Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited

珠江石油天然氣鋼管控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1938

EXPANDING

OUR VISION AND COMMITMENT

ANNUAL REPORT 2009

Contents

Corporate Information

DIRECTORS

Executive Directors
Mr. CHEN Chang *(Chairman)*
Ms. CHEN Zhao Nian
Ms. CHEN Zhao Hua

Independent Non-Executive Directors
Mr. CHEN Ping
Mr. LIANG Guo Yao
Mr. SEE Tak Wah

REGISTERED OFFICE

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Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

COMPANY SECRETARY

Mr. HU Chung Ming *FCPA, CPA (Aust)*

AUDIT COMMITTEE

Mr. SEE Tak Wah *(Chairman)*
Mr. CHEN Ping
Mr. LIANG Guo Yao

REMUNERATION COMMITTEE

Mr. LIANG Guo Yao *(Chairman)*
Mr. CHEN Ping
Mr. CHEN Chang

AUTHORISED REPRESENTATIVES

Mr. CHEN Chang
Ms. CHEN Zhao Nian

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Shiji Town
511450 Panyu District
Guangzhou City
Guangdong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wah Hing Commercial Centre
383 Shanghai Street
Kowloon
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Corporate Information

AUDITOR

Ernst & Young

STOCK CODE & COMPANY'S WEBSITE

1938
www.pck.com.cn

COMPLIANCE ADVISER

ICBC International Capital Limited

LEGAL ADVISERS AS TO HONG KONG LAW

Chiu & Partners

PRINCIPAL BANKERS

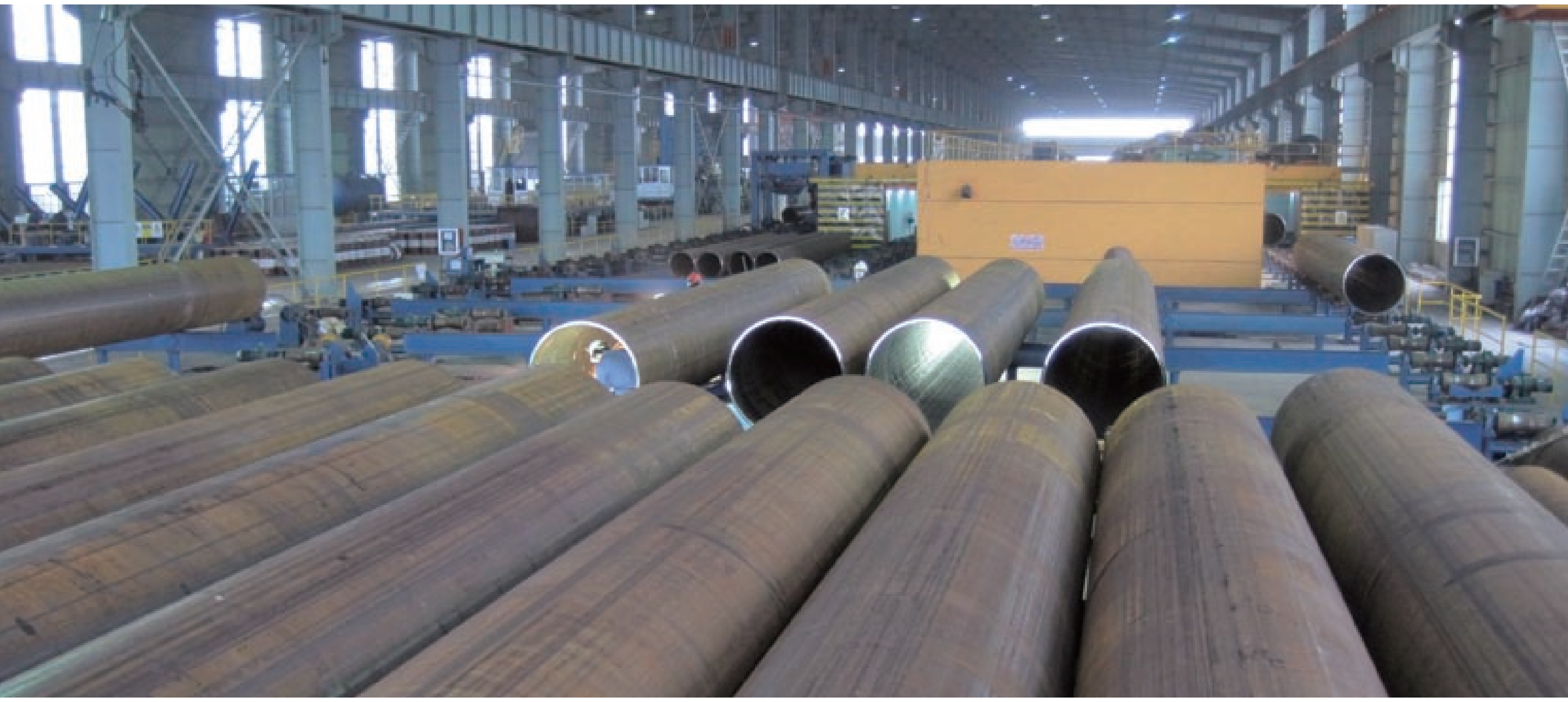
The Bank of East Asia, Limited
Industrial and Commercial Bank of China
(Panyu Branch)

