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巨濤海洋石油服務有限公司

**Jutal Offshore Oil Services Limited**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 03303)**

# ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

## Financial Highlights

- Turnover increased by 8.07% to RMB428,066,000
- Gross profit increased by 6.50% to RMB95,831,000
- Net profit attributable to the owners of the Company increased by 1.15% to RMB67,472,000
- Basic and diluted earnings per share were RMB0.1355 and RMB0.1353 respectively
- The directors recommend the payment of final dividend of HK$0.03 per each ordinary share of the Company for the year ended 31 December 2010

The board of directors (the "board") of Jutal Offshore Oil Services Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2010 together with the comparative figures for the year of 2009 as follows:

# CONSOLIDATED INCOME STATEMENT
# FOR THE YEAR ENDED 31 DECEMBER 2010

| | Note | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|---|
| **Turnover** | 3 | **428,066** | 396,111 |
| Cost of sales and service | | **(332,235)** | (306,133) |
| **Gross profit** | | **95,831** | 89,978 |
| Other income | 4 | **19,048** | 19,281 |
| Administrative expenses | | **(69,161)** | (59,076) |
| Other operating expenses | | **(1,435)** | (4,136) |
| **Profit from operations** | | **44,283** | 46,047 |
| Finance costs | 6 | **(4,640)** | (4,554) |
| Share of profits of an associate | | **42,046** | 41,245 |
| **Profit before tax** | | **81,689** | 82,738 |
| Income tax expense | 7 | **(12,056)** | (8,981) |
| **Profit for the year** | 8 | **69,633** | 73,757 |
| **Attributable to:** | | | |
| Owners of the Company | | **67,472** | 66,706 |
| Non-controlling interests | | **2,161** | 7,051 |
| | | **69,633** | 73,757 |
| **Earnings per share** | 10 | | |
| | | **RMB** | RMB |
| Basic | | **13.55 cents** | 13.39 cents |
| Diluted | | **13.53 cents** | 13.39 cents |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2010

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| **Profit for the year** | **69,633** | 73,757 |
| **Other comprehensive income, net of tax** | | |
| Exchange differences on translating foreign operations | **(7,439)** | (243) |
| **Total comprehensive income for the year** | **62,194** | 73,514 |
| **Attributable to:** | | |
| Owners of the Company | **60,033** | 66,463 |
| Non-controlling interests | **2,161** | 7,051 |
| | **62,194** | 73,514 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
# AT 31 DECEMBER 2010

| | Note | **2010** | 2009 |
|---|---|---|---|
| | | **RMB'000** | RMB'000 |
| **Non-current assets** | | | |
| Property, plant and equipment | | **93,906** | 208,453 |
| Prepaid land lease payments | | **809** | 877 |
| Goodwill | | **191,129** | 197,874 |
| Intangible assets | | **3,319** | - |
| Investment in an associate | | **263,153** | 221,107 |
| Finance lease receivables | | **1,351** | 2,609 |
| Deferred tax assets | | **-** | 1,485 |
| | | **553,667** | 632,405 |
| **Current assets** | | | |
| Inventories | | **7,439** | 5,034 |
| Trade and bills receivables | 11 | **73,353** | 93,382 |
| Gross amount due from customers for contract work | 12 | **78,577** | 91,268 |
| Prepayments, deposits and other receivables | | **16,510** | 24,668 |
| Finance lease receivables | | **1,257** | 1,170 |
| Due from directors | | **630** | 654 |
| Due from an associate | | **-** | 9 |
| Current tax assets | | **606** | 1,909 |
| Pledged bank deposits | | **3,234** | 5,577 |
| Bank and cash balances | | **87,989** | 37,052 |
| | | **269,595** | 260,723 |
| **Current liabilities** | | | |
| Trade and bills payables | 13 | **68,654** | 89,497 |
| Gross amount due to customers for contract work | 12 | **3,049** | 13,815 |
| Accruals and other payables | | **34,540** | 64,162 |
| Due to a related company | | **-** | 1,791 |
| Bank loans | | **38,000** | 52,520 |
| Current tax liabilities | | **4,291** | 1,673 |
| | | **148,534** | 223,458 |
| **Net current assets** | | **121,061** | 37,265 |
| **Total assets less current liabilities** | | **674,728** | 669,670 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)
## AT 31 DECEMBER 2010

