

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



TSC Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 206)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010**

HIGHLIGHTS

- Turnover amounted to approximately US\$143.5 million for the year ended 31 December 2010, representing an increase of 27.1% as compared with 2009;
- Gross profit amounted to approximately US\$52.3 million for the year ended 31 December 2010, representing an increase of 145.8% as compared with 2009;
- Gross profit margin increased from 18.8% for 2009 to 36.4% for 2010;
- Profit attributable to equity holders of the Company amounted to approximately US\$13.6 million for the year ended 31 December 2010; and
- The Directors do not recommend the payment of a dividend for 2010.

ANNUAL RESULTS

The board of the Directors (the “Board”) is pleased to announce the results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2010 (the “Year”) together with the comparative figures for the year ended 31 December 2009 as follows using United States dollars as presentation currency:

Consolidated Income Statement

For the year ended 31 December 2010

	<i>Note</i>	2010 <i>US\$'000</i>	2009 <i>US\$'000</i>
Turnover	<i>3 & 11</i>	143,455	112,842
Cost of sales		<u>(91,189)</u>	<u>(91,578)</u>
Gross profit		52,266	21,264
Other revenue	<i>4</i>	2,143	1,194
Selling and distribution expenses		(5,539)	(4,884)
General and administrative expenses		(28,035)	(22,910)
Other operating expenses		<u>(4,409)</u>	<u>(9,051)</u>
Profit/(loss) from operations		16,426	(14,387)
Finance costs	<i>5(a)</i>	(1,406)	(1,338)
Share of results of associates		<u>38</u>	<u>1,399</u>
Profit/(loss) before taxation	<i>5</i>	15,058	(14,326)
Income tax (expense)/credit	<i>6(a)</i>	<u>(1,467)</u>	<u>4,088</u>
Profit/(loss) for the year		<u>13,591</u>	<u>(10,238)</u>
Attributable to:			
Equity shareholders of the Company		13,571	(10,238)
Non-controlling interests		<u>20</u>	<u>—</u>
Profit/(loss) for the year		<u>13,591</u>	<u>(10,238)</u>
Earnings/(loss) per share	<i>8</i>		
Basic		<u>US2.05 cents</u>	<u>US(1.81) cents</u>
Diluted		<u>US2.01 cents</u>	<u>US(1.76) cents</u>

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2010

	2010 <i>US\$'000</i>	2009 <i>US\$'000</i>
Profit/(loss) for the year	13,591	(10,238)
Other comprehensive income for the year:		
Exchange differences on translation of financial statements of subsidiaries and associates	<u>1,972</u>	<u>4,621</u>
Total comprehensive income for the year	<u>15,563</u>	<u>(5,617)</u>
Attributable to:		
Equity shareholders of the Company	15,507	(5,617)
Non-controlling interests	<u>56</u>	<u>–</u>
Total comprehensive income for the year	<u>15,563</u>	<u>(5,617)</u>

Consolidated Statement of Financial Position
At 31 December 2010

	<i>Note</i>	2010 <i>US\$'000</i>	2009 <i>US\$'000</i>
Non-current assets			
Property, plant and equipment		27,911	23,552
Property under development		429	–
Interest in leasehold land held for own use under operating leases		4,377	3,132
Goodwill		23,776	24,290
Other intangible assets		18,884	16,449
Interest in associates		4,132	9,810
Prepayments		2,082	–
Deferred tax assets		13,124	14,649
		94,715	91,882
Current assets			
Inventories		33,339	26,613
Trade and other receivables	9	64,926	42,037
Gross amount due from customers for contract work		42,932	22,424
Amount due from a related company		101	101
Pledged bank deposits		3,657	2,317
Cash at bank and in hand		17,147	38,519
		162,102	132,011
Current liabilities			
Trade and other payables	10	62,179	48,404
Bank loans		14,653	22,776
Current taxation		4,394	3,213
Provisions		2,306	2,343
		83,532	76,736
Net current assets		78,570	55,275
Total assets less current liabilities		173,285	147,157
Non-current liabilities			
Bank loans		3,330	2,661
Deferred tax liabilities		3,224	4,453
		6,554	7,114
NET ASSETS		166,731	140,043
CAPITAL AND RESERVES			
Share capital		8,727	8,393
Reserves		151,550	131,650
Total equity attributable to equity shareholders of the Company		160,277	140,043
Non-controlling interests		6,454	–
TOTAL EQUITY		166,731	140,043