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong



Chairman's Statement

On behalf of the board of directors (the "Board") of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company", together with its subsidiaries hereinafter referred to as the "Group"), I am pleased to present our first annual report for the year ended 31 December 2009 following the listing of the Company on the main board of the Stock Exchange of Hong Kong Limited ("Stock Exchange").

Mr. Chen Chang
Chairman

Dear shareholders,

During the year under review, the turnover of our Group reached RMB2,825.7 million, representing an increase of 7.7% from RMB2,624.6 million in 2008. Profit attributable to equity holders increased by 45.6% from the previous year to approximately RMB401.0 million (2008: approximately RMB275.5 million), exceeding the estimated profit for 2009 of RMB400 million as stated in the prospectus of our Group dated 28 January 2010. Earnings per share was RMB0.53 (2008: RMB0.37).

The PRC has become the second largest energy consumption country since 2008. As the use of natural gas becomes more popular, coupled with the great demand for pipeline infrastructure, the market demand for steel pipes is further boosted. Moreover, stimulated by the 11th Five-year Plan of the PRC, the implementation and construction of pipeline projects such as West-to-East Natural Gas Pipeline Project Phase 3 and 4, Central Asia Pipeline Phrase 2 and other pipeline construction projects around the globe, especially in Asia, will continue to grow. Being a product with higher safety assurance, and suitable to be used in highly populated cities and areas with complicated geographical conditions, LSAW steel pipes will continue to be used as the main facilities for energy transmission and pipeline infrastructure construction.

Chairman's Statement

As a leading enterprise in the industry, our Company is not only the largest manufacturer of LSAW steel pipes in the PRC, but also the first domestic manufacturer with LSAW steel pipe production line using the UOE production method. Leveraged on our excellent product quality, advanced and diversified production equipments and technologies as well as large production scale, we are able to satisfy the different needs of our varied customers and has thereby built a good reputation in the industry and established a solid customer base all over the world.

In September 2009, our Group's LSAW steel pipe production line in Jiangyin City, Jiangsu province, was put into operation. At present, we have four highly-efficient automatic steel pipe production lines with an annual capacity of 1,150,000 tonnes of longitudinal welded steel pipes. Our Group has benefited from economy of scale due to our huge production capacity and thus makes the prices of our products more competitive. On the other hand, after being recognised by Shell as meeting its piping specifications in 2008, the Group also succeeded in attaining Shell's DEP standards in 2009. These quality standards prove that our products are of world-class quality which will help us to explore the international market.

