838
Others (Other part of Asia, Europe, Russia etc.)	**4,655**	3,542	**–**	–	**–**	–
	34,327	27,038	**80,308**	26,131	**4,322**	1,994

13 PROPERTY, PLANT AND EQUIPMENT

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 2006	571	206	733	90	348	1,948
Exchange adjustments	19	10	41	3	13	86
Additions	42	172	1,111	55	308	1,688
Disposals	–	(3)	–	–	(28)	(31)
At 31 December 2006	632	385	1,885	148	641	3,691
At 1 January 2007	632	385	1,885	148	641	3,691
Exchange adjustments	31	15	92	5	31	174
Additions						
– through acquisition of subsidiaries	6	19	65	–	103	193
– others	44	435	1,099	22	147	1,747
Transfer from property under development (note 14)	1,857	–	–	–	–	1,857
Disposals	–	(27)	(621)	(51)	–	(699)
At 31 December 2007	**2,570**	**827**	**2,520**	**124**	**922**	**6,963**
Accumulated depreciation:						
At 1 January 2006	5	61	114	43	71	294
Exchange adjustments	1	3	4	2	3	13
Charge for the year	16	54	129	30	87	316
Written back on disposal	–	(2)	–	–	(8)	(10)
At 31 December 2006	22	116	247	75	153	613
At 1 January 2007	22	116	247	75	153	613
Exchange adjustments	2	8	17	3	12	42
Through acquisition of subsidiaries	2	10	32	–	32	76
Charge for the year	32	120	147	72	132	503
Written back on disposal	–	(19)	(35)	(29)	–	(83)
At 31 December 2007	**58**	**235**	**408**	**121**	**329**	**1,151**
Net book value:						
At 31 December 2007	**2,512**	**592**	**2,112**	**3**	**593**	**5,812**
At 31 December 2006	610	269	1,638	73	488	3,078

The Group's buildings held for own use are situated on medium-term leasehold land held for own use under operating leases in the PRC (note 15).

14 PROPERTY UNDER DEVELOPMENT

The Group's property under development is situated on the leasehold land in Xian, the PRC, held under a land use right for a period of 50 years up to 10 August 2055.

During the year ended 31 December 2007, completed property of US$1,857,000 (2006: Nil) has been transferred to property, plant and equipment (note 13).

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

The Group

	2007 **US$'000**	2006 US$'000
Cost:		
At 1 January	**1,190**	1,153
Exchange adjustments	**66**	37
At 31 December	**1,256**	1,190
Accumulated amortisation:		
At 1 January	**29**	4
Exchange adjustments	**1**	1
Charge for the year	**24**	24
At 31 December	**54**	29
Net book value:		
At 31 December	**1,202**	1,161

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 50 years on a straight-line basis.

16 INTANGIBLE ASSETS

The Group

	Technical knowledge US$'000	Patents US$'000	Computer software US$'000	Total US$'000
Cost:				
At 1 January 2006	124	–	–	124
Exchange adjustments	4	–	–	4
At 31 December 2006	128	–	–	128
At 1 January 2007	128	–	–	128
Exchange adjustments	30	36	4	70
Additions				
– through acquisition of subsidiaries (note 34)	1,062	1,669	–	2,731
– others	–	–	123	123
At 31 December 2007	**1,220**	**1,705**	**127**	**3,052**
Accumulated amortisation:				
At 1 January 2006	55	–	–	55
Exchange adjustments	2	–	–	2
Charge for the year	12	–	–	12
At 31 December 2006	69	–	–	69
At 1 January 2007	69	–	–	69
Exchange adjustments	6	2	–	8
Charge for the year	48	102	1	151
At 31 December 2007	**123**	**104**	**1**	**228**
Net book value:				
At 31 December 2007	**1,097**	**1,601**	**126**	**2,824**
At 31 December 2006	59	–	–	59

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

17 GOODWILL

	The Group	
	2007	2006
	US$'000	US$'000
Cost		
At 1 January	**–**	–
Additions through acquisition of subsidiaries (note 34)	**2,223**	–
Exchange adjustments	**49**	–
At 31 December	**2,272**	–

Impairment test for cash-generating units containing goodwill

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

	2007	2006
	US$'000	US$'000
Rig products and technology	**2,272**	–

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

Key assumptions used for value-in-use calculations:

– Gross margin	40.5%
– Growth rate	3%
– Discount rate	18.4%

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

18 INTEREST IN SUBSIDIARIES

	The Company 2007 US$'000	2006 US$'000
Unlisted shares/capital contributions, at cost	**20**	20
Amounts due from subsidiaries	**33,136**	3,427
Amounts due to subsidiaries	**(30)**	(1)
	33,126	3,446

The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand, except for an amount of US$3,000,000 (2006: Nil) which bears interest at a rate of 10% per annum.

