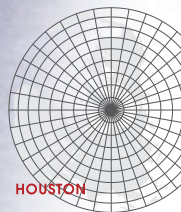




TSC Offshore Group Limited

2008

First Quarterly Report



HOUSTON  
ABERDEEN  
BEIJING  
DUBAI  
HONG KONG  
MOSCOW  
RIO DE JANEIRO  
SINGAPORE

## **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 principle 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 gazette 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 (the “Directors”) of TSC Offshore Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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.*

## RESULTS HIGHLIGHTS

- Turnover amounted to approximately US\$19.4 million for the three months ended 31 March 2008, representing an approximately 161% increase over the same period in 2007;
- Gross profit amounted to approximately US\$4.4 million for the three months ended 31 March 2008, representing an approximately 39% increase over the same period in 2007;
- Operating profit amounted to approximately US\$1.9 million for the three months ended 31 March 2008, representing an approximately 59% increase over the same period in 2007;
- Profit attributable to equity shareholders amounted to approximately US\$292,000 for the three months ended 31 March 2008 against approximately US\$1 million for the same period in 2007;
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2008.

## RESULTS

The board of Directors of the Company (the “Board”) is pleased to announce the unaudited results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 31 March 2008, together with the unaudited comparative figures for the corresponding period in 2007 as follows:

### CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		<b>For the three months ended 31 March</b>	
		<b>2008 (Unaudited) US\$'000</b>	2007 (Unaudited) US\$'000
	<i>Notes</i>		
<b>Turnover</b>	3	<b>19,361</b>	7,410
Cost of sales		<b>(15,003)</b>	(4,271)
<b>Gross profit</b>		<b>4,358</b>	3,139
Other revenue	3	<b>168</b>	275
Selling and distribution expenses		<b>(495)</b>	(469)
General and administrative expenses		<b>(2,152)</b>	(1,652)
Other operating income/(expenses)	4	<b>35</b>	(91)
<b>Profit from operations</b>		<b>1,914</b>	1,202
Finance costs	5	<b>(40)</b>	(66)
Share of results of associates		<b>(1,529)</b>	–
<b>Profit before taxation</b>		<b>345</b>	1,136
Income tax	6	<b>(53)</b>	(122)
<b>Profit for the period and attributable to equity shareholders of the Company</b>		<b>292</b>	1,014
<b>Dividend</b>	7	<b>–</b>	–
<b>Earnings per share</b>			
Basic	8(a)	<b>US0.07 cent</b>	US0.35 cent
Diluted	8(b)	<b>US0.07 cent</b>	US0.33 cent

Notes:

## 1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 February 2005 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and was listed on the GEM of the Stock Exchange on 28 November 2005.

The unaudited consolidated results for the three months ended 31 March 2008 have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

All inter-company transactions and balances within the Group are eliminated on consolidation.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules. The measurement basis used in the preparation of the financial statements is the historical cost basis. The accounting policies adopted are consistent with those followed in preparation of the Group's annual consolidated financial statements for the year ended 31 December 2007, except that contract revenue from a turnkey contract is recognised in the profit or loss when the outcome of a construction contract can be estimated reliably, and that revenue from a fixed price turnkey contract is recognised using the percentage of completion method, measured by reference to the percentage of contract cost incurred to date to estimated total costs for the contract. Such change has no effect on the financial statements for the three months ended 31 March 2007 if such change was applied for the same period in 2007.

### 3. TURNOVER AND OTHER REVENUE

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 rig turnkey solutions to offshore rig. In addition, the Group provides marketing consultancy services.

Turnover represents the invoiced value of goods supplied to customers and revenue from rig turnkey solutions and consultancy services. The analysis of the Group's turnover and other revenue are as follows:

	<b>Unaudited</b>	
	<b>For the three months ended</b>	
	<b>31 March</b>	
	<b>2008</b>	2007
	<b>US\$'000</b>	US\$'000
Turnover		
Rig products and technology		
– Sales of rig electrical equipment	<b>665</b>	3,010
– Sales of other rig equipment	<b>1,683</b>	622
	<hr/> <b>2,348</b>	<hr/> 3,632
Rig turnkey solutions		
– Contract income	<b>13,108</b>	–
Oilfield expendables and supplies		
– Sales of expendables and supplies	<b>3,457</b>	3,448
Consultancy services		
– Service fee income	<b>448</b>	330
	<hr/> <b>19,361</b>	<hr/> 7,410
Other revenue		
Interest income	<b>150</b>	9
Gain on sales of accessories	<b>15</b>	115
Rental income	<b>–</b>	7
Reversal of impairment losses on doubtful debts	<b>–</b>	4
Others	<b>3</b>	140
	<hr/> <b>168</b>	<hr/> 275