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to equity shareholders of the Company											Total equity US\$'000
	Share capital US\$'000	Share premium US\$'000	Merger reserve US\$'000	Exchange reserve US\$'000	Employee share-based compensation reserve US\$'000	Capital reserve US\$'000	Revaluation reserve US\$'000	Reserve funds US\$'000	Retained profits US\$'000	Total US\$'000	Non-controlling interests US\$'000	
Balance at 1 January 2009	7,225	89,087	2,161	(10,279)	2,558	512	627	1,856	21,807	115,554	–	115,554
Changes in equity for 2009:												
Loss for the year	–	–	–	–	–	–	–	–	(10,238)	(10,238)	–	(10,238)
Other comprehensive income	–	–	–	4,621	–	–	–	–	–	4,621	–	4,621
Total comprehensive income	–	–	–	4,621	–	–	–	–	(10,238)	(5,617)	–	(5,617)
Issues of ordinary shares	1,157	28,111	–	–	–	–	–	–	–	29,268	–	29,268
Share issue expenses	–	(743)	–	–	–	–	–	–	–	(743)	–	(743)
Shares issued under share option schemes	11	60	–	–	(27)	–	–	–	–	44	–	44
Equity-settled share-based transactions	–	–	–	–	1,537	–	–	–	–	1,537	–	1,537
Transferred to reserve funds	–	–	–	–	–	–	–	450	(450)	–	–	–
Balance at 31 December 2009 and 1 January 2010	8,393	116,515	2,161	(5,658)	4,068	512	627	2,306	11,119	140,043	–	140,043
Changes in equity for 2010:												
Profit for the year	–	–	–	–	–	–	–	–	13,571	13,571	20	13,591
Other comprehensive income	–	–	–	1,936	–	–	–	–	–	1,936	36	1,972
Total comprehensive income	–	–	–	1,936	–	–	–	–	13,571	15,507	56	15,563
Issues of ordinary shares	219	2,404	–	–	–	–	–	–	–	2,623	–	2,623
Shares issued under share option schemes	115	825	–	–	(579)	–	–	–	–	361	–	361
Equity-settled share-based transactions	–	–	–	–	1,743	–	–	–	–	1,743	–	1,743
Acquisition of non-wholly owned subsidiary	–	–	–	–	–	–	–	–	–	–	6,398	6,398
Transferred to reserve funds	–	–	–	–	–	–	–	975	(975)	–	–	–
Balance at 31 December 2010	8,727	119,744	2,161	(3,722)	5,232	512	627	3,281	23,715	160,277	6,454	166,731

Notes:

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries and the Group's interest in associates.

The functional currency of the Company is Hong Kong dollars. Subsidiaries of the Company have their functional currencies in Renminbi, United States dollars and Pound Sterling. In view of expanded foreign operations, the directors of the Company consider United States dollars, being an internationally well-recognised currency, can provide more meaningful information to the Company's investors and meet the needs of the Group's global customers. Therefore, the directors choose United States dollars as the presentation currency of the financial statements.

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

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

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

2. STATEMENT OF COMPLIANCE AND CHANGES IN ACCOUNTING POLICIES

Statement of Compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

Changes in accounting policies

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

- HKFRS 3 (revised 2008), *Business combinations*
- Amendments to HKAS 27, *Consolidated and separate financial statements*
- Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary*
- Amendment to HKAS 39, *Financial instruments: Recognition and measurement – eligible hedged items*
- Improvements to HKFRSs (2009)

- HK(IFRIC) 17, *Distribution of non-cash assets to owners*
- HK(Int) 5, *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause*

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

The amendments to HKAS 39 and HKFRS 5, revisions to HK(IFRIC) 17, improvements to HKFRSs (2009) and the issuance of HK(Int) 5 have had no material impact on the Group's financial statements as the amendments and the Interpretation's conclusion were consistent with policies already adopted by the Group. The impact of the remainder of these developments on the consolidated financial statements is as follows:

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:
 - Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.
 - If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
 - Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.
 - If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.
 - In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:
 - If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.
 - If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the end of reporting period the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain as interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, *Investments in associates*, and HKAS 31, *Interests in joint ventures*, the following policies will be applied as from 1 January 2010:
 - If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and reacquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
 - If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Other change in accounting policy which is relevant to the Group's financial statements is as follows:

- As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding location to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

3 TURNOVER

The principal activities of the Group are the design, construction, manufacturing and trading of rig products and technology (including rig electrical control system and other rig equipment) and oilfield expendables and supplies, the provision of rig turnkey solutions and the provision of engineering services.

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

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenues. In 2010, revenues from sales of rig products and technology and revenues from rig turnkey solutions construction contracts to this customer, including sales to entities which are known to the Group to be under common control with this customer, amounted to approximately US\$58 million (2009: US\$27 million).

	2010 <i>US\$'000</i>	2009 <i>US\$'000</i>
Rig products and technology		
– Sales of rig electrical control system	8,748	12,386
– Sales of other rig equipment	8,162	6,559
– Construction contracts revenue	<u>41,412</u>	<u>62,795</u>
	58,322	81,740
Rig turnkey solutions		
– Construction contracts revenue	52,274	14,334
Oilfield expendables and supplies		
– Sales of expendables and supplies	22,011	11,539
Engineering services		
– Service fee income	<u>10,848</u>	<u>5,229</u>
	<u>143,455</u>	<u>112,842</u>

4 OTHER REVENUE

	2010 <i>US\$'000</i>	2009 <i>US\$'000</i>
Gain on sales of accessories	535	894
Interest income	72	94
Gain on bargain purchase of subsidiaries	1,272	–
Others	<u>264</u>	<u>206</u>
	<u>2,143</u>	<u>1,194</u>

5 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging/(crediting):

	2010 US\$'000	2009 US\$'000
(a) Finance costs		
Interest on bank loans wholly repayable within five years	1,261	1,155
Interest on other bank loan	145	183
	<u>1,406</u>	<u>1,338</u>
(b) Staff costs[#]		
Contributions to defined contribution retirement plans	2,010	1,242
Equity settled share-based payment expenses	1,743	1,537
Salaries, wages and other benefits	23,164	18,673
	<u>26,917</u>	<u>21,452</u>
(c) Other items		
Amortisation of interest in leasehold land held for own use under operating leases [#]	94	155
Amortisation of intangible assets	2,643	2,792
Depreciation [#]	2,658	2,081
Impairment losses on doubtful debts	608	4,764
Research and development costs	2,920	1,121
Net foreign exchange loss	798	1,301
(Gain)/loss on disposal of property, plant and equipment and intangible assets	(34)	8
Auditors' remuneration	463	611
Minimum lease payments under operating leases in respect of land and buildings	2,364	1,580
Cost of inventories [#]	<u>90,237</u>	<u>91,578</u>