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

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activity
Emer International Limited	Hong Kong	2,000,000 shares of HK$1 each	100%	100%	Investment holding and provision of consultancy services
TSC (Qingdao) Manufacture Co., Limited#* ("TSC (Qingdao)") (青島天時石油機械有限公司)	PRC	US$1,300,000	100%	100%	Manufacturing and trading of rig electrical control system and oilfield expendables and supplies
Haier Haisi (Xian) Control Technologies Limited#* ("HHCT") (海爾海斯(西安)控制技術有限公司)	PRC	RMB17,000,000	100%	100%	Manufacturing and trading of rig electrical control system
TSC Manufacturing and Supply, LLC	USA	1,612,000 shares of US$1 each	100%	100%	Trading of rig electrical control system, other rig equipment and oilfield expendables and supplies

18 INTEREST IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by a subsidiary	Principal activity
Qingdao TSC Offshore Equipment Co., Ltd.# (青島天時海洋石油裝備有限公司)	PRC	US$6,400,000 (Note)	100%	100%	Manufacturing and trading of rig equipment
Zhengzhou Highlight Energy Technology Co., Ltd# ("Zhengzhou Highlight") (鄭州海來能源科技有限公司)	PRC	RMB31,200,000	100%	100%	Manufacturing and trading of rig equipment

Registered under the laws of the PRC as foreign investment enterprises

* Unofficial translation

Note:

At 31 December 2007, the registered capital of Qingdao TSC Offshore Equipment Co., Ltd. amounted to US$11,000,000.

19 INTEREST IN ASSOCIATES

	The Group		The Company	
	2007	2006	**2007**	2006
	US$'000	US$'000	**US$'000**	US$'000
Listed shares, at cost	**–**	–	**6,540**	–
Unlisted shares, at cost	**7,453**	–	**–**	–
Share of net assets	**2,104**	318	**–**	–
Goodwill	**4,853**	–	**–**	–
	14,410	318	**6,540**	–

19 INTEREST IN ASSOCIATES *(continued)*

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

Name of associate	Form of business structure	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Global Marine Energy Plc ("GME") Note (a)	Incorporated	England and Wales	73,074,952 shares of GBP0.025 each	28.7%	28.7%	–	Design and manufacture of mechanical handling equipment
Goldman Offshore Design, LLC ("Goldman Offshore") Note (b)	Incorporated	USA	802 Class A shares of US$1 each and 1,732 Class B shares of US$1 each	28%	–	28%	Investment holding
Zhengzhou Fu Ge Offshore Equipment Co., Ltd.#* (鄭州富格海洋工程裝備有限公司)	Established	PRC	RMB10,000,000	25%	–	25%	Manufacturing and marketing of equipment and spare parts for offshore rigs

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

* Unofficial translation

Notes:

(a) In October 2007, the Company made a voluntary conditional offer to acquire the entire issued share capital of GME at an offer price of 13 pence per share. In November 2007, the offer price was revised and increased to 16 pence per share. In December 2007, the Group acquired 20,992,498 shares of GME, which represents a 28.7% equity interest in GME. Goodwill of US$4,853,000 has arisen from the acquisition as the management expects synergy can be achieved through the acquisition. Commitments in connection with the acquisition of the remaining shares of GME are set out in note 35(a). At 31 December 2007, the carrying value of the Group's interest in GME amounted to US$6,528,000 and the market value of the GME listed shares held by the Group amounted to US$5,765,000.

(b) The Group's investment in Goldman Offshore, which was acquired during the year, is stated at cost less impairment losses (see note 1(k)) and has not been equity accounted for as required by HKAS 28, as no management accounts or audited financial statements of Goldman Offshore (after equity accounting for its own associates) were available.

