



TSC Offshore Group Limited

Stock Code: 8149

2009  
FIRST QUARTERLY REPORT

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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.**

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*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\$26.5 million for the three months ended 31 March 2009, representing an approximately 37.0% increase over the same period in 2008;
- Gross profit amounted to approximately US\$4.7 million for the three months ended 31 March 2009, representing an approximately 6.9% increase over the same period in 2008;
- Operating loss amounted to approximately US\$2.6 million for the three months ended 31 March 2009 while the Group realised approximately US\$1.9 million operating profit in the same period in 2008;
- Loss attributable to equity shareholders amounted to approximately US\$2.8 million for the three months ended 31 March 2009 against approximately US\$292,000 profit for the same period in 2008;
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2009.

## 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 2009, together with the unaudited comparative figures for the corresponding period in 2008 as follows:

### CONSOLIDATED INCOME STATEMENT (UNAUDITED)

|  |       | For the three months<br>ended 31 March |                                 |
|--|-------|--|---------------------------------|
|  |       | 2009<br>(Unaudited)<br>US\$'000        | 2008<br>(Unaudited)<br>US\$'000 |
|  | Notes |  |                                 |
| <b>Turnover</b>  | 3     | <b>26,526</b>                          | 19,361                          |
| Cost of sales  |       | <b>(21,867)</b>                        | (15,003)                        |
| <b>Gross profit</b>  |       | <b>4,659</b>                           | 4,358                           |
| Other revenue  | 3     | <b>451</b>                             | 168                             |
| Selling and distribution expenses  |       | <b>(2,789)</b>                         | (495)                           |
| General and administrative expenses  |       | <b>(4,185)</b>                         | (2,152)                         |
| Other operating (expenses)/income  | 4     | <b>(722)</b>                           | 35                              |
| <b>(Loss)/profit from operations</b>   |       | <b>(2,586)</b>                         | 1,914                           |
| Finance costs  | 5     | <b>(126)</b>                           | (40)                            |
| Share of results of associates   |       | <b>272</b>                             | (1,529)                         |
| <b>(Loss)/profit before taxation</b>   |       | <b>(2,440)</b>                         | 345                             |
| Income tax   | 6     | <b>(396)</b>                           | (53)                            |
| <b>(Loss)/profit for the period<br/>and attributable to equity<br/>shareholders of the Company</b> |       | <b>(2,836)</b>                         | 292                             |
| <b>Dividend</b>  | 7     | -                                      | -                               |
| <b>(Loss)/earnings per share</b>   |       |  |                                 |
| Basic  | 8(a)  | <b>US(0.5 cent)</b>                    | US0.07 cent                     |
| Diluted  | 8(b)  | <b>US(0.5 cent)</b>                    | US0.07 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 2009 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 ("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, 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 2008.

### 3. TURNOVER AND OTHER REVENUE

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

Turnover represents the invoiced value of goods supplied to customers, revenue from construction contracts and revenue from 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>2009</b>                       | 2008            |
|                                       | <i>US\$'000</i>                   | <i>US\$'000</i> |
| Turnover                              |                                   |                 |
| Rig products and technology           |                                   |                 |
| – Sales of rig electrical equipment   | <b>2,910</b>                      | 665             |
| – Sales of other rig equipment        | <b>1,987</b>                      | 1,683           |
| – Revenue from construction contracts | <b>14,576</b>                     | –               |
|                                       | <b>19,473</b>                     | 2,348           |
| Rig turnkey solutions                 |                                   |                 |
| – Revenue from construction contracts | <b>2,467</b>                      | 13,108          |
| Oilfield expendables and supplies     |                                   |                 |
| – Sales of expendables and supplies   | <b>4,586</b>                      | 3,457           |
| Consultancy services                  |                                   |                 |
| – Service fee income                  | –                                 | 448             |
|                                       | <b>26,526</b>                     | 19,361          |
| Other revenue                         |                                   |                 |
| Interest income                       | <b>197</b>                        | 150             |
| Gain on sales of accessories          | –                                 | 15              |
| Others                                | <b>254</b>                        | 3               |
|                                       | <b>451</b>                        | 168             |