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Non-current liabilities** | | |
| Bank loans | **-** | 16,850 |
| Deferred tax liabilities | **18,336** | 16,319 |
| | **18,336** | 33,169 |
| **NET ASSETS** | **656,392** | 636,501 |
| **Capital and reserves** | | |
| Share capital | **5,048** | 5,048 |
| Reserves | **651,344** | 589,514 |
| Equity attributable to owners of the Company | **656,392** | 594,562 |
| Non-controlling interests | **-** | 41,939 |
| **TOTAL EQUITY** | **656,392** | 636,501 |

## NOTES:

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is 10th Floor, Chiwan Petroleum Building, Shekou, Nanshan District, Shenzhen, the People's Republic of China (the "PRC"). The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Group is principally engaged in provision of technical support and related services for oil and gas industry and sales of equipment and materials, fabrication of oil and gas facilities and oil and gas processing skid equipment, provision of technical support services for shipbuilding industry and engaged in civil engineering business.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2010. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

## 3. TURNOVER

The Group's turnover which represents sales of goods to customers, rental income from leases of a vessel and other assets, revenue from construction contracts and other services rendered are as follows:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Sales of goods | **24,607** | 24,063 |
| Vessel leasing | **2,410** | 25,082 |
| Revenue from construction contracts and other services rendered | **401,049** | 346,966 |
| | **428,066** | 396,111 |

## 4. OTHER INCOME

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Compensation income | **3,436** | 18,000 |
| Finance income from finance lease | **282** | 364 |
| Gain on disposals of property, plant and equipment | **11,114** | - |
| Interest income | **568** | 281 |
| Net foreign exchange gains | **683** | 85 |
| Reversal of allowance for trade and other receivables | **380** | 359 |
| Reversal of allowance for inventories | **66** | - |
| Sundry income | **2,519** | 192 |
| | **19,048** | 19,281 |

## 5. SEGMENT INFORMATION

The Group has four reportable segments as follows:

(a) Provision of technical supporting and related services for oil and gas industry and sales of equipment and materials.
(b) Fabrication of oil and gas facilities and oil and gas processing skid equipment.
(c) Civil engineering business.
(d) Provision of technical support services for shipbuilding industry.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Segment profits or losses do not include other income, administrative expenses, other operating expenses, finance costs and share of profits of an associate. Segment assets do not include goodwill, investment in an associate, finance lease receivables, deferred tax assets, pledged bank deposits, bank and cash balances and other corporate assets. Segment liabilities do not include amount due to a related company, bank loans, current tax liabilities, deferred tax liabilities and other corporate liabilities.

## 5. SEGMENT INFORMATION (CONT'D)

### Information about reportable segment profit or loss, assets and liabilities:

| | Provision of technical supporting and related services for oil and gas industry and sales of equipment and materials | Fabrication of oil and gas facilities and oil and gas processing skid equipment | Civil engineering business | Provision of technical support services for shipbuilding industry | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Year ended 31 December 2010** | | | | | |
| Revenue from external customers | **82,084** | **277,962** | **1,680** | **66,340** | **428,066** |
| Segment profit | **23,088** | **55,858** | **577** | **16,308** | **95,831** |
| Depreciation and amortisation | **7,816** | **5,948** | **5** | **1,263** | **15,032** |
| Other material non-cash items: Allowance for trade and other receivables | **162** | **680** | **-** | **18** | **860** |
| Additions to segment non-current assets | **1,261** | **12,853** | **2** | **903** | **15,019** |
| **As at 31 December 2010** | | | | | |
| Segment assets | **30,932** | **190,699** | **2,057** | **20,592** | **244,280** |
| Segment liabilities | **11,159** | **60,038** | **433** | **16,496** | **88,126** |
| Year ended 31 December 2009 | | | | | |
| Revenue from external customers | 108,235 | 218,324 | 9,148 | 60,404 | 396,111 |
| Segment profit/(loss) | 36,075 | 38,661 | (4,905) | 20,147 | 89,978 |
| Depreciation and amortisation | 9,878 | 4,709 | 32 | 1,260 | 15,879 |
| Other material non-cash items: Allowance for trade and other receivables | 122 | 246 | 10 | 68 | 446 |
| Additions to segment non-current assets | 127,980 | 11,679 | 10 | 481 | 140,150 |
| As at 31 December 2009 | | | | | |
| Segment assets | 138,437 | 223,615 | 3,378 | 25,216 | 390,646 |
| Segment liabilities | 13,850 | 121,463 | 818 | 10,767 | 146,898 |