19 INTEREST IN ASSOCIATES *(continued)*

Summary financial information on associates (excludes Goldman Offshore)

	Assets US$'000	Liabilities US$'000	Equity US$'000	Revenue US$'000	Profit/ (loss) US$'000
2007					
100 per cent	**54,908**	**(47,362)**	**7,546**	**5,121**	**358**
Group's effective interest	**15,704**	**(13,600)**	**2,104**	**1,365**	**91**
2006					
100 per cent	1,407	(135)	1,272	–	(4)
Group's effective interest	352	(34)	318	–	(1)

20 OTHER FINANCIAL ASSET

	The Group	
	2007	2006
	US$'000	US$'000
Available-for-sale investment:		
– Unlisted	**676**	–

21 INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2007	2006
	US$'000	US$'000
Raw materials	**2,050**	1,013
Work in progress	**6,381**	2,401
Finished goods	**6,270**	3,926
	14,701	7,340

21 INVENTORIES *(continued)*

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

	The Group	
	2007	2006
	US$'000	US$'000
Carrying amount of inventories sold	**20,365**	14,961
Write down of inventories	**129**	–
	20,494	14,961

22 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	US$'000	US$'000	**US$'000**	US$'000
Trade debtors and bills receivable	**17,927**	11,248	**–**	–
Less: allowances for doubtful debts (note 22(b))	**(497)**	(376)	**–**	–
	17,430	10,872	**–**	–
Other receivables, prepayments and deposits	**3,658**	567	**417**	14
Gross amount due from customers for contract work	**7,081**	–	**–**	–
Amount due from an associate	**–**	128	**–**	–
	28,169	11,567	**417**	14

22 TRADE AND OTHER RECEIVABLES *(continued)*

At 31 December 2007, the aggregate amount of costs incurred for construction contracts amounted to US$7,081,000 (2006: Nil) and has been included in gross amount due from customers for contract work. No contract revenue has been recognised and no progress billing has been made during the year ended 31 December 2007 as the progress was at initial stage. Advances received in relation to the construction contracts amounting to US$27,132,000 (2006: Nil) have been included in "Trade and other payables" (note 26).

(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	
	2007	2006
	US$'000	US$'000
Current	**7,148**	7,854
Less than 1 month past due	**2,334**	1,276
1 to 3 months past due	**1,470**	70
More than 3 months but less than 12 months past due	**6,173**	1,549
More than 12 months but less than 24 months past due	**305**	123
Amounts past due	**10,282**	3,018
	17,430	10,872

The credit terms offered by the Group to its customers differ with each product/service. The credit terms offered to customers of oilfield expendables and supplies and consultancy services are normally 30 to 90 days. The credit terms offered to customers of rig electrical control system and other rig equipment are negotiated on a case-by-case basis. Deposits ranging from 10% to 30% of the contract sum are usually required. The balance of 60% to 85% would be payable in 1 to 2 months after delivery and acceptance of products. The remaining 5% to 10% of the contract sum represents the retention money and is payable within up to 18 months after delivery of the products or 1 year after completion of the onsite testing, whichever is earlier. The amount of those retentions expected to be recovered after more than one year is US$279,000 (2006: US$478,000).

22 TRADE AND OTHER RECEIVABLES *(continued)*

(b) Impairment of trade debtors and bills receivable

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

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

	The Group	
	2007	2006
	US$'000	US$'000
At 1 January	**376**	385
Exchange adjustments	**25**	1
Impairment loss recognised	**115**	121
Reversal of impairment losses	**(19)**	(131)
At 31 December	**497**	376

At 31 December 2007, the Group's trade debtors and bills receivable of US$686,000 (2006: US$796,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of US$497,000 (2006: US$376,000) were recognised. The Group does not hold any collateral over these balances.

22 TRADE AND OTHER RECEIVABLES *(continued)*

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

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

	The Group	
	2007	2006
	US$'000	US$'000
Neither past due nor impaired	**7,148**	7,854
Less than 1 month past due	**2,334**	1,276
1 to 3 months past due	**1,470**	70
More than 3 months but less than 12 months past due	**6,173**	1,126
More than 12 months but less than 24 months past due	**116**	126
	10,093	2,598
	17,241	10,452

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

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

23 AMOUNTS DUE FROM DIRECTORS

	The Group	
	2007	2006
	US$'000	US$'000
Balance at 1 January		
– Mr Zhang Menggui	**13**	13
– Mr Jiang Bing Hua	**–**	–
– Mr Zhang Hongru	**–**	–
	13	13
Balance at 31 December		
– Mr Zhang Menggui	**19**	13
– Mr Jiang Bing Hua	**19**	–
– Mr Zhang Hongru	**–**	–
	38	13
Maximum balance outstanding during the year		
– Mr Zhang Menggui	**19**	13
– Mr Jiang Bing Hua	**19**	–
– Mr Zhang Hongru	**19**	–

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

There was no provision made against the principal amounts at 31 December 2006 and 2007.