## 4. OTHER OPERATING EXPENSES/(INCOME)

|                                   | Unaudited<br>For the three months ended<br>31 March |                  |
|-----------------------------------|---|------------------|
|                                   | 2009<br>US\$'000                                    | 2008<br>US\$'000 |
| Amortisation of intangible assets | 634   | 111              |
| Net foreign exchange loss/(gain)  | 88  | (146)            |
|                                   | 722   | (35)             |

## 5. FINANCE COSTS

|                        | Unaudited<br>For the three months ended<br>31 March |                  |
|------------------------|---|------------------|
|                        | 2009<br>US\$'000                                    | 2008<br>US\$'000 |
| Interest on bank loans | 126   | 40               |

## 6. INCOME TAX

Income tax in the consolidated income statement represents:

|   | Unaudited<br>For the three months ended<br>31 March |                  |
|---|---|------------------|
|   | 2009<br>US\$'000                                    | 2008<br>US\$'000 |
| <b>Current tax</b>  |   |                  |
| Provision for the period                                      |   |                  |
| – People's Republic of China ("PRC")<br>enterprise income tax | 195   | 24               |
| – United States corporation income tax                        | 458   | –                |
| <b>Deferred tax</b>   |   |                  |
| Origination and reversal of temporary differences             | (257)   | 29               |
|   | 396   | 53               |

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, the United States of America ("USA") and subsidiaries in other jurisdictions 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 expires.

## 7. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2009 (2008: Nil).

## 8. (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of the basic (loss)/earnings per share for the three months ended 31 March 2009 is based on the (loss)/profit attributable to equity shareholders of the Company of approximately US\$(2,836,000) (2008: US\$292,000 profit) and the weighted average number of 561,737,604 (2008: 393,607,547) ordinary shares in issue during the period.

### (b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share for the three months ended 31 March 2009 is based on the (loss)/profit attributable to equity shareholders of the Company of approximately US\$(2,836,000) (2008: US\$292,000 profit) and the weighted average number of ordinary shares for the three months ended 31 March 2009 of 562,671,096 (2008: 406,411,294) 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 attributable to equity shareholders of the Company |  |  |   |   |   |   |  |                                  |
|--|---|--|--|---|---|---|---|--|----------------------------------|
|  | (Unaudited)   |  |  |   |   |   |   |  |                                  |
|  | Employee  |  |  |   |   |   |   |  |                                  |
|  | (Unaudited)<br>Share<br>premium<br>US\$'000                 | (Unaudited)<br>Merger<br>reserve<br>US\$'000 | (Unaudited)<br>Exchange<br>reserve<br>US\$'000 | (Unaudited)<br>share-based<br>compensation<br>reserve<br>US\$'000 | (Unaudited)<br>Capital<br>reserve<br>US\$'000 | (Unaudited)<br>Revaluation<br>reserve<br>US\$'000 | (Unaudited)<br>Reserve<br>funds<br>US\$'000 | (Unaudited)<br>Retained<br>profits<br>US\$'000 | (Unaudited)<br>Total<br>US\$'000 |
| At 1 January 2008  |   |  |  |   |   |   |   |  |                                  |
| – as previously reported   | 52,912  | 2,161  | 1,473  | 597   | 512   | –   | 1,640                                       | 11,250   | 70,545                           |
| – Adjustment on 2007<br>share of results of associate  | –   | –  | –  | –   | –   | –   | –   | 437  | 437                              |
| At 1 January 2008 (audited)  | 52,912  | 2,161  | 1,473  | 597   | 512   | –   | 1,640                                       | 11,687   | 70,982                           |
| Shares issue under share<br>option schemes   | 178   | –  | –  | (62)  | –   | –   | –   | –  | 116                              |
| Employee share-based<br>payment expenses   | –   | –  | –  | 233   | –   | –   | –   | –  | 233                              |
| Exchange differences on<br>translation of<br>financial statements<br>of foreign subsidiaries<br>and associates | –   | –  | 2,562  | –   | –   | –   | –   | –  | 2,562                            |
| Profit for the period  | –   | –  | –  | –   | –   | –   | –   | 292  | 292                              |
| At 31 March 2008   | 53,090  | 2,161  | 4,035  | 768   | 512   | –   | 1,640                                       | 11,979   | 74,185                           |
| At 1 January 2009 (audited)  | 89,087  | 2,161  | (10,279)                                       | 2,558   | 512   | 627   | 1,856                                       | 21,807   | 108,329                          |
| Employee share-based<br>payment expenses   | –   | –  | –  | 248   | –   | –   | –   | –  | 248                              |
| Exchange differences on<br>translation of<br>financial statements<br>of foreign subsidiaries<br>and associates | –   | –  | (69)   | –   | –   | –   | –   | –  | (69)                             |
| Loss for the period  | –   | –  | –  | –   | –   | –   | –   | (2,836)  | (2,836)                          |
| Transfer to reserve funds  | –   | –  | –  | –   | –   | –   | 81  | (81)   | –                                |
| At 31 March 2009   | 89,087  | 2,161  | (10,348)                                       | 2,806   | 512   | 627   | 1,937                                       | 18,890   | 105,672                          |