[#] Cost of inventories includes US\$10,752,000 (2009: US\$8,780,000) relating to staff costs, depreciation and amortisation expenses which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

Cost of inventories includes US\$591,000 (2009: US\$3,052,000) relating to write down of inventories.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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

	2010 US\$'000	2009 US\$'000
Current tax		
Provision for the year		
– PRC enterprise income tax	2,155	1,297
– Overseas corporation income tax	481	1,776
	<u>2,636</u>	<u>3,073</u>
Under/(over)-provision in respect of prior years		
– PRC enterprise income tax	35	(94)
– Overseas corporation income tax	–	128
	<u>35</u>	<u>34</u>
	2,671	3,107
Deferred tax		
Origination and reversal of temporary differences	(1,204)	(7,195)
	<u>1,467</u>	<u>(4,088)</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 year. Taxation for subsidiaries in other jurisdictions is charged at the appropriate current rates of taxation ruling in relevant jurisdictions respectively. During the year, certain PRC subsidiaries are subject to tax at reduced rates of 12.5% to 15% (2009: 12.5% to 15%) under the relevant PRC tax rules and regulations.

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

	2010 US\$'000	2009 US\$'000
Profit/(loss) before taxation	15,058	(14,326)
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profits/(losses) in the jurisdictions concerned	4,393	(3,854)
Tax effect of non-deductible expenses	646	1,448
Tax effect of non-taxable income	(215)	(522)
Tax effect of profits entitled to tax reductions in the PRC	(1,402)	(1,247)
Tax effect of recognition of unused tax losses not recognised in prior years	(1,892)	–
Under-provision in prior years	35	34
Others	(98)	53
Actual tax expense/(credit)	<u>1,467</u>	<u>(4,088)</u>

7 DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2010 (2009: Nil).

8 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of US\$13,571,000 (2009: loss attributable to ordinary equity shareholders of the Company of US\$10,238,000) and the weighted average number of 663,542,000 (2009: 565,867,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2010 '000	2009 '000
Issued ordinary shares at 1 January	652,611	561,738
Effect of ordinary shares issued	5,030	3,699
Effect of share options exercised	5,901	430
Weighted average number of ordinary shares at 31 December	663,542	565,867

(b) Diluted earnings/(loss) per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of US\$13,571,000 (2009: loss attributable to ordinary equity shareholders of the Company of US\$10,238,000) and the weighted average number of 675,211,000 (2009: 580,725,000) ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2010 '000	2009 '000
Weighted average number of ordinary shares at 31 December	663,542	565,867
Effect of deemed issue of shares under the Company's share option schemes	11,669	14,858
Weighted average number of ordinary shares (diluted) at 31 December	675,211	580,725

9 TRADE AND OTHER RECEIVABLES

	The Group	
	2010	2009
	US\$'000	US\$'000
Trade debtors and bills receivable	61,826	42,139
Less: allowance for doubtful debts	(6,758)	(7,126)
	55,068	35,013
Other receivables, prepayments and deposits	11,940	7,024
	67,008	42,037
Less: Non-current portion of prepayments	(2,082)	–
	64,926	42,037

Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	The Group	
	2010	2009
	US\$'000	US\$'000
Current	31,408	18,952
Less than 1 month past due	7,711	4,572
1 to 3 months past due	3,458	4,766
More than 3 months but less than 12 months past due	10,743	5,924
More than 12 months past due	1,748	799
Amounts past due	23,660	16,061
	55,068	35,013

The credit terms offered by the Group to its customers differ with each product/service. The credit terms offered to customers of oilfield expendables and supplies and engineering services are normally 30 to 90 days. The credit terms offered to customers of rig electrical control system and other rig equipment are negotiated on a case-by-case basis. Deposits ranging from 10% to 30% of the contract sum are usually required. The balance of 60% to 85% would be payable in 1 to 2 months after delivery and acceptance of products. The remaining 5% to 10% of the contract sum represents the retention money and is payable within up to 18 months after delivery of the products or 1 year after completion of the onsite testing, whichever is earlier. The amount of those retentions expected to be recovered after more than one year is US\$292,000 (2009: US\$1,035,000).

10 TRADE AND OTHER PAYABLES

	The Group	
	2010	2009
	US\$'000	US\$'000
Trade creditors and bills payable	43,417	36,007
Other payables and accrued charges	11,447	4,589
Amount due to an associate	–	18
Gross amount due to customers for contract work	6,330	6,207
Advances received in relation to construction contracts	985	1,583
	62,179	48,404

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the end of the reporting period.

	The Group	
	2010	2009
	US\$'000	US\$'000
Within 1 month	9,239	14,359
More than 1 month but within 3 months	9,529	8,736
More than 3 months but within 12 months	16,830	8,961
More than 12 months but within 24 months	3,911	3,951
More than 24 months	3,908	–
	43,417	36,007

11 SEGMENT REPORTING

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

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

11 SEGMENT REPORTING (continued)

(a) Segment results, assets and liabilities

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

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

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

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2010 and 2009 is set out below.