## 5. SEGMENT INFORMATION (CONT'D)

**Reconciliations of reportable segment profit or loss, assets and liabilities:**

| | 2010 | 2009 |
|---|---|---|
| | RMB'000 | RMB'000 |
| **Profit or loss** | | |
| Total profit or loss of reportable segments | **95,831** | 89,978 |
| Unallocated amounts: | | |
| Finance costs | **(4,640)** | (4,554) |
| Other income | **19,048** | 19,281 |
| Other corporate expenses | **(70,596)** | (63,212) |
| Share of profits of an associate | **42,046** | 41,245 |
| Consolidated profit before tax for the year | **81,689** | 82,738 |
| **Assets** | | |
| Total assets of reportable segments | **244,280** | 390,646 |
| Unallocated amounts: | | |
| Bank and cash balances | **87,989** | 37,052 |
| Pledged bank deposits | **3,234** | 5,577 |
| Deferred tax assets | **-** | 1,485 |
| Finance lease receivables | **2,608** | 3,779 |
| Investment in an associate | **263,153** | 221,107 |
| Goodwill | **191,129** | 197,874 |
| Other corporate assets | **30,869** | 35,608 |
| Consolidated total assets | **823,262** | 893,128 |
| **Liabilities** | | |
| Total liabilities of reportable segments | **88,126** | 146,898 |
| Unallocated amounts: | | |
| Bank loans | **38,000** | 69,370 |
| Current tax liabilities | **4,291** | 1,673 |
| Deferred tax liabilities | **18,336** | 16,319 |
| Due to a related company | **-** | 1,791 |
| Other corporate liabilities | **18,117** | 20,576 |
| Consolidated total liabilities | **166,870** | 256,627 |

## 5. SEGMENT INFORMATION (CONT'D)

**Geographical information:**

| | Revenue | | Non-current assets | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| PRC except Hong Kong and Macau | **376,210** | 344,001 | **553,610** | 630,849 |
| Hong Kong | **7,747** | 7,138 | **48** | 13 |
| Macau | **213** | 3,231 | **9** | 58 |
| Other Asian Countries | **31,086** | 34,033 | **-** | - |
| Others | **12,810** | 7,708 | **-** | - |
| Consolidated total | **428,066** | 396,111 | **553,667** | 630,920 |

In presenting the geographical information, revenue is based on the locations of the customers.

**Revenue from major customers:**

| | | **2010** | 2009 |
|---|---|---|---|
| | | **RMB'000** | RMB'000 |
| Fabrication of oil and gas facilities and oil and gas processing skid equipment | | | |
| Customer | A | **26,267** | 37,834 |
| | B | **43,839** | 33,740 |
| | C | **77,404** | 44,166 |
| | D | **3,000** | 3,864 |
| Provision of technical support services for shipbuilding industry | | | |
| Customer | A | **63,972** | 58,099 |
| | B | **-** | 2 |
| | C | **2,368** | 1,059 |
| Provision of technical supporting and related services for oil and gas industry and sales of equipment and materials | | | |
| Customer | A | **4,120** | 9,184 |
| | B | **9,718** | 38,355 |
| | D | **53,920** | 44,321 |

## 6. FINANCE COSTS

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Interest on bank loans | **3,443** | 3,561 |
| Others | **1,197** | 993 |
| | **4,640** | 4,554 |

## 7. INCOME TAX EXPENSE

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Current tax - PRC Enterprise Income Tax | | |
| Provision for the year | **8,025** | 7,023 |
| Under-provision in prior years | **529** | 597 |
| | **8,554** | 7,620 |
| Deferred tax | **3,502** | 1,361 |
| | **12,056** | 8,981 |

**(a) Hong Kong Profits Tax**

No provision for Hong Kong Profits Tax has been made for the year as the Group did not generate any assessable profits arising in Hong Kong.

**(b) PRC Enterprise Income Tax**

Pursuant to relevant laws and regulations in the PRC, the applicable PRC enterprise income tax rates of the Group's PRC subsidiaries are as follows:

**(i) Shenzhen Jutal Machinery Equipment Company Limited ("Shenzhen Jutal")**

Shenzhen Jutal is a wholly-owned foreign enterprise operated in Shenzhen Special Economic Zone. The tax rate applicable to Shenzhen Jutal for the year ended 31 December 2010 is 22% (2009: 20%). The applicable tax rate of Shenzhen Jutal will increase progressively to 24% and 25% for the years ended 31 December 2011 and 2012 respectively.