## 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 2009, the Group generated approximately US\$27.0 million in total revenue and a net loss of approximately US\$2.8 million.

### **FINANCIAL REVIEW**

#### *Turnover and Other Revenue*

For the three months ended 31 March 2009, the Group recorded a total sales of approximately US\$26.5 million, representing an increase of approximately 37.0% over the sales in the same period in 2008. Other revenue was approximately US\$451,000 for the three months ended 31 March 2009.

### **COST OF SALES AND GROSS PROFIT MARGIN**

The Group's cost of sales for the three months ended 31 March 2009 and the same period in 2008 amounted to approximately US\$21.9 million and US\$15.0 million respectively, resulting in a consolidated gross profit margin of approximately 17.6% and 22.5% respectively. The decrease in gross profit margin was mainly due to realised lower margin from the business of cranes and other handling equipment contracts which contributed approximately 54.9% of the total sales for the three months ended 31 March 2009.

### **OPERATING COSTS AND NET (LOSS)/PROFIT**

For the three months ended 31 March 2009, the Group's selling and distribution expenses amounted to approximately US\$2.8 million, accounting for approximately 10.5% of the Group's turnover, as compared to those of approximately 2.6% for the same period in 2008. The portion of selling and distribution expenses over total sales increased mainly due to the higher expenses from the acquired companies.

For the three months ended 31 March 2009, the Group's general and administrative expenses amounted to approximately US\$4.2 million, representing approximately 15.8% of the Group's turnover, as compared to 11.1% for the same period in 2008. The increase in general and administrative expenses was mainly attributed to a full absorption of expenses from the acquired companies for the period of three months ended 31 March 2009 while the Group did not take any portion of the expenses of the acquired companies in the first quarter of 2008 when these companies remained as the associate of the Group.

Sharing of profit or loss from the associates of the Group was recognised for the period based on the information provided by the management of the associates.

For the three months ended 31 March 2009, the Group realised a net loss of approximately US\$2.8 million. (2008: US\$292,000 net profit). The loss was mainly due to the loss incurred in the period from the cranes and handling equipment business. Another factor is the seasonal trend of the Group's business. Sales and profit tend to be lower in the first quarter of a year.

### **BUSINESS REVIEW**

For the three months ended 31 March 2009, the Group continued implementing the six turnkey contracts for cantilever and drilling systems as per the progress milestones, however, the progress made was behind the planned schedule. 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\$2.5 million for the business of rig turnkey solutions. The growth of rig electrical equipment was extraordinary in the first quarter of 2009 mainly due to the completion of the contracts carried over from 2008. The Group realised a sales of approximately US\$16.6 million in handling equipment and other drilling equipment. The sales of expendables and supplies in the first quarter of 2009 were satisfactorily 32.7% higher than the sales in the same period in 2008. No consultancy income for the three months ended 31 March 2009 was realised.