In order to tap the global capital market and build an international platform for future business development, our Company succeeded in listing on the main board of the Stock Exchange on 10 February 2010 (the "Listing"). The Listing marked a major breakthrough in our Group's development, and the response from the world capital market was favourable. The share price after the Listing reflected the investors' confidence in our business prospects and their recognition of our competitive advantages.

Looking ahead, our Group will continue to increase our capacity, improve our production efficiency and optimise our quality assurance and control systems as well as improve and upgrade our existing welded pipe production and auxiliary facilities. To capture the market opportunities brought about by the 11th Five-year Plan, we will expand our distribution network and strengthen the cooperative relationships with our customers, understand the different requirements of our customers and varied demand from the market and thereby improving the product mix in order to increase the sales.

Furthermore, our Group will make great efforts to improve our R&D capability in order to develop new products, maintain sustainable business growth through internal growth, selective acquisition and business cooperation, and meanwhile increase our marketing activities so as to enhance the reputation of our branded steel pipe products. With a unique competitive edge, established customer base around the world and a leading position in the industry, our Company is confident that better performance can be achieved through further expansion of our market.

Finally, I wish to take this opportunity to express my gratitude to all the staff and the management team. Owing to their great efforts in the past year, the development of our Group has reached a new milestone. Meanwhile, I would also like to thank our shareholders and business partners for their valuable support. After the successful listing, our Group's capital strength is stronger than ever. As a pioneer in the industry, we will continue to make great efforts to become the leading manufacturer of quality LSAW steel pipes in the PRC and create the best return for our shareholders.

Chen Chang
Chairman
Panyu, Guangdong Province, China
20 April 2010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Management Discussion and Analysis

BUSINESS REVIEW

We are the largest steel pipe manufacturer in the PRC in terms of production volume of longitudinal submerged arc welded steel pipes which are formed utilising submerged arc welding technology ("LSAW steel pipes") in each of the three years ended 31 December 2009 according to the 中國鋼結構協會鋼管分會 (China Steel Construction Society, Steel Pipe Branch Association*). According to 中國石油天然氣公司管材研究所 (Tubular Goods Research Center of CNPC*), we are one of the four LSAW steel pipes manufacturers recognized to have the capabilities to produce LSAW steel pipes that meet the X80 standard that are considered suitable for application in major national pipeline projects in the PRC.

The Group is primarily engaged in manufacture and sale of longitudinal welded steel pipes. Moreover, in order to satisfy customers with specific requirements on raw materials for their products, we also provide steel pipe manufacturing services whereby the principal raw materials are provided by the customers for our further processing into steel pipes. Meanwhile, we also provide ancillary products and services such as coating and fittings to our customers. Our steel pipe products can be broadly categorized into LSAW steel pipes and steel pipes which are formed by utilising electric resistance welding technology ("ERW steel pipes").

Our steel pipe products have a wide scope of applications (depending on the respective outside diameter and thickness) and a majority of them are sold to enterprises in the oil, petrochemicals and natural gas industry for use as pipelines for transmission of oil, petrochemicals, natural gas, city gas and coal slurry.

Domestically, a significant portion of our products is sold to customers in the oil and gas industries such as CNPC, CNOOC and Sinopec. For overseas markets, our steel pipe products are exported to customers in over 50 countries and regions in the Middle East, European Union, America, and Southeast and Central Asia. We have built up a broad and geographically diversified customer base which comprises oil fields operators, oil companies, gas companies, petrochemical companies, trading firms and engineering firms worldwide.

The increasing demand for both natural gas and crude oil worldwide, particularly in China, has boosted the respective infrastructure construction in recent year. Pipeline construction being one of the most economical, efficient and widely applied methods for conveying oil and gas is benefiting from such increase in capital expenditure on infrastructure construction.