## 7. INCOME TAX EXPENSE (CONT'D)

**(ii) Jutal Offshore Shipbuilding Services (Dalian) Company Limited ("Dalian Jutal")**

Dalian Jutal is a sino-foreign equity joint venture operated in Dalian Economic and Technological Development Area and is exempted from PRC enterprise income tax for the two years from its first profit-making year and thereafter are entitled to a 50% relief from PRC enterprise income tax for the following three years. Dalian Jutal was in its third profit-making year for the financial year ended 31 December 2010 and was therefore entitled to a 50% relief from PRC enterprise income tax. The tax rate applicable to Dalian Jutal for the year ended 31 December 2010 is 11%.

**(iii) Jutal Offshore Oil Services (Zhuhai) Company Limited ("Zhuhai Jutal")**

Zhuhai Jutal is a domestic enterprise established in the PRC. Zhuhai Jutal was approved to recognise as a new and high technology enterprise during the year and is entitled to a preferential treatment to allow Zhuhai Jutal to enjoy a reduced income tax rate of 15% (2009: 25%) starting from the year 2010 till year 2012.

(iv) The tax rate applicable to other PRC subsidiaries in the Group were 25% during the year.

(c) Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

## 8. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging the following:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Amortisation of patents and computer software | **664** | - |
| Depreciation | **14,368** | 15,879 |
| Directors' emoluments | **5,430** | 5,025 |
| Loss on disposal of property, plant and equipment | **-** | 112 |
| Operating lease charges | | |
| - Hire of plant and equipment | **239** | 367 |
| - Land and buildings | **7,814** | 8,943 |
| Auditor's remuneration | **1,156** | 1,015 |
| Cost of inventories sold | **62,814** | 77,295 |
| Allowance for inventories | **-** | 1,532 |
| Allowance for trade and other receivables | **860** | 446 |
| Staff costs including directors' emoluments | | |
| - Salaries, bonuses and allowances | **129,969** | 104,108 |
| - Retirement benefits scheme contributions | **3,614** | 2,870 |
| - Share-based payments | **1,797** | 2,502 |
| | **135,380** | 109,480 |

## 9. DIVIDENDS

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Proposed final of HK$0.03 (2009: Nil) per ordinary share | **12,699** | - |

The final dividend proposed after the end of reporting period has not been recognised as a liability at the end of reporting period.

## 10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Earnings** | | |
| Earnings for the purpose of calculating basic and diluted earnings per share | **67,472** | 66,706 |

| | **2010** | 2009 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | **498,000,000** | 498,000,000 |
| Effect of dilutive potential ordinary shares arising from share options outstanding | **590,000** | - |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | **498,590,000** | 498,000,000 |

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of the ordinary shares in issue during the year.

Diluted earnings per share is calculated based on the profit attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the year after adjusting for the number of diluted potential ordinary shares granted under the Company's share option scheme. There are no diluted potential ordinary shares for the year ended 31 December 2009.

## 11. TRADE AND BILLS RECEIVABLES

The Group's trade receivables mainly represent progress billings receivable from contract customers.

The Group's trading terms with contract customers are mainly on credit. The credit terms other than retentions receivable generally range from 30 to 60 days. The credit terms for retentions receivable generally range from 12 to 18 months after the completion of the contracts. Application for progress payment of contract works is made on a regular basis. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by directors.

The ageing analysis of trade and bills receivables, based on the invoice date, and net of allowance, is as follows:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| 0 to 30 days | **27,530** | 36,981 |
| 31 to 90 days | **40,557** | 37,452 |
| 91 to 365 days | **3,770** | 16,676 |
| Over 365 days | **1,496** | 2,273 |
| | **73,353** | 93,382 |

As at 31 December 2010, trade receivables aged over 90 days includes retentions receivable which amounted to RMB1,286,000 (2009: RMB3,651,000).

As at 31 December 2010, an allowance was made for estimated irrecoverable trade receivables of approximately RMB363,000 (2009: RMB675,000). The reconciliation of allowance for trade receivables is as follows:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At 1 January | **675** | 4,044 |
| Allowance for the year | **658** | 401 |
| Reversal of allowance | **(361)** | (359) |
| Uncollective amounts written off | **(609)** | (3,411) |
| At 31 December | **363** | 675 |

## 12. GROSS AMOUNT DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Contract costs incurred plus recognised profits less recognised losses to date | **405,200** | 279,808 |
| Less: Progress billings | **(328,978)** | (199,428) |
| Less: Exchange differences | **(694)** | (2,927) |
| | **75,528** | 77,453 |
| Gross amount due from customers for contract work | **78,577** | 91,268 |
| Gross amount due to customers for contract work | **(3,049)** | (13,815) |
| | **75,528** | 77,453 |

In respect of construction contracts in progress at the end of reporting period, retentions receivable included in trade receivables amounted to RMB1,286,000 (2009: RMB3,651,000). The amount of retentions receivable at 31 December 2010 and 2009 are expected to be recovered within twelve months.