### **LIQUIDITY, FINANCIAL RESOURCES AND CHANGE OF ASSETS**

As at 31 March 2009, the Group maintained current assets of approximately US\$121.5 million in which approximately US\$14.0 million was cash and bank balances while current liabilities were approximately US\$81.2 million. As at 31 March 2009, the Group carried bank borrowings of approximately US\$11.2 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 2009, the Group maintained a gearing ratio, based on total liabilities over equity shareholders' fund, was approximately 78.5%, as compared to 50% in the same period in 2008.

### **CONTINGENT LIABILITY**

As at 31 March 2009, no contingent liability was known to the management and the Board.

### **SIGNIFICANT INVESTMENTS AND DISPOSALS**

There was no any significant investments and disposals for the three months ended 31 March 2009.

## **CAPITAL STRUCTURE**

As at 31 March 2008, there were 393,908,004 ordinary shares of HK\$0.10 each (each a "Share") in issue and the Company carried a share capital of approximately US\$5,068,000.

As at 31 March 2009, the Company carried 561,737,604 Shares in issue, and a share capital of approximately US\$7,225,000.

## **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 2009, no related hedges were made by the Group. The Group will actively explore ways to hedge or reduce currency exchange risk in future.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 31 March 2009, the Group had approximately 1,000 full-time staff in U.S.A., U.K., Brazil, Singapore, 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 global economy has been slowing down since 2008, and so far shows no material sign of stopping. The pessimistic feelings and views on future economy will adversely induce a soft and sluggish demand for drilling equipment and related services.

Nevertheless, the Group is holding views that oil and natural gas will still remain as a major form of energy for the world in foreseeable future, that the reserve of oil and natural gas in the world is limited by nature, and that the demand for energy will not vanish and will doom to grow once the world economy steps into the course of recovery. Therefore, the Group is cautiously optimistic about the future of its business in long run, although in short term, the Group's business may be impacted by the slow down of the global economy.

In short term, the Group shall continue to implement the strategy of "build solid foundation for further growth in future". The Group shall continue its efforts to make timely deliveries of equipment and packages to its customers. The Group shall make more endeavors to optimize allocation of work loads and human resources within the Group in order to achieve most cost effectiveness in a shortest possible time. The Group shall continue to control and cut unnecessary expenses without scarifying the quality of goods and services to be provided to its customers. Most importantly, the Group will continue our intensive efforts in promoting and selling its products and services.

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

As at 31 March 2009, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to 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:

### Long positions in ordinary Shares and underlying Shares of the Company:

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

*Notes:*

1. Global Energy Investors, LLC. is the beneficial owner of 136,871,200 Shares. The entire shares capital of Global Energy Investors, LLC. is beneficially owned as to 50% each by Mr. Zhang Menggui and Mr. Jiang Bing Hua, both are the executive Directors of the Company. Accordingly, both Mr. Zhang Menggui and Mr. Jiang Bing Hua are deemed to be interested in the 136,871,200 Shares beneficially owned by Global Energy Investors, LLC. under Part XV of the SFO.
2. Mr. Zhang Hongru personally holds 5,209,200 Shares and indirectly holds 16,228,800 Shares through Osbeck Investments Limited which is an investment holding company wholly-owned by him. He is deemed to be interested in the shares held by Osbeck Investments Limited under Part XV of the SFO.
3. Please refer to the section "Share Option Schemes" below for details of share options held by the Directors and chief executives of the Company.