**4. OTHER OPERATING (INCOME)/EXPENSES**

	<b>Unaudited</b>	
	<b>For the three months ended</b>	
	<b>31 March</b>	
	<b>2008</b>	2007
	<b>US\$'000</b>	US\$'000
Amortisation of intangible assets	<b>111</b>	3
Net foreign exchange (gain)/loss	<b>(146)</b>	88
	<u><b>(35)</b></u>	<u>91</u>

**5. FINANCE COSTS**

	<b>Unaudited</b>	
	<b>For the three months ended</b>	
	<b>31 March</b>	
	<b>2008</b>	2007
	<b>US\$'000</b>	US\$'000
Interest on bank loans	<u><b>40</b></u>	<u>66</u>

**6. INCOME TAX**

Income tax in the consolidated income statement represents:

	<b>Unaudited</b>	
	<b>For the three months ended</b>	
	<b>31 March</b>	
	<b>2008</b>	2007
	<b>US\$'000</b>	US\$'000
<b>Current tax</b>		
Provision for the period		
– People's Republic of China ("PRC") enterprise income tax	<b>24</b>	116
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<u><b>29</b></u>	<u>6</u>
	<u><b>53</b></u>	<u>122</u>

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 period in opinion of Directors. Taxation for the Group's operations in the PRC and the United States of America ("USA") is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions. During the period, 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.

## **7. DIVIDEND**

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2008 (2007: Nil).

## **8. EARNINGS PER SHARE**

### **(a) Basic earnings per share**

The calculation of the basic earnings per share for the three months ended 31 March 2008 is based on the profit attributable to equity shareholders of the Company of approximately US\$292,000 (2007: US\$1,014,000) and the weighted average number of 393,607,547 (2007: 290,868,720) ordinary shares in issue during the period.

### **(b) Diluted earnings per share**

The calculation of diluted earnings per share for the three months ended 31 March 2008 is based on the profit attributable to equity shareholders of the Company of approximately US\$292,000 (2007: US\$1,014,000) and the weighted average number of ordinary shares for the three months ended 31 March 2008 of 406,411,294 (2007: 303,536,186) ordinary shares which were calculated after adjusting for the effect of deemed issue of ordinary shares under the Company's share option schemes.



## 9. MOVEMENT OF RESERVES

	Reserves							(Unaudited) Total US\$'000
	(Unaudited) Share premium US\$'000	(Unaudited) Merger reserve US\$'000	(Unaudited) Exchange reserve US\$'000	(Unaudited)	(Unaudited) Capital reserve US\$'000	(Unaudited) Reserve funds US\$'000	(Unaudited) Retained profits US\$'000	
				Employee				
				share-based compensation reserve US\$'000				
At 1 January 2007	1,124	2,161	540	321	512	883	8,511	14,052
Share issued under share option schemes	96	-	-	(49)	-	-	-	47
Employee share-based payment expenses	-	-	-	39	-	-	-	39
Exchange differences on translation of financial statements of foreign subsidiaries and associates	-	-	160	-	-	-	-	160
Profit for the period	-	-	-	-	-	-	1,014	1,014
At 31 March 2007	<u>1,220</u>	<u>2,161</u>	<u>700</u>	<u>311</u>	<u>512</u>	<u>883</u>	<u>9,525</u>	<u>15,312</u>
At 1 January 2008	52,912	2,161	1,473	597	512	1,640	11,250	70,545
Shares issue under share option schemes	178	-	-	(62)	-	-	-	116
Employee share-based payment expenses	-	-	-	233	-	-	-	233
Exchange differences on translation of financial statements of foreign subsidiaries and associates	-	-	2,562	-	-	-	-	2,562
Profit for the period	-	-	-	-	-	-	292	292
At 31 March 2008	<u>53,090</u>	<u>2,161</u>	<u>4,035</u>	<u>768</u>	<u>512</u>	<u>1,640</u>	<u>11,542</u>	<u>73,748</u>

## 10. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

For the three months ended 31 March 2008, the Group generated approximately US\$19.5 million in total revenue and a net profit of approximately US\$292,000.