Advances received in respect of construction contracts amounted to RMB3,072,000 at 31 December 2010 (2009: RMB31,398,000) and is included in accruals and other payables.

## 13. TRADE AND BILLS PAYABLES

An ageing analysis of trade and bills payables, based on the date of receipt of goods and services, is as follows:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| 0 to 30 days | **31,570** | 27,251 |
| 31 to 90 days | **26,948** | 43,234 |
| 91 to 365 days | **9,119** | 15,312 |
| Over 365 days | **1,017** | 3,700 |
| | **68,654** | 89,497 |

Included in the Group's trade and bills payables at the end of reporting period were trade payables due to an associate, Penglai Jutal which amounted to RMB26,621,000 (2009: RMB37,147,000).

## MANAGEMENT DISCUSSION AND ANALYSIS

### 1. FINANCIAL AND BUSINESS REVIEW

#### *Turnover*

In year 2010, the Group recorded turnover of approximately RMB428,066,000, representing an increase of 8.07% or RMB31,955,000 compared with year 2009. Turnover from the provision of technical supporting and related services for oil and gas industry and sales of equipment and materials business has decreased by 24.16% or RMB26,151,000 compared with last year, the decrease is mainly due to turnover of a subsidiary of the Group, Tianjin Jutal Marine Services Limited ("Jutal Marine"), decreased by RMB22,672,000 compared with last year owing to impact of changes in market condition on its business. Turnover from the fabrication of oil and gas facilities and oil and gas processing skid equipment business has increased by 27.32% or RMB59,638,000 compared with last year. Turnover from the civil engineering business represents income from later stage of projects in last year.

The table below set out the analysis of turnover by product or service for the preceding three financial years:

| | For the financial year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | 2009 | | 2008 | |
| Products/Services | RMB'000 | Percentage to total turnover (%) | RMB'000 | Percentage to total turnover (%) | RMB'000 | Percentage to total turnover (%) |
| 1. Provision of technical supporting and related services for oil and gas industry and sales of equipment and materials | **82,084** | **19** | 108,235 | 28 | 73,946 | 20 |
| 2. Fabrication of oil and gas facilities and oil and gas processing skid equipment | **277,962** | **65** | 218,324 | 55 | 159,485 | 44 |
| 3. Provision of technical support services for shipbuilding industry | **66,340** | **15** | 60,404 | 15 | 78,545 | 22 |
| 4. Civil engineering business | **1,680** | **1** | 9,148 | 2 | 52,111 | 14 |
| Total | **428,066** | **100** | 396,111 | 100 | 364,087 | 100 |

#### *Cost of sales and service*

Cost of sales and service of the Group for the year amounted to approximately RMB332,235,000, representing an increase of 8.53% or RMB26,102,000 compared with last year.

### *Gross profit*

The total gross profit of the Group amounted to approximately RMB95,831,000 in year 2010, representing an increase of 6.50% compared with RMB89,978,000 in year 2009. The overall gross profit margin was decreased from 22.72% in year 2009 to 22.39% in year 2010. The gross profit margin of the provision of technical supporting and related services for oil and gas industry and sales of equipment and materials business has been decreased from 33% in last year to 28%, the decrease is mainly due to significant decrease in gross profit in Jutal Marine. The gross profit margin of the provision of technical support services for shipbuilding business has been decreased from 33% in last year to 25% in year 2010, the decrease is mainly due to changes in business structure. The gross profit margin of the fabrication of oil and gas facilities and oil and gas processing skid equipment business was increased from 18% in last year to 20%.