Save as disclosed above, as at 31 March 2009, none of the Directors or chief executives of the Company had registered an interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to 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 2009, the following persons had interests or short positions in the Shares and underlying Shares of the Company which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

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

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

| Name   | Capacity and<br>nature of interest | Number of<br>Shares/underlying<br>Shares held | Approximate<br>percentage of<br>the Company's<br>issued share<br>capital |
|--|------------------------------------|---|--|
| Keywise Greater China Opportunities Master Fund (Note 5)         | Corporate                          | 51,488,000 Shares                             | 9.17%  |
| Keywise Capital Management (HK) Limited (Note 5)                 | Corporate                          | 51,488,000 Shares                             | 9.17%  |
| China International Marine Containers (Group) Co., Ltd. (Note 6) | Corporate                          | 50,000,000 Shares                             | 8.90%  |
| China International Marine Containers (Hong Kong) Ltd. (Note 6)  | Corporate                          | 50,000,000 Shares                             | 8.90%  |
| Sharp Vision Holdings Limited (Note 6)                           | Corporate                          | 50,000,000 Shares                             | 8.90%  |
| Mr. Ou Yaping (Note 7)   | Interest in controlled entities    | 32,000,000 Shares                             | 5.70%  |
| Asia Pacific Promotion Limited (Note 7)                          | Corporate                          | 32,000,000 Shares                             | 5.70%  |
| Enerchina Holdings Limited (Note 7)                              | Corporate                          | 32,000,000 Shares                             | 5.70%  |
| Multiwin Corporation (Note 7)                                    | Corporate                          | 32,000,000 Shares                             | 5.70%  |



| Name                       | Capacity and nature of interest | Number of Shares/underlying Shares held | Approximate percentage of the Company's issued share capital |
|----------------------------|---------------------------------|---|--|
| Roxy Link Limited (Note 7) | Corporate                       | 32,000,000 Shares                       | 5.70%  |

## Notes:

1. These interests represent the same block of Shares and share options held by Mr. Zhang Menggui as shown in the above section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES". Since Madam Chen Fengying is the spouse of Mr. Zhang Menggui, she is deemed to be interested in the Shares and share options held by him under Part XV of the SFO.
2. These interests represent the same block of Shares and share options held by Mr. Jiang Binghua as shown in the above section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES". Since Madam Zhang Jiuli is the spouse of Mr. Jiang Binghua, she is deemed to be interested in the Shares and share options held by him under Part XV of the SFO.
3. This interest represents the same block of corporate interest held by Mr. Zhang Menggui and Mr. Jiang Binghua as shown in the above section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES".
4. YRS Investments Limited ("YRSI") is ultimately wholly-owned by Yantai Raffles Shipyard Limited ("YRS"), a company incorporated in Singapore and the shares of which are traded on the Oslo Over-the-Counter Market. Accordingly, YRS is deemed to be interested in 42,800,000 Shares held by YRSI. YRS is owned as to approximately 34% by Mr. Brian Chang and his associates. Mr. Brian Chang is deemed to be interested in 42,800,000 Shares held by YRSI as he holds more than one-third interest of the issued share capital of YRSI. Mr. Brian Chang is also deemed to be interested in 16,072,800 Shares and 50,000,000 Shares held by his wholly-owned companies, Asian Infrastructure Limited and Windmere International Limited, respectively.

5. Keywise Greater China Opportunities Master Fund is an investment fund registered in the Cayman Islands and is wholly-owned by Keywise Capital Management (HK) Limited, a company incorporated in Hong Kong.
6. Sharp Vision Holdings Limited ("Sharp Vision") is the beneficial owner of 50,000,000 Shares. Sharp Vision is a wholly-owned subsidiary of China International Marine Containers (Hong Kong) Limited ("CIMC HK"), which in turn is a wholly-owned subsidiary of China International Marine Containers (Group) Company Limited ("CIMC Group"). Therefore, CIMC HK and CIMC Group are deemed to be interested in the 50,000,000 Shares held by Sharp Vision under Part XV of the SFO.
7. Roxy Link Limited ("Roxy") is the beneficial owner of 32,000,000 Shares. Roxy is a wholly-owned subsidiary of Multiwin Corporation ("Multiwin"), which in turn is a wholly-owned subsidiary of Enerchina Holdings Limited ("Enerchina").