### FINANCIAL REVIEW

#### *Turnover and Other Revenue*

For the three months ended 31 March 2008, the Group recorded a total sales of approximately US\$19.4 million, representing an increase of approximately 161% over the sales in the same period in 2007. Other revenue was approximately US\$168,000 for the three months ended 31 March 2008.

#### *Cost of Sales and Gross Profit Margin*

The Group's cost of sales for the three months ended 31 March 2008 and the same period in 2007 amounted to approximately US\$15.0 million and US\$4.3 million respectively, resulting in a consolidated gross profit margin of approximately 22.5% and 42.4% respectively. The decrease in gross profit margin was mainly due to a lower margin from the business of rig turnkey solutions which contributed large portion of sales for the three months ended 31 March 2008.

#### *Operating Costs and Net Profit*

For the three months ended 31 March 2008, the Group's selling and distribution expenses amounted to approximately US\$0.5 million, accounting for approximately 2.6% of the Group's turnover, as compared to those of approximately 6.3% for the same period in 2007.

For the three months ended 31 March 2008, the Group's general and administrative expenses amounted to approximately US\$2.2 million, representing approximately 11.1% of the Group's turnover, as compared to those of approximately 22.3% for the same period in 2007.

For the three months ended 31 March 2008, the Group shared a loss of approximately US\$1.5 million from its associates and mainly from Global Marine Energy Plc. ("GME") in the United Kingdom.

No sharing of profit or loss from Goldman Offshore Design, LLC was recognised for the period.

For the three months ended 31 March 2008, the Group realised a net profit of approximately US\$292,000.

## BUSINESS REVIEW

For the three months ended 31 March 2008, the Group was successful in implementing the six turnkey contracts for cantilever and drilling systems as per the progress milestones ascribed in contracts. The total value for the six contracts was approximately US\$106 million. Based on the percentage of completion, the Group recognised a sales of approximately US\$13.1 million. The growth of rig equipment was seasonally slow in the first quarter of 2008, the Group realised a sales of approximately US\$2.3 million in rig equipment sales. The sales of expendables and supplies in the first quarter of 2008 were slightly higher than the sales in the same period in 2007, and the consultancy income for the three months ended 31 March 2008 was also higher than the same period in 2007.

In the three months ended 31 March 2008, progresses were made in producing 2,200 horse power mud pumps, drawworks and rotary tables. The development of disk brake and top drive was carried forward in accordance with the plan.

In addition, a significant progress was made in achieving a complete acquisition of shares of GME, a company listed on AIM of the London Stock Exchange. Details are set out in the section headed "SUBSEQUENT EVENT – item (1)" below.

## LIQUIDITY, FINANCIAL RESOURCES AND CHANGE OF ASSETS

As at 31 March 2008, the Group maintained current assets of approximately US\$90 million in which approximately US\$44 million was cash and bank balances while current liabilities were approximately US\$40 million. As at 31 March 2008, the Group carried bank borrowings of approximately US\$4 million, which were secured by the Group's interests in leasehold land for own use under operating leases, property under development, buildings, machinery and bank deposits.

## GEARING RATIO

As at 31 March 2008, the Group maintained a gearing ratio, based on total liabilities over equity shareholders' fund, was approximately 50.2%, as compared to 65.5% in the same period in 2007.

## CONTINGENT LIABILITY

As at 31 March 2008, no contingent liability was known to the management and the Board.

## SIGNIFICANT INVESTMENTS AND DISPOSALS

As at 31 March 2008, shareholders of GME holding 40,241,588 GME shares 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 55.07% 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 61,234,086 GME shares over a total of 73,074,952 GME shares in issue, representing an approximately 83.80% 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 GME shares in issue will be completed in June 2008.

Save as the above, there were no other significant investments and disposals.

## CAPITAL STRUCTURE

As at 31 March 2007, there were 243,042,000 shares in issue and the Company carried a share capital of approximately US\$3,129,000.