24 AMOUNT DUE FROM AN OFFICER

	The Group	
	2007	2006
	US$'000	US$'000
Mr Jiang Bingyang:		
Balance at 1 January	**12**	165
Balance at 31 December	**–**	12
Maximum balance outstanding during the year	**12**	165

Mr Jiang Bingyang, the deputy general manager of TSC (Qingdao) is a brother of Mr Jiang Bing Hua, a director of the Company.

The amount represents funds advanced to Mr Jiang Bingyang and is unsecured, non-interest-bearing and without pre-determined repayment terms.

There was no provision made against the principal amount at 31 December 2006 and 2007.

25 AMOUNT DUE FROM A RELATED COMPANY

	The Group	
	2007	2006
	US$'000	US$'000
Katy International Inc.:		
Balance at 1 January	**80**	64
Balance at 31 December	**79**	80
Maximum balance outstanding during the year	**80**	80

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

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

There was no provision made against the principal amount at 31 December 2006 and 2007.

26 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	US$'000	US$'000	**US$'000**	US$'000
Trade creditors and bills payable	**5,620**	5,093	**–**	–
Other payables and accrued charges	**4,163**	2,098	**277**	115
Amount due to an associate	**343**	–	**–**	–
Advances received (note 22)	**27,132**	–	**–**	–
	37,258	7,191	**277**	115

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	
	2007	2006
	US$'000	US$'000
Within 1 month	**3,987**	3,722
More than 1 month but less than 3 months	**872**	1,087
More than 3 months but less than 12 months	**761**	280
More than 12 months but less than 24 months	**–**	4
	5,620	5,093

27 AMOUNT DUE TO A RELATED COMPANY

The Group

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

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

28 BANK LOANS

At 31 December 2007, the bank loans were secured and repayable as follows:

	The Group	
	2007	2006
	US$'000	US$'000
Within 1 year or on demand	**3,298**	2,393
After 1 year but within 2 years	**405**	–
	3,703	2,393

The bank loans carried interest at rates ranging from 6.93% to 8.22% per annum (2006: 5.02% to 12% per annum) and were secured by:

(i) Interest in leasehold land held for own use under operating leases, property under development, buildings, machinery and bank deposits of two subsidiaries namely TSC (Qingdao) and HHCT with carrying value at 31 December 2007 of US$710,000, US$1,070,000, US$2,552,000, US$384,000 and US$608,000 (2006: US$1,161,000, Nil, US$610,000, US$1,038,000 and Nil) respectively.

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

29 TAXATION

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

	The Group	
	2007	2006
	US$'000	US$'000
Provision for the year	**645**	250
Provisional income tax paid	**(191)**	(74)
	454	176
Balance of income tax provision relating to prior years	**–**	237
	454	413

29 TAXATION *(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 2006	(9)	(34)	(9)	–	(142)	(176)	30	(340)
Exchange adjustments	–	(1)	(1)	–	(2)	(6)	2	(8)
Charged/(credited) to profit or loss (note 6(a))	1	(9)	–	–	144	(81)	34	89
At 31 December 2006	(8)	(44)	(10)	–	–	(263)	66	(259)
At 1 January 2007	(8)	(44)	(10)	–	–	(263)	66	(259)
Exchange adjustments	–	(3)	–	7	–	(22)	(4)	(22)
Addition through acquisition of subsidiaries (note 34)	–	–	–	341	–	–	–	341
Charged/(credited) to profit or loss (note 6(a))	8	–	–	(17)	(161)	(233)	(6)	(409)
At 31 December 2007	**–**	**(47)**	**(10)**	**331**	**(161)**	**(518)**	**56**	**(349)**

	2007 US$'000	2006 US$'000
Deferred tax included in the consolidated balance sheet:		
Net deferred tax assets	**(680)**	(294)
Net deferred tax liabilities	**331**	35
	(349)	(259)

At 31 December 2007, there were no significant deferred tax assets/liabilities not recognised.

30 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 is also required to make a 6.2% of salaries of a subsidiary's employees as social security contributions under the relevant federal laws of the USA.

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

31 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Pre-IPO Scheme

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

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

The subscription price for each share is HK$0.2383 (adjusted for the effect of capitalisation issue in May 2007 (note 32(a)(ii)) which was determined after taking into account the grantees' substantial contributions to the growth and development of the Group.