	Rig products and technology		Rig turnkey solutions		Oilfield expendables and supplies		Engineering services		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue from external customers	58,322	81,740	52,274	14,334	22,011	11,539	10,848	5,229	143,455	112,842
Inter-segment revenue	176	424	-	-	2,208	3,187	-	-	2,384	3,611
Reportable segment revenue	58,498	82,164	52,274	14,334	24,219	14,726	10,848	5,229	145,839	116,453
Reportable segment results	(13,899)	(14,233)	25,875	3,545	4,852	386	4,052	1,028	20,880	(9,274)
Depreciation and amortisation for the year	4,328	4,516	12	-	476	489	552	-	5,368	5,005
Reportable segment assets	139,906	134,864	43,356	7,669	22,704	15,355	12,598	331	218,564	158,219
Additions to non-current segment assets during the year	3,581	4,638	185	-	2,044	87	9,616	-	15,426	4,725
Reportable segment liabilities	(35,475)	(30,017)	(16,731)	(15,036)	(11,049)	(5,175)	(625)	(121)	(63,880)	(50,349)

11 SEGMENT REPORTING (continued)

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

	2010 US\$'000	2009 US\$'000
Revenue		
Reportable segment revenue	145,839	116,453
Elimination of inter-segment revenue	(2,384)	(3,611)
Consolidated turnover	<u>143,455</u>	<u>112,842</u>
Profit/(loss)		
Segment results	20,880	(9,274)
Share of results of associates	38	1,399
Finance costs	(1,406)	(1,338)
Unallocated head office and corporate income and expenses	(4,454)	(5,113)
Consolidated profit/(loss) before taxation	<u>15,058</u>	<u>(14,326)</u>
Assets		
Reportable segment assets	218,564	158,219
Cash at bank and in hand	17,147	38,519
Pledged bank deposits	3,657	2,317
Interest in associates	4,132	9,810
Deferred tax assets	13,124	14,649
Unallocated head office and corporate assets	193	379
Consolidated total assets	<u>256,817</u>	<u>223,893</u>
Liabilities		
Reportable segment liabilities	(63,880)	(50,349)
Bank loans	(17,983)	(25,437)
Current taxation	(4,394)	(3,213)
Deferred tax liabilities	(3,224)	(4,453)
Unallocated head office and corporate liabilities	(605)	(398)
Consolidated total liabilities	<u>(90,086)</u>	<u>(83,850)</u>

11 SEGMENT REPORTING (continued)

(c) Geographic information

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

	Revenue from external customers		Specified non-current assets	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Hong Kong	–	–	28	50
Mainland China	40,952	46,549	38,537	28,028
North America	24,551	28,158	7,655	13,622
South America	4,372	7,811	401	42
Europe	22,014	11,599	32,582	35,230
Singapore	46,241	12,255	29	239
Others (other part of Asia, India, Russia etc.)	5,325	6,470	2,359	22
	143,455	112,842	81,591	77,233

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2010. The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Ngai Sang, Kenny, Mr. Bian Junjiang and Mr. Guan Zhichuan.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2010 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the Year. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on the preliminary announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

1. OVERVIEW

TSC is a global product and service provider serving both the offshore and land drilling rig industry worldwide. These principal activities remained unchanged for 2010.

Our Rig Product & Technology segment comprises a comprehensive line of highly engineered and automated drilling, mechanical handling, solids control, power control and drives, tensioning and compensation systems for various offshore drilling, completion, intervention and workover vessels for oil and gas wells. TSC also supplies jacking systems and rack materials for jack-up rigs, designs, builds and sells complete rig packages and deck cranes for jack-up rigs, semisubmersible rigs and platform modular rigs. Our value proposition lies in our engineering capabilities where we are able to integrate operations of our equipment to provide rig operators with innovative rig solutions and a high level of operational efficiency.

Our rig supply chain solution division provides complete MRO (Maintenance, Repair and Operations) supplies for all rig operations.

Integral to the products described above, we have a global team of specialist offshore service personnel who provide a comprehensive range of engineering and maintenance services for our products as well as equipment manufactured by other suppliers.

The most important long term factor that affects all our business segments is obviously the price of crude oil which influences the general level of business activity in the oil and gas industry worldwide. In 2008, oil prices reached a high of US\$147 per barrel in July 2008 but fell to US\$36 per barrel at the end of 2008. Prices recovered to US\$70 per barrel in 2009 and has since steadily risen to well above US\$80 per barrel in 2010 and is currently around US\$100 per barrel. The financial and credit crisis which began in late 2007 was the second most important factor in the past 2 years influencing capital expenditure budgets of drilling contractors, construction companies, shipyards, oilfield services companies and oil companies. The combination of banks having to grapple with the after effects of the financial and credit crisis and the drop in oil prices in 2008 have generally resulted in reduced cashflows and spending on capital equipment in

2009 and 2010 compared to pre financial crisis levels. The oil spill incident in April in the Gulf of Mexico was another dampener to the recovery of oilfield business in 2010 as uncertainties prevailed over decisions that would affect future equipment design standards. TSC operations in 2010 were largely affected by these factors.

Our strength lies in the comprehensive range of products, innovative technology and expertise which we integrate to offer our customers high value solutions, safe and high quality products and services at cost effective rates. These strengths are being applied on innovative strategies to leverage the company towards higher growth in the future as the price of oil recovers to a consistent sustainable price above US\$80 per barrel. Demand is expected to grow as the global economy recovers.

2. FINANCIAL REVIEW

Turnover

	31 December 2010 US\$'000	31 December 2009 US\$'000	Change US\$'000	%
Turnover	143,455	112,842	30,613	27.1
Gross profit	52,266	21,264	31,002	145.8
Gross margin	36.4%	18.8%		
Profit/(loss) from operations	16,426	(14,387)	30,813	214.2
Net margin	11.5%	(12.7%)		
Net profit/(loss) for the year	13,591	(10,238)	23,829	232.8
Earnings/(loss) per Share (Basic)	US 2.05 cents	US (1.81) cents		
Earnings/(loss) per Share (Diluted)	US 2.01 cents	US (1.76) cents		

Turnover for the Group increased 27.1% to US\$143.5 million from US\$112.8 million in 2009. The increase came mainly from the progress made in the Rig Turnkey Solutions segment where significant progress was made towards completion of rig turnkey packages and also from the general recovery of the oil and gas industry resulting in higher levels of drilling activities.