As at 1 January 2008, the Company carried 391,804,804 shares in issue, and a share capital of approximately US\$5,041,000. During the three months ended 31 March 2008, the Company issued 2,103,200 shares to Pre-IPO option holders and other option holders who exercised their options. As at 31 March 2008, the Company carried 393,908,004 shares in issue, and a share capital of approximately US\$5,068,000.

## FOREIGN CURRENCY EXCHANGE EXPOSURE AND TREASURY POLICY

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

## 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, 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) under the laws of the Cayman Islands. 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.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 31 March 2008, the Group had approximately 513 full-time staff in USA, Russia, United Arab Emirates, Hong Kong and the PRC.

The Group's remuneration policy is basically determined by the performance of individual employee and the market condition. In addition to salaries, employees' benefits included medical scheme, pension contributions and share option schemes.

## **PROSPECTS AND STRATEGIES**

The Group will continue to focus on its core business of serving oil and gas drilling industry worldwide. The management of the Group expects that the demand for rig turnkey solutions and rig equipment shall continue to be strong in foreseeable future. The Group will continue to implement its rapid growth strategy through both organic growth, mergers and acquisitions. The Group's lower-cost manufacturing base in China, its international sales and distribution network and the ability of offering complete offshore drilling equipment "turnkey solutions" to its international clients has made the Group in a very competitive position for continuing growth in future.

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

As at 31 March 2008, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Name of Directors	Number of issued ordinary shares of HK\$0.10 each in the Company (long position)				Total	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			
Mr. Zhang Menggui (Note 1)	864,000	-	136,871,200	-	137,735,200	2,592,000	35.62%
Mr. Jiang Bing Hua (Note 1)	864,000	-	136,871,200	-	137,735,200	2,592,000	35.62%
Mr. Zhang Hongru (Note 2)	4,690,800	-	16,228,800	-	20,919,600	1,555,200	5.71%
Mr. Chen Yunqiang	1,123,200	-	-	-	1,123,200	1,684,800	0.71%

### 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 4,690,800 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 March 2008, none of the Directors or chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules.

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

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

### **Long positions in ordinary shares and underlying shares of the Company:**

<b>Name</b>	<b>Capacity and Nature of interest</b>	<b>Number of shares/underlying shares held</b>	<b>Approximate percentage of the Company's issued share capital</b>
Global Energy Investors, LLC <i>(Note 1)</i>	Corporate	136,871,200 Shares	34.75%
Madam Chen Fengying <i>(Note 2)</i>	Interest of the spouse	137,735,200 Shares and 2,592,000 share options	35.62%
Madam Zhang Jiuli <i>(Note 3)</i>	Interest of the spouse	137,735,200 Shares and 2,592,000 share options	35.62%
YRS Investments Limited <i>(Note 4)</i>	Corporate	42,800,000 Shares	10.87%
Yantai Raffles Shipyard Limited <i>(Note 4)</i>	Corporate	42,800,000 Shares	10.87%
Mr. Brian Chang <i>(Note 4)</i>	Interest in controlled entities	58,872,800 Shares	14.95%
Keywise Greater China Opportunities Master Fund <i>(Note 5)</i>	Corporate	41,488,000 Shares	10.53%
Keywise Capital Management (HK) Limited <i>(Note 5)</i>	Corporate	41,488,000 Shares	10.53%
DnB NOR Asset Management (Asia) Limited	Corporate	23,048,000 Shares	5.85%
NESTOR Fernost Fonds <i>(Note 6)</i>	Corporate	22,828,000 Shares	5.80%
NESTOR Investment Management S.A. <i>(Note 6)</i>	Corporate	22,828,000 Shares	5.80%

<b>Name</b>	<b>Capacity and Nature of interest</b>	<b>Number of shares/underlying shares held</b>	<b>Approximate percentage of the Company's issued share capital</b>
Mr. Ou Yaping (Note 7)	Interest in controlled entities	22,000,000 Shares	5.59%
Asia Pacific Promotion Limited (Note 7)	Corporate	22,000,000 Shares	5.59%
Enerchina Holdings Limited (Note 7)	Corporate	22,000,000 Shares	5.59%
Multiwin Corporation (Note 7)	Corporate	22,000,000 Shares	5.59%
Roxy Link Limited (Note 7)	Corporate	22,000,000 Shares	5.59%
Madam Gao Haiping (Note 8)	Interest of the spouse	20,919,600 Shares and 1,555,200 share options	5.71%