The total number of shares subject to the Pre-IPO Scheme is 18,252,000 ordinary shares (adjusted for the effect of capitalisation issue) representing approximately 6.34% of the then total issued share capital of the Company. During the year, 4,222,800 (2006: 1,252,800) share options were exercised and the Company had 12,776,400 (2006: 16,999,200) share options outstanding as at the balance sheet date.

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

Pre-IPO Scheme *(continued)*

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

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

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

Pursuant to the bonus issue of shares on 10 May 2007 on the basis of one bonus share for every five existing shares, adjustments have been made to the number of instruments and the exercise price for share options granted under the Pre-IPO Scheme.

Share Option Scheme

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

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

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

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

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

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

Share Option Scheme *(continued)*

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

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

The exercise price must be at least the highest of: (a) the closing price of the Company's share 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 share.

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.

31 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	14,040,000	Note	10 years
Options granted to employees:			
– on 19 October 2005	4,212,000	Note	10 years
– on 10 May 2007	7,280,000	Note	10 years
– on 12 November 2007	9,700,000	Note	10 years
Total share options	35,232,000		

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.

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

	2007		2006	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**HK$0.2383**	**16,999,200**	HK$0.2383	18,252,000
Exercised during the year	**HK$0.2383**	**(4,222,800)**	HK$0.2383	(1,252,800)
Granted during the year	**HK$4.24**	**16,980,000**	–	–
Outstanding at the end of the year	**HK$2.52**	**29,756,400**	HK$0.2383	16,999,200
Exercisable at the end of the year	**HK$0.36**	**13,515,200**	HK$0.2383	7,300,800

The weighted average share price at the date of exercise for shares options exercised during the year was HK$1.98 (2006: HK$0.87).

The options outstanding at 31 December 2007 had an exercise price of HK$0.2383, HK$2.43 or HK$5.6 (2006: HK$0.2383) and a weighted average remaining contractual life of 8.8 years (2006: 8.8 years).

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

(c) Fair value of share options and assumptions

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

Fair value of share options and assumptions

Grant date	**12 November 2007**	**10 May 2007**	**19 October 2005**
Fair value at measurement date	US$0.29	US$0.13	US$0.09
Share price	HK$5.6	HK$2.43	HK$0.6083
Exercise price	HK$5.6	HK$2.43	HK$0.2383
Expected volatility	42%	42%	51%
Option life	10 years	10 years	10 years
Expected dividends	Nil	Nil	Nil
Risk-free interest rate (based on Exchange Fund Notes)	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.

32 CAPITAL AND RESERVES

The Group

	Share capital US$'000	Share premium US$'000	Merger reserve US$'000	Exchange reserve US$'000	Employee share-based compensation reserve US$'000	Capital reserve US$'000	Reserve funds US$'000	Retained profits US$'000	Total US$'000
At 1 January 2006	3,089	1,074	2,161	153	186	512	492	4,778	12,445
Shares issued under share option schemes	14	50	–	–	(25)	–	–	–	39
Equity-settled share-based transactions	–	–	–	–	160	–	–	–	160
Exchange differences on translation of financial statements of foreign subsidiaries and associates	–	–	–	387	–	–	–	–	387
Profit for the year	–	–	–	–	–	–	–	4,292	4,292
Transferred to reserve funds	–	–	–	–	–	–	391	(391)	–
Others	–	–	–	–	–	–	–	(168)	(168)
At 31 December 2006	3,103	1,124	2,161	540	321	512	883	8,511	17,155
At 1 January 2007	3,103	1,124	2,161	540	321	512	883	8,511	17,155
Issue of ordinary shares	1,196	53,638	–	–	–	–	–	–	54,834
Share issue expenses	–	(1,329)	–	–	–	–	–	–	(1,329)
Capitalisation issue (note 32(a)(ii))	693	(693)	–	–	–	–	–	–	–
Shares issued under share option schemes (note 32(a)(iii))	49	172	–	–	(91)	–	–	–	130
Equity-settled share-based transactions	–	–	–	–	367	–	–	–	367
Exchange differences on translation of financial statements of foreign subsidiaries and associates	–	–	–	933	–	–	–	–	933
Profit for the year	–	–	–	–	–	–	–	3,496	3,496
Transferred to reserve funds	–	–	–	–	–	–	757	(757)	–
At 31 December 2007	**5,041**	**52,912**	**2,161**	**1,473**	**597**	**512**	**1,640**	**11,250**	**75,586**