Segment Information by Business Segments

	31 December 2010 US\$'000	%	31 December 2009 US\$'000	%	Increase/ (Decrease) %
Rig Products & Technology	58,322	40.7	81,740	72.4	(28.7)
Rig Turnkey Solutions	52,274	36.4	14,334	12.7	264.7
Oilfield Expendables and Supplies	22,011	15.3	11,539	10.2	90.8
Engineering Services	10,848	7.6	5,229	4.7	107.5
	143,455	100.0	112,842	100.0	27.1

Rig Products and Technology

The decrease in the Rig Products & Technology segment turnover from US\$81.7 million to US\$58.3 million is due mainly to the lower number of new projects starting in the year whilst ongoing projects progressed towards completion where the rate of work completion would typically decrease. This year's turnover in this segment includes several refurbishment and upgrade contracts of rig equipment and an increase in demand for spares for the large base of equipment installed on rigs in the past.

Rig Turnkey Solutions

The Rig Turnkey Solutions segment turnover which is mainly the supply of cantilever and drilling packages increased 264.7% from US\$14.3 million in 2009 to US\$52.3 million in 2010 with significant progress achieved during the year. This segment continues to be strengthened through its growing track record of successful design and implementation of drilling packages.

Oilfield Expendables and Supplies

The increase of 90.8% from US\$11.5 million in 2009 to US\$22.0 million in 2010 in Oilfield Expendables and Supplies turnover came from the expansion of the Group's distribution network with established drilling contractors and the development of products for Original Equipment Manufacturers. The general improvement in drilling activity also provided the base for the good growth in this segment.

Engineering Services

The increase of 107.5% in Engineering Services turnover from US\$5.2 million in 2009 to US\$10.8 million in 2010 is in line with the Group's continuing strategy to provide high quality service personnel to customers. Turnover for this segment includes US\$2.2 million from the Jurun Ltd. which was acquired on 1 September 2010.

Segment Information by Geographical Regions

Turnover

	Year ended 31 December 2010	%	Year ended 31 December 2009	%	Increase/ (Decrease)
Mainland China	40,952	28.5	46,549	41.2	12.0
North America	24,551	17.1	28,158	25.0	(12.8)
South America	4,372	3.0	7,811	6.9	(44.0)
Europe	22,014	15.3	11,599	10.3	89.8
Singapore	46,241	32.2	12,255	10.9	277.3
Others (Other part of Asia, India, Russia, Middle East, etc)	5,325	3.9	6,470	5.7	(17.7)
Total	143,455	100.0	112,842	100.0	27.1

Gross Profit and Gross Profit Margin

Gross profit increased from US\$21.3 million to US\$52.3 million with the increase in Group turnover. Gross profit margin improved to 36.4% in 2010 from 18.8% in 2009. The improvement in the margin is due mainly to manufacturing being carried out at our own inhouse facilities which allowed us to improve on quality and delivery schedules. The margin improvement was also attributable to the completion of legacy projects taken over from the acquisition of GME in 2008, some of which had negative margins which affected the previous year margin.

Other Revenue

The increase in Other Revenue from US\$1.2 million to US\$2.1 million is mainly due to the gain on bargain purchase of subsidiaries of US\$1.3 million arising from the acquisition of the 51% shareholding of the Jurun Ltd on 1 September 2010.

Operating Expense and Profit Attributable to Equity Holders of the Company

General & Administrative Expenses

General & Administration expenses increased 22.4% from US\$22.9 million in 2009 to US\$28.0 million in 2010. The increase of US\$5.1 million is mainly due to the inclusion of four months of General & Administration expenses amounting to US\$687,000 from the Jurun Ltd acquired on 1 September 2010 and an increase in staff cost in 2010. The increase in staff cost is mainly due to the 20% increase in the number of fulltime staff from 850 in 2009 to 1,019 in 2010 which resulted in an increase of US\$4.5 million in Salaries, Wages and Benefits.

Selling & Distribution Expenses

Selling & Distribution expenses increased 13.4% by US\$655,000 from US\$4.9 million in 2009 to US\$5.5 million in 2010 as a result of the increase in turnover and the commencement of operations at TSC Offshore FZE operations in the United Arab Emirates and TSC Offshore Group Russia in Moscow.

Other Operating Expenses

The decrease in Other Operating Expenses from US\$9.0 million in 2009 to US\$4.4 million in 2010 is mainly due to the one-off impairment losses on doubtful debts of US\$4.8 million in the previous year. Impairment loss on doubtful debts for the year included in Other Operating Expenses amounted to US\$0.6 million.

Finance Costs

Finance Costs, primarily interest on bank loans, amounted to approximately US\$1.4 million (2009: US\$1.3 million) for the Group. Although bank loans decreased during the year from US\$25.4 million at end 2009 to US\$18.0 million at end 2010, finance cost remained fairly constant due to a slight increase in the average interest rate.

Group's Liquidity and Capital Resources

As at 31 December 2010, the Group had other intangible assets of approximately US\$18.9 million (31 December 2009: US\$16.4 million). As at 31 December 2010, the Group carried fixed assets of approximately US\$32.7 million (31 December 2009: US\$26.7 million) being property, plant and equipment, property under development and interest in leasehold land held for own use under operating leases.