*Notes:*

- This interest represents the same block of corporate interest held by Mr. Zhang Menggui and Mr. Jiang Bing Hua as shown in the above section headed "Interests of the directors and chief executive of the Company".*
- These interests represent the same block of Shares and share options held by Mr. Zhang Menggui as shown in the above section headed "Interests of the directors and chief executive of the Company". Since Madam Chen Fengying is the spouse of Mr. Zhang Menggui, she is deemed to be interested in the Shares and share options held by him under Part XV of the SFO.*
- These interests represent the same block of Shares and share options held by Mr. Jiang Bing Hua as shown in the above section headed "Interests of the directors and chief executive of the Company". Since Madam 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.*
- 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 by his wholly-owned company, Asian Infrastructure Limited.*
- Keywise Greater China Opportunities Master Fund is an investment fund registered in the Cayman Islands and is wholly-owned by Keywise Capital Management (HK) Limited, a company incorporated in Hong Kong.*



6. *NESTOR Investment Management S.A. held the 22,828,000 shares on behalf of NESTOR Fernost Fonds, an undertaking for collection investments under the laws of the Grand Duchy von Luxembourg.*
7. *Roxy Link Limited ("Roxy") is the beneficial owner of 22,000,000 shares of the Company. Roxy is a wholly-owned subsidiary of Multiwin Corporation ("Multiwin"), which in turn is a wholly-owned subsidiary of Enerchina Holdings Limited ("Enerchina").*  
  
*Asia Pacific Promotion Limited ("Asia Pacific") is wholly-owned by Mr. Ou Yaping ("Mr. Ou"). Enerchina is owned as to approximately 32.5% held by Asia Pacific and approximately 0.17% held by Mr. Ou directly respectively. Therefore, Mr. Ou, Asia Pacific, Enerchina and Multiwin are deemed to be interested in the 22,000,000 shares of the Company held by Roxy under Part XV of the SFO.*
8. *These interest represent the same block of Shares and share options held by Mr. Zhang Hongru as shown in the above section headed "Interests of the directors and chief executive of the Company". Since Madam 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.*

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

## **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.

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.

Details of the adjusted outstanding options which have been granted and remaining unexercised under the Pre-IPO Scheme as at 31 March 2008 are as follows:

Name or category of participant	Date of grant (Notes 1 & 2)	Exercisable period (Notes 1, 2 & 3)	Exercise price per share HK\$	Number of share options				Outstanding as at 31.3.2008
				Outstanding as at 31.12.2007	Exercised during the period (Notes 4 & 5)	Cancelled during the period (Note 5)	Lapsed during the period (Note 5)	
Directors:								
Mr. Zhang Menggui	19.10.2005	29.11.2005 to 18.10.2015	0.2383	3,024,000	432,000	-	-	2,592,000
Mr. Jiang Bing Hua	19.10.2005	29.11.2005 to 18.10.2015	0.2383	3,024,000	432,000	-	-	2,592,000
Mr. Chen Yunqiang	19.10.2005	29.11.2005 to 18.10.2015	0.2383	1,965,600	280,800	-	-	1,684,800
Mr. Zhang Hongru	19.10.2005	29.11.2005 to 18.10.2015	0.2383	1,814,400	259,200	-	-	1,555,200
				9,828,000	1,404,000	-	-	8,424,000
Employees	19.10.2005	29.11.2005 to 18.10.2015	0.2383	2,948,400	421,200	-	-	2,527,200
Total				12,776,400	1,825,200	-	-	10,951,200

**Notes:**

- All dates are shown day, month, year.
- 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.
- 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.
- 1,825,200 share options were exercised at an exercise price of HK\$0.2383 per share and the weighted average closing price immediately before the date of exercise of options was HK\$5.26.
- The period refers to the three months ended 31 March 2008.

Pursuant to the share option scheme adopted by the Company on 20 October 2005 (“Share Option Scheme”), the board of Directors granted 7,280,000 share options at HK\$2.43 each to 14 employees of the Group on 10 May 2007, granted 9,700,000 share options at HK\$5.60 each to 51 employees and 2 consultants of the Group on 12 November 2007, and granted 2,000,000 share options at HK\$5.23 each to 3 employees of the Group on 15 January 2008. Based on 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.