32 CAPITAL AND RESERVES *(continued)*

The Company

	Share capital US$'000	Share premium US$'000	Exchange reserve US$'000	Employee share-based compensation reserve US$'000	(Accumulated losses)/ retained profit US$'000	Total US$'000
At 1 January 2006	3,089	1,074	(1)	186	(46)	4,302
Shares issued under share option schemes	14	50	–	(25)	–	39
Equity-settled share-based transactions	–	–	–	160	–	160
Exchange differences on translation of financial statements	–	–	94	–	–	94
Profit for the year (note 9)	–	–	–	–	2,379	2,379
At 31 December 2006	3,103	1,124	93	321	2,333	6,974
At 1 January 2007	3,103	1,124	93	321	2,333	6,974
Issue of ordinary shares	1,196	53,638	–	–	–	54,834
Shares issue expenses	–	(1,329)	–	–	–	(1,329)
Capitalisation issue (note 32(a)(ii))	693	(693)	–	–	–	–
Shares issued under share option schemes (note 32(a)(iii))	49	172	–	(91)	–	130
Equity-settled share-based transactions	–	–	–	367	–	367
Exchange differences on translation of financial statements	–	–	880	–	–	880
Profit for the year (note 9)	–	–	–	–	1,244	1,244
At 31 December 2007	5,041	52,912	973	597	3,577	63,100

32 CAPITAL AND RESERVES *(continued)*

(a) Share capital

(i) Authorised and issued share capital

	2007		2006	
	No. of Shares '000	**Amount US$'000**	No. of shares '000	Amount US$'000
Authorised:				
Ordinary share of HK$0.1 each	**1,000,000**	**12,873**	1,000,000	12,873
Ordinary shares, issued and fully paid:				
At 1 January	**241,044**	**3,103**	240,000	3,089
Issue of ordinary shares	**93,469**	**1,196**	–	–
Capitalisation issue	**53,469**	**693**	–	–
Shares issued under share option schemes	**3,823**	**49**	1,044	14
At 31 December	**391,805**	**5,041**	241,044	3,103

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

(ii) Capitalisation issue

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

(iii) Shares issued under share option schemes

During the year ended 31 December 2007, options were exercised to subscribe for 3,823,000 ordinary shares in the Company at a consideration of US$130,000 of which US$49,000 was credited to share capital and the balance of US$81,000 was credited to the share premium account. US$91,000 has been transferred from the employee share-based payment reserve to the share premium account in accordance with policy set out in note 1(r)(ii).

32 CAPITAL AND RESERVES *(continued)*

(a) Share capital *(continued)*

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

Exercise period	Exercise price	2007 Number	2006 Number
29 November 2005 to 18 October 2015	HK$0.2383	**12,776,400**	16,999,200
10 November 2007 to 9 May 2017	HK$2.43	**7,280,000**	–
12 May 2008 to 11 November 2017	HK$5.6	**9,700,000**	–
		29,756,400	16,999,200

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 31 to the financial statements.

(b) Nature and purpose of reserves

(i) Share premium

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

(ii) Merger reserve

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

(iii) Exchange reserve

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

(iv) Employee share-based compensation reserve

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

(v) Capital reserve

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

32 CAPITAL AND RESERVES *(continued)*

(c) Reserve funds

The Articles of Association of certain PRC subsidiaries requires 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 subsidiary. The reserve funds may be capitalised as the paid-in capital of these subsidiaries.

(d) Distributability of reserves

The Company's reserves available for cash distribution and/or distribution in specie to equity shareholders of the Company as at 31 December 2007, as computed in accordance with the Companies Law (Revised) of the Cayman Islands amounted to US$3,577,000 (2006: US$2,333,000).

(e) Capital management

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

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. The Group reviews the capital structure on a regular basis and considers the cost of capital and the associated risks. Based on recommendations of the board of directors, the Group will balance its overall capital structure through adjusting the amount of dividends payable to shareholders, new shares issues or new debt financing. No changes were made in the objectives, policies or processes during the years ended 31 December 2006 and 2007.

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 obligation. The Group's gearing ratio, being the Group's total liabilities to equity shareholders' funds, as at 31 December 2007 was 55% (2006: 58%).