The following shows the breakdown of gross profit/(loss) by business segment during the past three years:

| | **For the financial year ended 31 December** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2010** | | | **2009** | | | **2008** | | |
| **Products/Services** | **RMB'000** | **Gross profit margin (%)** | **Percentage to Total gross profit (%)** | **RMB'000** | **Gross profit margin (%)** | **Percentage to Total gross profit (%)** | **RMB'000** | **Gross profit margin (%)** | **Percentage to Total gross profit (%)** |
| **1. Provision of technical supporting and related services for oil and gas industry and sales of equipment and materials** | **23,088** | **28** | **24** | 36,075 | 33 | 40 | 11,102 | 15 | 17 |
| **2. Fabrication of oil and gas facilities and oil and gas processing skid equipment** | **55,858** | **20** | **58** | 38,661 | 18 | 43 | 23,517 | 15 | 36 |
| **3. Provision of technical support services for shipbuilding industry** | **16,308** | **25** | **17** | 20,147 | 33 | 22 | 30,269 | 39 | 46 |
| **4. Civil engineering business** | **577** | **34** | **1** | (4,905) | (54) | (5) | 492 | 1 | 1 |
| **Total** | **95,831** | | **100** | 89,978 | | 100 | 65,380 | | 100 |

### *Other income*

Other income of the Group was decreased by 1.21% compared with year 2009 to RMB19,048,000. Other income mainly comprised of gain on disposal of property, plant and equipment of RMB11,114,000, compensation income of RMB3,436,000, interest income, income from finance leases and sundry income of RMB3,369,000. The gain on disposal of property, plant and equipment represents gain on disposal of vessel -“Hongli 900”.

### *Administrative expenses*

Administrative expenses were increased by 17.07% or RMB10,085,000 compared with year 2009 to RMB69,161,000, which mainly comprised of management staff’s remuneration, market development and entertainment expenses, travelling expenses, motor vehicle expenses and insurance expenses. The increase in administrative expenses is mainly due to increase in headcount of management staff and increase in salary level which lead to increase in staff costs and staff welfare expenses by approximately RMB10,109,000 compared with last year.

### *Finance costs*

Finance costs were increased by 1.89% or RMB86,000 compared with year 2009 to RMB4,640,000. Finance costs mainly comprised of bank loan interest of RMB3,443,000 and bank charges, exchange differences and other finance costs of RMB1,197,000.

### *Share of the profits of an Associate*

The Group held 30% of equity interest in Penglai Jutal Offshore Engineering Heavy Industries Co., Ltd. (“Penglai Jutal”). In year 2010, despite the international offshore oil engineering services market was not yet fully recovered, Penglai Jutal has still achieved satisfactory operating results, with net profit after tax amounted to RMB140,155,000. The Group’s share of profits from the associate was amounted to RMB42,046,000 under the equity method of accounting.

### *Net profits attributable to the owners of the Company and earnings per share*

In year 2010, net profit attributable to owners of the Company was amounted to RMB67,472,000, representing an increase of 1.15% compared with year 2009. Basic and diluted earnings per share are RMB 0.1355 and RMB0.1353 respectively.

## 2. LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the working funds (cash on hand and bank deposits) of the Group amounted to approximately RMB90,196,000 (2009: RMB38,326,000). During the year, cash inflow from operating activities amounted to RMB18,395,000, cash inflow from investing activities amounted to RMB109,047,000, and cash outflow from financing activities amounted to RMB74,880,000.

As at 31 December 2010, the total banking facilities of the Group amounted to RMB310,604,000, of which RMB70,289,000 was utilised and RMB240,315,000 was unutilised. Out of the unutilised banking facilities, RMB122,000,000 was available for raising bank loans. As at 31 December 2010, bank loans of the Group amounted to RMB38,000,000.

## 3. CAPITAL STRUCTURE

As at 31 December 2010, the share capital of the Company comprised of 498,000,000 ordinary shares (2009: 498,000,000 ordinary shares).

As at 31 December 2010, the net assets of the Group amounted to approximately RMB656,392,000 (2009: RMB636,501,000), comprising non-current assets of approximately RMB553,667,000 (2009: RMB632,405,000), net current assets of approximately RMB121,061,000 (2009: RMB37,265,000) and non-current liabilities of approximately RMB18,336,000 (2009: RMB33,169,000).

## 4. MAJOR DISPOSAL

On 7 June 2010, a subsidiary of the Company, Jutal Marine has entered into an acquisition agreement with 江蘇華西村海洋工程服務有限公司 (the "Purchaser"), in which Jutal Marine would sell to Purchaser the vessel -"Hongli 900" at consideration of RMB125,000,000. The related gain on disposal has been recorded in financial statements of the current year.