For 2,000,000 share options that were granted on 15 January 2008, the Company will request an independent valuer to evaluate the value of options.

Details of share options under the Share Option Scheme as at 31 March 2008:

Name or category of participant	Date of grant (Notes 1 & 2)	Exercisable period (Notes 1, 2 & 3)	Exercise price per share HK\$	Number of share options					Outstanding as at 31.3.2008
				Outstanding as at 31.12.2007	Granted during the period (Note 5)	Exercised during the period (Notes 4 & 5)	Cancelled during the period (Note 5)	Lapsed during the period (Note 5)	
Employees	10.05.2007	10.11.2007 to 09.05.2017	2.43	7,280,000	-	278,000	-	-	7,002,000
Total				7,280,000	-	278,000	-	-	7,002,000
Employees	12.11.2007	12.05.2008 to 11.11.2017	5.60	9,500,000	-	-	-	140,000	9,360,000
Consultants	12.11.2007	12.05.2008 to 11.11.2017	5.60	200,000	-	-	-	-	200,000
Total				9,700,000	-	-	-	140,000	9,560,000
Employees	15.01.2008	15.07.2008 to 14.01.2018	5.23	-	2,000,000	-	-	-	2,000,000
Total				-	2,000,000	-	-	-	2,000,000

**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. *278,000 share options were exercised at an exercise price of HK\$2.43 per share and the weighted average closing price immediately before the dates of exercise of options was HK\$5.26.*
5. *The period refers to the three months ended 31 March 2008.*

## **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 three months period ended 31 March 2008.

## **INTERESTS OF COMPLIANCE ADVISER**

Pursuant to the compliance adviser agreement dated 18 October 2006 (the "Agreement") between the Company's compliance adviser, Quam Capital Limited ("Quam") and the Company, the Agreement was expired on 31 March 2008 in accordance with the requirements under Rule 6A.19 of the GEM Listing Rules. Both the Company and Quam have agreed not to renew the Agreement.

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 March 2008.

Taking this opportunity, the Board expresses on behalf of the Company the great appreciation and gratitude to Quam for its professional services and advice on the Board in the past.

## **AUDIT COMMITTEE**

The Company established an audit committee on 20 October 2005 with terms of reference in compliance with Rules 5.28 to 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 controls of the Group.

The audit committee comprises three members, namely Mr. Chan Ngai Sang, Kenny (being the chairman of the audit committee), Mr. Bian Junjiang and Mr. Guan Zhichuan. All of them are independent non-executive Directors. The audit committee of the Company has reviewed the unaudited results of the Group for the three months ended 31 March 2008 and are of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

## **DIRECTORS' INTERESTS IN CONTRACTS**

No contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director had a direct and indirect material interest, subsisted during or at the end of the three months ended 31 March 2008.

## **CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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 three months ended 31 March 2008.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

For the three months ended 31 March 2008, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

## **SUBSEQUENT EVENT**

1. On 17 March 2008, the shareholders of the Company approved the conditional cash offer at its extraordinary general meeting to the shareholders of GME.

On 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. Besides, GME was also approved by the London Stock Exchange for the cancellation of admission of GME shares trading on the market operated by the London Stock Exchange with effective from 1 May 2008.

2. 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 Yantai Raffles Offshore Limited ("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 was approved by the independent shareholders by poll at the extraordinary general meeting on 8 April 2008.

By Order of the Board  
**TSC Offshore Group Limited**  
**Jiang Bing Hua**  
*Executive Chairman*

Hong Kong, 9 May 2008

*As at the date of this report, the Board comprises of Mr. Jiang Bing Hua (executive Director), Mr. Zhang Menggui (executive Director), Mr. Zhang Hongru (executive Director), Mr. Chen Yunqiang (executive Director), Mr. Jiang Longsheng (non-executive Director), Mr. Chan Ngai Sang, Kenny (independent non-executive Director), Mr. Bian Junjiang (independent non-executive Director) and Mr. Guan Zhichuan (independent non-executive Director).*



**TSC Offshore Group Limited**

[www.tscoffshore.com](http://www.tscoffshore.com)