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

33 FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

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

The 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 7% (2006: 15%) and 19% (2006: 22%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

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

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

33 FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk

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

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

The Group

	2007				2006			
	Carrying amount US$'000	Total contractual undiscounted cash flow US$'000	Within 1 year or on demand US$'000	More than 1 year but less than 2 years US$'000	Carrying amount US$'000	Total contractual undiscounted cash flow US$'000	Within 1 year or on demand US$'000	More than 1 year but less than 2 years US$'000
Bank loans	3,703	(3,883)	(3,473)	(410)	2,393	(2,530)	(2,530)	–
Trade and other payables	10,126	(10,126)	(10,126)	-	7,191	(7,191)	(7,191)	–
	13,829	(14,009)	(13,599)	(410)	9,584	(9,721)	(9,721)	–

The Company

	2007				2006			
	Carrying amount US$'000	Total contractual undiscounted cash flow US$'000	Within 1 year or on demand US$'000	More than 1 year but less than 2 years US$'000	Carrying amount US$'000	Total contractual undiscounted cash flow US$'000	Within 1 year or on demand US$'000	More than 1 year but less than 2 years US$'000
Other payables and accrued charges	277	(277)	(277)	-	115	(115)	(115)	–
Amounts due to subsidiaries	30	(30)	(30)	-	1	(1)	(1)	–
	307	(307)	(307)	-	116	(116)	(116)	–

33 FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk

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

(i) Interest rate profile

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

The Group

	2007		2006	
	Effective interest rate	**US$'000**	Effective interest rate	US$'000
Fixed rate borrowings:				
Bank loans	**7.56%-8.02%**	**1,351**	7.02%-7.61%	1,021
Variable rate borrowings/ (deposits):				
Bank loans	**6.93%-8.22%**	**2,352**	5.02%-12%	1,372
Less: Pledged bank deposits	**0.7%**	**(1,067)**	0.7%	(195)
Cash at bank and in hand	**0.7%-1.4%**	**(44,334)**	0.7%-1.5%	(2,778)
		(43,049)		(1,601)
Total net deposits		**(41,698)**		(580)

The Company

	2007		2006	
	Effective interest rate	**US$'000**	Effective interest rate	US$'000
Variable rate deposits:				
Cash at bank and in hand	**0.7%-1.4%**	**(18,534)**	0.7%-1.5%	(709)
Total net deposits		**(18,534)**		(709)

33 FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis

At 31 December 2007, it is estimated that a general increase/decrease of one percentage point in interest rates, with all other variables held constant, would increase/decrease the Group's profit before tax by approximately US$417,000 (2006: US$6,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for the non-derivative financial liabilities in existence at that date. The one percentage point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(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 production was carried out by the Group's subsidiaries in the PRC with Chinese Renminbi as functional currency while over 50% of the Group's turnover was denominated in United States dollars. At 31 December 2007, no related hedges were made by the Group.

(ii) Exposure to currency risk

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

	The Group	
	2007	2006
	'000	'000
Trade and other receivables:		
United States dollars	**1,793**	189
Trade and other payables:		
United States dollars	**486**	6

33 FINANCIAL INSTRUMENTS *(continued)*

(e) Fair values

The fair values of cash at bank and in hand, pledged bank deposits, amounts due from directors, an officer and a related company, trade and other receivables, other financial asset, trade and other payables, amount due to a related company and bank loans 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.

34 ACQUISITION OF SUBSIDIARIES

On 29 August 2007, the Group acquired the entire issued share capital of Top Sino Industrial Limited (together with its wholly-owned subsidiary Zhengzhou Highlight, collectively known as “the Acquired Subsidiaries”) from Yearport International Limited at total costs of HK$46,612,000 (equivalent to US$5,971,000). For the four months ended 31 December 2007, the Acquired Subsidiaries contributed profit of US$552,000 to the consolidated profit for the year. If the acquisition had occurred on 1 January 2007, the Group’s turnover and profit for the year would increase by US$1,049,000 and US$144,000 respectively.

34 ACQUISITION OF SUBSIDIARIES *(continued)*

The acquisition had the following effect on the Group's assets.