## 5. MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARY AND ASSOCIATED COMPANIES

On 5 January 2011, an indirect wholly-owned subsidiary of the Company, Hong Kong Jutal Holdings Limited ("Hong Kong Jutal") has entered into an acquisition agreement with Firstachieve Group Limited (the "Vendor"). Pursuant to the acquisition agreement, Hong Kong Jutal has agreed to purchase and the Vendor has agreed to sell the entire equity interest of Zhuhai Prospering Offshore Oil Engineering Limited ("Zhuhai Prospering"). The consideration of the acquisition is RMB140,500,000, and will be satisfied by (i) RMB16,100,000 (approximately HK$18,720,930) in cash from the Group's internal resources; and (ii) RMB124,400,000 (approximately HK$144,651,163) by the issue and allotment of 124,699,278 shares at HK$1.16 each. At the direction of the Vendor, the shares will be issued and allotted to Cheung Hing Investments Limited, which is wholly-owned by Mr. Wang Lishan, where the Vendor is a company wholly-owned by his spouse. At the extraordinary general meeting held on 25 February 2011, the relevant resolution was duly passed by the independent shareholders.

Upon completion of the acquisition, Zhuhai Prospering will become a wholly-owned subsidiary of the Company, the financial results, assets and liabilities of Zhuhai Prospering will be consolidated into the accounts of the Group.

## 6. SIGNIFICANT INVESTMENT

During year 2010, the Group has resumed the second phase of construction of Zhuhai Plant, and approximately RMB45,000,000 expect to invest in the construction work in the coming year.

Save as disclosed, there is no significant investment held by the Company during year 2010.

## 7. FOREIGN EXCHANGE RISK

The principal place of production and operation of the Group is Mainland China, while the Group also operates its business overseas and possesses assets which are priced in currencies other than RMB. Fluctuation of Renminbi ("RMB"), the functional currency of the Group, against other currencies like United States Dollars ("USD") and Hong Kong Dollars ("HKD") would bring certain foreign exchange risk to the Group. The Group would minimise the amount of assets which were priced in other currencies like USD and HKD, perform rolling estimates on foreign exchange rates, and would consider potential foreign exchange risk when entering into business contracts. The Group did not enter into any high risk derivatives trading and leveraged foreign exchange contracts.

## 8. ASSETS PLEDGED BY THE GROUP

As at 31 December 2010, except for the bank deposits amounted to RMB3,234,000 that were pledged as security deposits for the issuance of performance bonds, letter of credits and bank acceptance, there were no other assets pledged by the Group.

## 9. CONTINGENT LIABILITIES

As at 31 December 2010, the Group did not have any significant contingent liabilities.

## 10. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximize the return to the shareholders through the optimization of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustment to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital using a gearing ratio, which is bank borrowings divided by total equity of the Group. The Group's policy is to keep the gearing ratio at a reasonable level.

The gearing ratios at 31 December 2010 and at 31 December 2009 were as follows:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Bank borrowings | **38,000** | 69,370 |
| Total equity | **656,392** | 636,501 |
| Gearing ratio | **5.79%** | 10.90% |

The decrease in bank borrowings and the gearing ratio from year ended 31 December 2009, mainly due to the improvement of the Group's bank and cash position as a result of disposal of a vessel during the year.

## 11. EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2010, the Group had total 2,118 employees (2009: 1,889), of which 390 (2009: 346) were management and technical staff, and 1,728 (2009: 1,543) were technicians.

The Group determines the remuneration and incentives of employees with reference to the prevailing industry practice, and based on their position, duties and performance. The Group contributes to social security funds including pension fund, medical, unemployment and industrial accident insurances for employees in the PRC, and contributes to mandatory provident fund for employees in Hong Kong according to corresponding laws and regulations.

The Group put emphasis on staff development, encourages employees to pursue continuous education, and formulates training programs for employees every year.

## BUSINESS REVIEW

The development strategy of the Group is facing the oil and gas industry and shipbuilding industry, to provide customers with oil, gas and water treatment equipments, and solutions of professional technical services and accessories which are of international top-ranking technology. During the year, the Group continued to put our effort in research, production, service, marketing and staff training to steadily achieve the strategic target of the Group.

***Enhance Research and Development Competence, Build Up the Core Competitive Advantages of the Group***

The Group has established research and development department and engineering department, which carry out research, development and design support functions for oil, gas and water treatment equipment with certain technical skills, and possess the professional skills in design of machinery, meters, structural design, pipelines. Through technical exchanges, cooperation with, and learning and introduction of technology from foreign partners, the Group is capable to perform part of the core design work independently. During the year, our engineering department was involved in design work of several ongoing projects, cooperated with our business development department and played an important role in providing technical support for project tenders. The Group has performed several trial projects which obtained expected results and completed some trial productions.