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

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

| <b>Name of subsidiary</b>   | <b>Name of substantial shareholder</b> | <b>Percentage of shareholding</b> |
|-----------------------------|--|-----------------------------------|
| TSC Deep Water System, LLC. | Mr. Dong E. Wheeler                    | 29%                               |

Save as disclosed above, as at 31 March 2009, there was no person (other than the Directors and chief executives of the Company whose interests are set out under the paragraph headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES" above and section headed "SHARE OPTION SCHEMES" below), had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

**SHARE OPTION SCHEMES**

Pursuant to written resolutions of all shareholders of the Company on 19 and 20 October 2005, the Company adopted a Pre-IPO Share Option Scheme (the "Pre-IPO Scheme") and another share option scheme (the "Share Option Scheme") respectively.

The Pre-IPO Scheme ceased to be effective on 21 November 2005 save for the unexercised portion of the options granted and accepted during its life time, of which a total of 8,121,600 share options remain valid and outstanding as at 31 March 2009.

Details of the movement of options under the Pre-IPO Scheme for the three months ended 31 March 2009 were as follows:

| Name or category of participant | Date of grant | Exercisable period       | Exercise price per share | Number of share options  |                             |                             |                          | Balance as at 31.03.2009 |
|---------------------------------|---------------|--------------------------|--------------------------|--------------------------|-----------------------------|-----------------------------|--------------------------|--------------------------|
|                                 |               |                          |                          | Balance as at 01.01.2009 | Exercised during the period | Cancelled during the period | Lapsed during the period |                          |
|                                 | (Notes 1 & 2) | (Notes 1, 2 & 3)         | HK\$                     |                          | (Notes 4)                   | (Note 4)                    | (Note 4)                 |                          |
| Directors:                      |               |                          |                          |                          |                             |                             |                          |                          |
| Mr. Zhang Menggui               | 19.10.2005    | 29.11.2005 to 18.10.2015 | 0.2383                   | 1,728,000                | -                           | -                           | -                        | 1,728,000                |
| Mr. Jiang Bing Hua              | 19.10.2005    | 29.11.2005 to 18.10.2015 | 0.2383                   | 1,728,000                | -                           | -                           | -                        | 1,728,000                |
| Mr. Zhang Hongru                | 19.10.2005    | 29.11.2005 to 18.10.2015 | 0.2383                   | 1,036,800                | -                           | -                           | -                        | 1,036,800                |
| Mr. Chen Yunqiang               | 19.10.2005    | 29.11.2005 to 18.10.2015 | 0.2383                   | 1,684,800                | -                           | -                           | -                        | 1,684,800                |
|                                 |               |                          |                          | 6,177,600                | -                           | -                           | -                        | 6,177,600                |
| Employees                       | 19.10.2005    | 29.11.2005 to 18.10.2015 | 0.2383                   | 1,944,000                | -                           | -                           | -                        | 1,944,000                |
| Total                           |               |                          |                          | 8,121,600                | -                           | -                           | -                        | 8,121,600                |

*Notes:*

1. All dates are shown day, month, year.
2. The vesting period of the options is 5 years and starts from the date of grant and become vested at stepped semi-annual increments of 10% of the total options originally granted subject to any adjustment due to the bonus issue, for a period of 5 years from the date of grant.
3. These grants are exercisable, starting from the first anniversary of the listing date at stepped semi-annual increments of 10% of the total options originally granted subject to any adjustment due to the bonus issue, for a period not later than 10 years from the date of grant.
4. The period refers to the three months ended 31 March 2009.

Pursuant to the Share Option Scheme, the Directors granted (i) 7,280,000 share options at HK\$2.43 each to 14 employees of the Group on 10 May 2007, (ii) 9,700,000 share options at HK\$5.60 each to 51 employees and 2 consultants of the Group on 12 November 2007, (iii) 2,000,000 share options at HK\$5.23 each to 3 employees of the Group on 15 January 2008, (iv) 5,000,000 share options at HK\$2.32 each to 6 employees of the Group on 12 August 2008 and (v) 16,050,000 share options at HK\$0.54 each to 8 Directors and 38 employees of the Group on 29 December 2008.