As at 31 December 2010, the Group had interest in associates and deferred tax assets of approximately US\$4.1 million (2009: US\$9.8 million) and approximately US\$13.1 million (2009: US\$14.6 million) respectively.

As at 31 December 2010, the Group had current assets of approximately US\$162.1 million (2009: US\$132.0 million). Current assets mainly comprised cash and bank balances of approximately US\$17.1 million (2009: US\$38.5 million), and pledged bank deposits of approximately US\$3.7 million (2009: US\$2.3 million), inventories of approximately US\$33.3 million (2009: US\$26.6 million), trade and other receivables of approximately US\$107.9 million (2009: US\$64.5) million and amount due from a related company of approximately US\$0.1 million (2009: US\$0.1 million).

As at 31 December 2010, current liabilities amounted to approximately US\$83.5 million (2009: US\$76.7 million), mainly comprising trade and other payables of approximately US\$62.2 million (2009: US\$48.4 million), bank loans of approximately US\$14.7 million (2009: US\$22.8 million), current tax payables of approximately US\$4.4 million (2009: US\$3.2 million) and provisions of contract loss approximately US\$2.3 million (2009: US\$2.3 million).

As at 31 December 2010, the Group had non-current liabilities of approximately US\$6.6 million (2009: US\$7.1 million), comprising bank loans of approximately US\$3.3 million (2009: US\$2.7 million) and deferred tax liabilities of approximately US\$3.2 million (2009: US\$4.5 million). Gearing ratio, total liabilities to equity holders' fund was 56%, as compared to 60% in 2009.

Significant Investments and Disposals

On 1 September 2010, the Company entered into an Agreement with the Xingbo Limited, an investment holding company incorporated under the laws of BVI (Vendor), to acquire from the Vendor, 2,516 shares in Jurun Ltd. for a consideration of HK20,400,000 by way of issue and allotment of 17,000,000 shares in the Company at the fair value price of HK\$1.20 per share and to subscribe for cash a further 2,151 shares in Jurun Ltd, which together represents approximately 51% of the total issued share capital of Jurun Ltd. of 9,151 shares of US\$1.00 each. The aggregate value of the consideration for the acquisition is US\$5,388,000.

There were no other significant investments or disposals during the year.

Capital Structure

At the beginning of the year at 1 January 2010, there were 652,610,404 shares in issue (the “Shares”) and the Company carried a share capital of approximately US\$8,393,000.

During the Year, the Company issued 17 million shares to the Vendor of Jurun Ltd and a further 8,953,400 shares to option holders who exercised their options under the Company employee share option schemes. At 31 December 2010, the Company had 678,563,804 Shares in issue, and a paid up capital of approximately US\$8,727,000.

Charges on Assets

To secure the loans from banks, the Group agreed to charge certain assets to banks. Details are set out as follows:

- (i) Interest in leasehold land held for own use under operating leases, buildings, plant and machinery, bank deposits, inventories and trade receivables of four subsidiaries namely TSC (Qingdao) Manufacture Co., Limited (“TSCQD”), TSC-HHCT (Xi’an) Control Technologies Limited (“TSC-HHCT”), Tianjin Shengli Petroleum Equipment Co., Ltd., and 8655 Golden Spike, LLC. (“Golden Spike”). The aggregate net book value of assets pledged amounted to US\$12,927,000 (2009: Interest in leasehold land held for own use under operating leases, buildings, plant and machinery, bank deposits, inventories and trade receivables of five subsidiaries namely TSCQD, Golden Spike, TSC Manufacturing and Supply, LLC (“TSC M&S”), Qingdao TSC Offshore Equipment Co., Ltd. and TSC-HHCT. The aggregate net book value of assets pledged amounted to US\$32,854,000).
- (ii) Corporate guarantees given by TSC Zhengzhou Offshore Equipment Co., Ltd., TSCQD and TSC-HHCT to the extent of banking facilities outstanding of US\$7,433,000 as at 31 December 2010. (2009: US\$12,725,000).
- (iii) Guarantees given by the directors of the Company to the extent of banking facilities outstanding of US\$3,641,000 (2009: US\$: Nil) as at 31 December 2010.

Foreign Currency Exchange Exposures

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The Group has foreign exchange exposure resulting from most of the Group’s subsidiaries in the PRC carried out production locally with Renminbi while over 50% of the Group’s turnover was denominated in United States dollars. As at 31 December 2010, no related hedges were made by the Group.

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

Non-Exempt Continuing Connected Transactions

The Group conducted the following continuing connected transactions with connected parties of the Company, namely CIMC Raffles Offshore (Singapore) Limited (formerly known as “Yantai Raffles Shipyard Limited”) (“CIMC Raffles”):

- (a) In June 2008, CIMC Raffles owned over 80% equity interest of Yantai CIMC Raffles Offshore Limited (formerly known as Yantai Raffles Offshore Limited) (“YRO”), and CIMC Raffles wholly-owned CIMC Raffles Investments Limited (formerly known as “YRS Investments Limited”) (“CRIL”). CRIL became a substantial shareholder of the Company since May 2007. Accordingly, CIMC Raffles is deemed to be interested in 42,800,000 Shares held by CRIL. CIMC Raffles is owned as to approximately 34% by Mr. Brian Chang and his associates in 2008. Mr. Brian Chang is deemed to be interested in 42,800,000 Shares held by CRIL as he holds more than one-third interest of the issued share capital of YRSI. Mr. Brian Chang is also deemed to be interested in 16,072,800 Shares and 50,000,000 Shares held by his wholly owned companies, Asian Infrastructure Limited (“AIL”) and Windmere International Limited (“WIL”), respectively. In accordance with the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”), Mr. Brian Chang, CIMC Raffles, YRO, CRIL, AIL and WIL are connected persons of the Company and the Group, which in turn totally held over 19% issued share capital of the Company during 2008.