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

	Pre-acquisition carrying amount US$'000	Fair value adjustments US$'000	Recognised values on acquisition US$'000
Property, plant and equipment	117	–	117
Intangible assets	–	2,731	2,731
Inventories	941	–	941
Trade and other receivables	886	–	886
Cash at bank and in hand	35	–	35
Trade and other payables	(621)	–	(621)
Deferred tax liability	–	(341)	(341)
Net identifiable assets	1,358	2,390	3,748
Goodwill on acquisition (note 17)			2,223
Total consideration			5,971
Consideration, satisfied by:			
– cash			336
– issue of new shares			5,635
			5,971
Net cash outflow arising on acquisition:			
– cash consideration paid			336
– cash acquired			(35)
Net cash outflow			301

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

35 COMMITMENTS

(a) Commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	The Group	
	2007	2006
	US$'000	US$'000
Contracted for the construction of property	**1,137**	1,079
Voluntary conditional offer for the acquisition of shares of GME (note 19)	**16,633**	–

(b) At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2007	2006
	US$'000	US$'000
Within 1 year	**318**	184
After 1 year but within 5 years	**337**	196
After 5 years	**12**	42
	667	422

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.

36 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$2,351,000 (2006: Nil).

37 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:

	2007	2006
	US$'000	US$'000
Salaries and other emoluments	**1,401**	1,365
Share-based payments	**193**	146
Retirement scheme contributions	**71**	47
	1,665	1,558

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

(b) During the year ended 31 December 2007, the Group purchased raw materials from an associate amounted to US$957,000 (2006: Nil).

(c) During the year ended 31 December 2006, the Group sold expendable parts to a related company amounted to US$18,000.

38 NON-ADJUSTING POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, shareholders of GME holding 35,822,153 GME shares accepted validly in all respects the conditional cash offer made by the Company at 16 pence per GME share. The acceptance level represents 49% of GME's issued share capital. It is expected that the acquisition of 49% of GME shares in issue will be completed in April 2008 and GME will then become a subsidiary of the Group.

39 COMPARATIVE FIGURES

As a result of adopting HKFRS 7, Financial instruments: Disclosures, and the amendments to HKAS 1, Presentation of financial statements: Capital disclosures, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 2.

40 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. Note 17 contains information about the assumptions and their risk factors relating to goodwill impairment. Other estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant and equipment and intangible assets

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

(b) Impairment losses on trade and other receivables

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

40 ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(c) 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 are applied to the inventories where events or changes in circumstances indicates 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.

(d) 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.

(e) Construction contracts

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

In preparing the financial statements for the year ended 31 December 2007, the directors of the Company have reviewed the construction contracts and consider that a provision for loss is not necessary. Material adjustments to the budgeted costs may occur in future if there is a significant change in the market environment.

(f) Warranty provisions

For some of the rig electrical equipment 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.

41 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

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

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 8	Operating segments	1 January 2009
Revised HKAS 1	Presentation of financial statements	1 January 2009
HKAS 23 (March 27)	Borrowing costs	1 January 2009

Five Years Financial Summary

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

	2007 US$'000	2006 US$'000	2005 US$'000	2004 US$'000	2003 US$'000
Turnover	**34,327**	27,038	13,525	12,774	5,214
Cost of sales	**(20,494)**	(14,961)	(7,804)	(8,027)	(3,875)
Gross profit	**13,833**	12,077	5,721	4,747	1,339
Other revenue	**1,399**	607	415	252	98
Selling and distribution expenses	**(2,551)**	(1,782)	(541)	(170)	(123)
General and administration expenses	**(7,989)**	(5,770)	(2,707)	(1,084)	(631)
Other operating expenses	**(755)**	(262)	(320)	(298)	(229)
Finance costs	**(296)**	(153)	(107)	(15)	(8)
Share of results of associates	**91**	(1)	–	–	–
Profit before taxation	**3,732**	4,716	2,461	3,432	446
Income tax	**(236)**	(424)	(124)	79	38
Profit for the year	**3,496**	4,292	2,337	3,511	484

ASSETS AND LIABILITIES

	As at 31 December				
	2007 US$'000	2006 US$'000	2005 US$'000	2004 US$'000	2003 US$'000
Non-current assets	**28,270**	5,203	3,218	1,479	553
Current assets	**89,064**	21,985	14,126	7,613	3,875
Current liabilities	**41,012**	9,998	4,882	3,357	3,001
Net current assets	**48,052**	11,987	9,244	4,256	874
Non-current liabilities	**736**	35	17	2	18
Net assets	**75,586**	17,155	12,445	5,733	1,409

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 2007 are as set out on page 50 of the audited financial statements.

2. The consolidated balance sheet of the Group as at 31 December 2007 are as set out on pages 51 to 52 of the audited financial statements.

TSC Offshore Group Limited
www.tscoffshore.com