***Develop New and Diversified Services, Focus on Customer Satisfaction***

Over the past year, while the Group continued to carry on our existing business, we have actively sought for new customers and develop new businesses, successfully obtained several new customers, and also passed the audit by several customers and was included in their list of qualified suppliers. With full cooperation of our several departments, we have obtained certain progress in new businesses development, and we are expanding our services from provision of traditional services to provision of solutions. During the year, the Group completed maintenance and transformation work of several platforms and several integrated projects including unit and equipment maintenance and installation. In the project implementation process, our design ability together with our resources in various construction sites has reflected significant integrated advantages of the Group. These integrated advantages not only enhanced the abilities our operations personnel, but also highly recognised by our customers.

***Enhance Production Management, Achieve Good Quality and Safety Control***

The Group has completed the planned procurement of equipments, repair, maintenance work, addition of new facilities, building and rebuilding of plant and warehouse of Zhuhai manufacturing site in year 2010. In the past year, Zhuhai Jutal Offshore Oil Services Limited ("Zhuhai Jutal") has newly obtained a number of international and local certifications, such as: ASME U2 and R stamp, and the local special equipment A2 stamp, equipped with the qualification of design and manufacture in accordance with ASME U2 and the qualification to manufacture pressure vessels in accordance with A2 qualification, and these were used in our ongoing projects. The Group has also completed several annual examinations and renewal of certifications during the year. Through application of new technology in production process, a number of staff has obtained various professional certifications. Our improved quality from and safety and environmental management measures in Zhuhai manufacturing site has been well recognised by customers, and has completed our annual quality management targets.

The Group was also actively involved in offshore oil engineering market. Through involvement in several sizable offshore oil projects, such as "COSL Promoter" semi-submersible drilling platform construction project, the principal part of "Offshore Oil 981" deep-water drilling platform construction project, "COSL 922" jack-up rigs construction project, and "D90" semi-submersible drilling platform installation project which have been completed or completed by stages during the year, the Group has gained valuable experience.

***Tracking Business Opportunities Closely, Speed Up Marketing Plan***

In the past year, the Group increased marketing efforts, recruited additional marketing personnel, established branches in Beijing, Chengdu, Yantai, built up customer relationships in the Middle East, aiming to track the business opportunities from relevant area and target customers. In response to the changes brought about by the business development and transformation of the Group, we have increased our efforts in develop new customers and has made significant progress.

We continued to expand the business scale of our shipbuilding services with reference to the development strategies of our other operations, applying our experience and resources to new customers and business, and market diversification was basically achieved.

## PROSPECTS

To carry out the business strategy at this stage, the Group will continue to focus on building up core competitiveness in the coming year, implement measures in various aspects to promote the Group's business transformation and scale of development.

The Group will continue to strengthen its research and development and design capacity. Construction of separation technology laboratory will be completed and put into use in Zhuhai in the first half of 2011, to establish goals for technical cooperation and research and development, to strengthen the promotion of our new technology as our marketing capacity, to promote the oil, gas, water treatment equipment as core manufacturing business of the Group. The Group will continue to transform its business model to become technology-based, research and development based and solution based.

The second phase of construction of manufacturing site in Zhuhai, which include new wharf and construction site, will commence in 2011. Upon completion, the new manufacturing site will strengthen the Group’s ability to undertake large scale construction projects.

In next year, the Group will continue to actively explore new markets and new businesses, further stabilise the current diversified market structure, strengthen cooperation with foreign corporations and form special team to promote business innovation.

## DIVIDEND

The directors recommend the payment of final dividend of HK$0.03 per each ordinary share of the Company for the year ended 31 December 2010.

## AUDIT COMMITTEE

The Audit Committee of the Company comprises four independent non-executive directors. The Audit Committee has reviewed the Group's results of the year ended 31 December 2010.

## CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the Code on Corporate Governance Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the year ended 31 December 2010.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, the directors have complied with the standard set out in the Model Code for the year ended 31 December 2010.

## PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's listed shares since the day of listing.

On behalf of the Board
**Jutal Offshore Oil Services Limited**
**Wang Lishan**
Chairman

Hong Kong, 25 March 2011

*As at the date of this announcement, the executive directors are Mr. Wang Lishan, Mr. Cao Yunsheng, Mr. Chen Guocai and Mr. Tian Huiwen; the independent non-executive directors are Mr. Su Yang, Mr. Lan Rong, Mr. Xiang Qiang and Mr. Gao Liangyu.*