The fabrication of BOP Handling and Transport System

Transaction Date	4 June 2008
Transaction with	CIMC Raffles
Purpose of Transaction	The master agreement with CIMC Raffles by which the Group can provide the Equipment and the Turnkey Project(s) to CIMC Raffles for two years ending 31 December 2009.
Contract Values and Other Details	The annual caps under the master agreement for two years ending 31 December 2009 are approximately RMB589 million and RMB1,028 million respectively.

During the Year, the Group transacted a contract with CIMC Raffles under the continuing connected transactions mandate approved by the Company's independent shareholders at extraordinary general meeting held on 18 July 2008. The above-mentioned contract cover the fabrication of BOP Handling and Transport System with a total contract value with VAT of RMB15.65 million, which is within the cap of RMB1,028 million for the year approved by the independent shareholders of the Company.

The actual sales amount of these continuing connected transactions between the Group and CIMC Raffles was approximately RMB4,843,000 for the year ended 31 December 2010.

In February 2010, the Group conducted the following continuing connected transactions with connected parties of the Company, namely CIMC Raffles. CIMC Raffles is a substantial shareholder of the Company, which through its wholly-owned subsidiary, CRIL, owns approximately 6.51% of the issued share capital of the Company. CIMC Raffles is also owned as to

- (i) approximately 32.6% by Mr. Brian Chang (a non-executive Director who through his wholly-owned companies and CIMC Raffles is beneficially interested in approximately 16.05% of the issued share capital of the Company); and
- (ii) approximately 50.98% by China International Marine Containers (Group) Co., Limited (being a substantial shareholder of the Company which through its indirect wholly-owned subsidiary and CIMC Raffles is beneficially interested in approximately 13.68% of the issued share capital of the Company) and its associates.

The Fabrication of Drilling Package and Electrical Power Package

Transaction Date	10 February 2010
Transaction with	CIMC Raffles
Purpose of transaction	The master agreement with CIMC Raffles by which the Group can provide the Equipment under the Turnkey Project(s) to CIMC Raffles for two years ending 31 December 2011.
Contract values and other details	The annual caps under the master agreement for two years ending 31 December 2011 are approximately US\$200 million each year.
Detailed announcement and shareholder approval	Details of the transaction were announced on 10 February 2010 which was published on the websites of the Stock Exchange and the Company. The master agreement was approved by independent shareholders at extraordinary general meeting on 19 March 2010.

During the year, the Group transacted a contract with CIMC Raffles under the continuing connected transactions mandate approved by the Company's independent shareholders at extraordinary general meeting held on 19 March 2010. The above-mentioned contract cover the fabrication of a drilling package and a electrical power package with a total contract value of approximately US\$38.5 million, which is within the cap of US\$200 million for the Year approved by the independent shareholders of the Company. The actual sales amount of these continuing connected transactions between the Group and CIMC Raffles was approximately US\$29.1 million for the year ended 31 December 2010.

Employees and Remuneration Policy

As at 31 December 2010, the Group had approximately 1,108 full-time staff in the USA, the United Kingdom ("UK"), Brazil, United Arab Emirates, Russia, Singapore, Hong Kong and the PRC. The Group's remuneration policy is basically determined by the performance of individual employee and the market condition. The Group also provides other benefits to its employees, including medical schemes, pension contributions and share option schemes.

3. BUSINESS AND MARKET REVIEW

2010 was a mixed and challenging year for the Group. The gradual increase in oil prices improved sentiments in the oilfield industry. There was an increase in number of enquiries at the beginning of 2010 but much of the marketing activities did not develop into contracts due to the uncertainties resulting from the oil spill incident in the Gulf of Mexico, the slow pace of recovery of the global economy and the overhanging spare capacity which have undermined real recovery. These were the main contributory factors prevailing in the market for our products and services which led to potential customers holding back purchasing decisions through the year.

However, the deferment of capital spending should not continue for much longer. Despite the supply situation and overhanging spare capacity in the supply chain, the price of oil has remained at a sustainable level above US\$80 per barrel. This underpins the confidence being restored and we can anticipate positive growth barring another major incident in the oilfield.

Demand for oil is expected to continue in its course of recovery as the economy in general recovers. It is expected that overall increase in demand will gradually exceed supply growth due to the conservative policies that were in place in the last 2 years. In the short term, prices are expected to be volatile due to fluctuations in financial markets and ongoing geopolitical instability but with higher US inflation, continued depreciation of the U.S. currency, crude oil prices should sustain at a higher level.

The impact of legacy projects that came with the acquisition of GME is now behind us. The Group has consolidated its position in 2010, built up on its strengths through integration of its global resources and now have a team with a proven track record of delivering on time on quality within budget.

With the strategies in place, TSC management is confident that the Group will be able to work above the uncertainties in the market.

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

Subsequent to the balance date, TSC M&S has opened up a new distribution center in the town of Alice in Texas, USA to meet with growing demand for our expendables and MRO supplies in the northwestern region of Texas. The facilities were rented and will be able to stock sufficient supplies to provide immediate response to customers in that region. Further locations have been planned in order to improve availability of our products to customers.

The Company is also evaluating plans for the purchase facilities in Brazil and Singapore to meet future expansion needs in these locations.

TSC continues to explore plans to acquire expertise and expand capabilities by way of purchasing assets or acquisition of equity interest in companies with such expertise and or capability.