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

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

Details of movement of options under the Share Option Scheme for the three months ended 31 March 2009 were as follows:

| Name or category<br>of participant | Date of grant            | Exercisable<br>period       | Exercise<br>price<br>per share | Number of share options |                      |                      |                      |                      | Balance<br>as at<br>31.03.2009 |
|------------------------------------|--------------------------|-----------------------------|--------------------------------|-------------------------|----------------------|----------------------|----------------------|----------------------|--------------------------------|
|                                    |                          |                             |                                | Balance                 | Granted              | Exercised            | Cancelled            | Lapsed               |                                |
|                                    |                          |                             |                                | as at<br>01.01.2009     | during<br>the period | during<br>the period | during<br>the period | during<br>the period |                                |
|                                    | <i>(Notes 1 &amp; 2)</i> | <i>(Notes 1, 2 &amp; 3)</i> | <i>HK\$</i>                    |                         | <i>(Note 4)</i>      | <i>(Note 4)</i>      | <i>(Note 4)</i>      | <i>(Note 4)</i>      |                                |
| (i) Employees                      | 10.05.2007               | 10.11.2007 to 09.05.2017    | 2.43                           | 6,802,000               | -                    | -                    | -                    | -                    | 6,802,000                      |
| Total                              |                          |                             |                                | 6,802,000               | -                    | -                    | -                    | -                    | 6,802,000                      |
| (ii) Employees                     | 12.11.2007               | 12.05.2008 to 11.11.2017    | 5.60                           | 8,850,000               | -                    | -                    | -                    | 540,000              | 8,310,000                      |
| Consultants                        | 12.11.2007               | 12.05.2008 to 11.11.2017    | 5.60                           | 200,000                 | -                    | -                    | -                    | -                    | 200,000                        |
| Total                              |                          |                             |                                | 9,050,000               | -                    | -                    | -                    | 540,000              | 8,510,000                      |
| (iii) Employees                    | 15.01.2008               | 15.07.2008 to 14.01.2018    | 5.23                           | 2,000,000               | -                    | -                    | -                    | -                    | 2,000,000                      |
| Total                              |                          |                             |                                | 2,000,000               | -                    | -                    | -                    | -                    | 2,000,000                      |
| (iv) Employees                     | 12.08.2008               | 12.02.2009 to 11.08.2018    | 2.32                           | 4,000,000               | -                    | -                    | -                    | 2,300,000            | 1,700,000                      |
| Total                              |                          |                             |                                | 4,000,000               | -                    | -                    | -                    | 2,300,000            | 1,700,000                      |

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

Details of movement of options under the Refreshment of the Share Option Scheme for the three months ended 31 March 2009 were as follows:

| Name or category<br>of participant | Date of grant | Exercisable<br>period    | Exercise<br>price<br>per share | Number of share options |                      |                      |                      |                      | Balance<br>as at<br>31.03.2009 |
|------------------------------------|---------------|--------------------------|--------------------------------|-------------------------|----------------------|----------------------|----------------------|----------------------|--------------------------------|
|                                    |               |                          |                                | Balance                 | Granted              | Exercised            | Cancelled            | Lapsed               |                                |
|                                    |               |                          |                                | as at<br>01.01.2009     | during<br>the period | during<br>the period | during<br>the period | during<br>the period |                                |
|                                    | (Notes 1 & 2) | (Notes 1, 2 & 3)         | HK\$                           |                         | (Note 4)             | (Note 4)             | (Note 4)             | (Note 4)             |                                |
| Directors:                         |               |                          |                                |                         |                      |                      |                      |                      |                                |
| Mr. Zhang Menggui                  | 29.12.2008    | 29.06.2009 to 28.12.2018 | 0.54                           | 1,200,000               | -                    | -                    | -                    | -                    | 1,200,000                      |
| Mr. Jiang Bing Hua                 | 29.12.2008    | 29.06.2009 to 28.12.2018 | 0.54                           | 1,200,000               | -                    | -                    | -                    | -                    | 1,200,000                      |
| Mr. Zhang Hongru                   | 29.12.2008    | 29.06.2009 to 28.12.2018 | 0.54                           | 800,000                 | -                    | -                    | -                    | -                    | 800,000                        |
| Mr. Chen Yunqiang                  | 29.12.2008    | 29.06.2009 to 28.12.2018 | 0.54                           | 800,000                 | -                    | -                    | -                    | -                    | 800,000                        |
| Mr. Jiang Longsheng                | 29.12.2008    | 29.06.2009 to 28.12.2018 | 0.54                           | 400,000                 | -                    | -                    | -                    | -                    | 400,000                        |
| Mr. Chan Ngai Sang, Kenny          | 29.12.2008    | 29.06.2009 to 28.12.2018 | 0.54                           | 500,000                 | -                    | -                    | -                    | -                    | 500,000                        |
| Mr. Bian Junjiang                  | 29.12.2008    | 29.06.2009 to 28.12.2018 | 0.54                           | 350,000                 | -                    | -                    | -                    | -                    | 350,000                        |
| Mr. Guan Zhichuan                  | 29.12.2008    | 29.06.2009 to 28.12.2018 | 0.54                           | 300,000                 | -                    | -                    | -                    | -                    | 300,000                        |
|                                    |               |                          |                                | 5,550,000               | -                    | -                    | -                    | -                    | 5,550,000                      |
| Employees                          |               |                          |                                |                         |                      |                      |                      |                      |                                |
|                                    | 29.12.2008    | 29.06.2009 to 28.12.2018 | 0.54                           | 10,500,000              | -                    | -                    | -                    | 400,000              | 10,100,000                     |
| Total                              |               |                          |                                |                         |                      |                      |                      |                      |                                |
|                                    |               |                          |                                | 16,050,000              | -                    | -                    | -                    | 400,000              | 15,650,000                     |

*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 three months ended 31 March 2009.

### **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 2009.

### **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 2009 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**

On 23 October 2008, the Company entered into a loan agreement with Mr. Jiang Bing Hua ("Mr. Jiang"), a Director of the Company. Pursuant to such agreement, Mr. Jiang advanced a loan of HK\$16 million to the Company for short term bridging financing purpose. The loan is guaranteed by another Director, Mr. Zhang Menggui. The loan is unsecured, interest-free and shall be repaid in full on or before 30 December 2008 (the "Latest Repayment Date"). On 30 December 2008, Mr. Jiang agreed with the Company to extend the Latest Repayment Date for the loan agreement from 30 December 2008 to 1 March 2010 (the "Revised Latest Repayment Date"), but the Company has the right to pay back any time on or before 1 March 2010 the whole or part of the loan to Mr. Jiang. Except for the Revised Latest Repayment Date, all other terms and conditions set out in the loan agreement dated 23 October 2008 remain unchanged. On 3 March 2009, the Company paid HK\$10,000,000 to Mr. Jiang. The balance of the loan due to Mr. Jiang is HK\$6,000,000 payable on 1 March 2010 and the Company has the option to repay the whole balance on or before 1 March 2010.

Save as disclosed above, 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 2009.

## **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 2009.

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

For the three months ended 31 March 2009, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

**SUBSEQUENT EVENT**

Reference is made to the Company's announcement on 7 May 2009 regarding an application was made by the Company to the Stock Exchange for the transfer of listing from GEM to the Main Board on 7 May 2009. The Company has applied for the listing of, and permission to deal in, (i) 561,737,604 Shares in issue; and (ii) 42,783,600 Shares which may fall to be issued pursuant to the exercise of the outstanding options which were granted under the Pre-IPO Scheme and Share Option Scheme, on the Main Board by way of transfer of the listing from GEM to the Main Board.

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

Hong Kong, 12 May 2009

*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 (nonexecutive 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

Stock Code: 8149