5. STRATEGY, PROSPECTS AND ORDER BOOK

Strategies

TSC management recognizes that the principal underlying competitive success factors are performance, quality, reputation, customer service, availability of products, spares, operating consumables, range of products and price. Strong focus on each of these factors is therefore necessary to place TSC in a position to launch into its next phase of growth. This is now firmly in place.

TSC management further believes that the competitive factors mentioned above needs to be brought to customers in ways in which we will not be in direct competition with the mainstream competitor. We aim to identify and engage with strategic partners and their customers earlier in the tendering cycle and to facilitate and provide solutions to strategic partners to improve their own competitiveness and technical capability which will increase likelihood of eventually winning significant bids. TSC will provide technical as well as facilitate sourcing of financial assistance where required to provide a viable structure for undertaking and making projects a success.

TSC traditionally competes with only a handful of suppliers who have some of the equipment that TSC has to offer. However, TSC has the advantage of having a comprehensive range of rig technology, solutions and products to provide an integrated solutions package to customers and we aim to apply these strengths for the benefit of customers.

Prospects

In this section of our 2009 report a significant amount of space was taken up to explain the effects of the GME acquisition which resulted in the losses reported for 2009. The projects which resulted in the losses reported and last financial year are now completed and delivered. The main drivers of growth for TSC going forward would be the execution of strategies described above which is now firmly in place. TSC has identified niche areas in the market and strategic partners with whom TSC can jointly develop prospective markets in which TSC will be able to excel in offering its products and services. These strategies have been well received in the market and looking ahead, the opportunities presented should translate well into increasing future business.

Order Book

As at 31 December 2010, the Group as a whole carried an order backlog of approximately US\$85.3 million for rig products and technology, rig turnkey solutions, expendables and engineering services. Subsequent to 31 December 2010, the Group has secured further new orders amounting to US\$15.2 million up to the date of this announcement.

Subsequent Events

Grant of share options

On 21 February 2011 (the “Date of Grant”), the Company granted 2,400,000 share options (the “Share Options”) to 2 grantees to subscribe for a total of 2,400,000 ordinary shares of HK\$0.10 each in the share capital of the Company (the “Shares”) under the share option scheme adopted by the Company on 5 August 2009. Each Share Option shall entitle the holder of the Share Option to subscribe for one Share upon exercise of such Share Option at an exercise price of HK\$1.97 per Share. The vesting period of the Share 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, and these grants are exercisable for a period not later than 10 years from the Date of Grant, i.e. from 21 February 2011 to 20 February 2021.

Change of company name

Pursuant to a special resolution passed by the shareholders of the Company at its extraordinary general meeting held on 4 March 2011, the name of the Company was changed from “TSC Offshore Group Limited” to “TSC Group Holdings Limited” (with “TSC集團控股有限公司” 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 4 March 2011. The Company will obtain the “Certificate of Registration of Change of Corporate Name of Non-Hong Kong Company” with the Registrar of Companies in Hong Kong and change the English and Chinese stock short name. The stock code of “206” of the Company remains unchanged.

Appointment of non-executive Director

In January 2011, Mr. Yu Yuqun was recommended by the Company's nomination committee to be appointed as non-executive Director of the Company. Subsequently, the Company convened the meeting of the Board and resolved to appoint Mr. Yu Yuqun as non-executive Director of the Company with effect from 15 March 2011. As at the date of this announcement, the Board of the Company comprised of Mr. Jiang Bing Hua and Mr. Zhang Menggui as executive Directors; Mr. Jiang Longsheng, Mr. Brian Chang and Mr. Yu Yuqun as non-executive Directors; Mr. Chan Ngai Sang, Kenny, Mr. Bian Junjiang, Mr. Guan Zhichuan and Mr. Robert William Fogal Jr. as independent non-executive Directors. Mr. Yu Yuqun (non-executive Director) was newly appointed.

Save as disclosed in this announcement, no subsequent events occurred after 31 December 2010 which may have significant effects on the assets and liabilities of future operations of the Group.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company had received from each of the independent non-executive Directors an annual confirmation of his independence. The Company considered all the independent non-executive Directors are independent.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises three members, namely Mr. Chan Ngai Sang, Kenny (being the Chairman), Mr. Bian Junjiang and Mr. Guan Zhichuan. All of them are independent non-executive Directors.

Throughout the Year, the audit committee held two meetings in considering and reviewing the interim and annual results of the Group and were of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2010.

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 at the end of the year or at any time during the year ended 31 December 2010.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices Contained in Appendix 14 of the Listing Rules during the year ended 31 December 2010. The Company has committed itself to a high standard of corporate governance. The Directors strongly believe that reasonable and sound corporate governance practices are vital to the Group's rapid growth and to safeguarding and enhancing shareholders' interests.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

A copy of annual report containing all information required by relevant paragraphs of Appendix 16 to the Listing Rules will be published on the Stock Exchange's website (<http://www.hkex.com.hk>) and the Company's website (<http://www.tsc-holdings.com>) in due course.

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

Hong Kong, 24 March 2011

As at the date of this announcement, the Board comprises of Mr. Jiang Bing Hua (executive Director), Mr. Zhang Menggui (executive Director), Mr. Brian Chang (non-executive Director), Mr. Jiang Longsheng (non-executive Director), Mr. Yu Yuqun (non-executive Director), Mr. Bian Junjiang (independent non-executive Director), Mr. Chan Ngai Sang, Kenny (independent non-executive Director), Mr. Guan Zhichuan (independent non-executive Director) and Mr. Robert William Fogal Jr (independent non-executive Director).