LSAW STEEL PIPES

The major product of the Company, LSAW steel pipes, mainly used as pipelines for transmission of oil and natural gas are in general of larger diameters than ERW steel pipes. They can be used in more demanding applications, such as high pressure and deep water gas and oil transmission projects, due to their weld strength and quality. Our LSAW steel pipes are manufactured according to the requirements of our customers under a strict quality management system which conforms to international quality standards such as Det Norske Veritas ("DNV") and American Petroleum Institute ("API") standards.

For the year ended 31 December 2009, revenue from the manufacture and sales of LSAW steel pipes was approximately RMB2,002.0 million, representing a 9.5% decrease as compared to 2008. Revenue from manufacturing services of LSAW steel pipes was approximately RMB64.6 million, representing a 60.3% decrease as compared to 2008.

ERW STEEL PIPES

ERW steel pipes are in general characterized by low production cost and high dimensional precision and given the limitation of their sizes (in terms of outside diameter), these steel pipes are widely used in onshore or shallow offshore applications in smaller scale projects, such as water, irrigation and sanitation pipes, hollow structural sections for construction and mechanical pipeline, and line pipes for transmission pipes tubes and city tube networks.

For the year ended 31 December 2009, revenue from the manufacture and sales of ERW steel pipes was approximately RMB669.7 million, representing a 232.9% increase as compared to 2008. Revenue from the manufacturing service of ERW steel pipes was approximately RMB9.0 million, representing a 140.7% increase as compared to 2008.

Despite the relative lucrative orders received in 2009 for ERW steel pipes, our Directors remain convinced that the market potential for LSAW steel pipes is more prominent than that for ERW steel pipes as LSAW steel pipes can be used in more demanding applications.

FINANCIAL REVIEW

REVENUE

For 2009, our revenue was approximately RMB2,825.7 million, representing an increase of RMB201.1 million or 7.7% as compared to that of approximately RMB2,624.6 million in 2008. The increase in revenue was mainly attributable to the increase in sales volume and the average selling price of our manufacturing and sale of ERW steel pipes resulted from both higher sales quantity and unit selling price. The higher sales volume of ERW steel pipes is attributable to our success in securing significant orders from a customer in the Sultanate of Oman and the higher unit selling price charged on such orders is due to the customer's special technical requirement for anti-corrosive ERW steel pipes.

In percentage terms, manufacturing and sale of steel pipes accounted for approximately 94.5% of our total revenue in 2009 as compared to that of approximately 92.0% in 2008, steel pipe manufacturing services accounted for approximately 2.6% of our total revenue in 2009 as compared to that of approximately 6.3% in 2008. Others mainly represent manufacture and sale of steel fittings, trading of steel pipes and sale of scrap materials which accounted for approximately 2.9% of our total revenue in 2009 as compared to that of approximately 1.7% in 2008.

Our overseas sales in proportion to total revenue increased from 52.3% in 2008 to 62.5% in 2009. This was resulted from our continuing efforts on exploiting the overseas market such as participating in a number of international trade fair and exhibitions in relation to steel pipes manufacturing over the years, and our success in seeking global quality recognition from Shell Global Solution which showed our ability to satisfy the stringent requirements of the overseas markets.

Sales by products

	2009		2008	
Manufacture and sales of steel pipes:	**RMB'000**	%	RMB'000	%
LSAW steel pipes	**2,001,961**	**70.8%**	2,213,126	84.3%
ERW steel pipes	**669,719**	**23.7%**	201,180	7.7%
Sub total	**2,671,680**	**94.5%**	2,414,306	92.0%
Steel pipe manufacturing services:				
LSAW steel pipes	**64,618**	**2.3%**	162,773	6.2%
ERW steel pipes	**8,999**	**0.3%**	3,738	0.1%
Sub total	**73,617**	**2.6%**	166,511	6.3%
Others*	**80,439**	**2.9%**	43,822	1.7%
Total	**2,825,736**	**100%**	2,624,639	100%

* Others mainly included the manufacture and sale of steel fittings, trading of steel pipes and sale of scrap materials. Manufacturing service of bended pipes which has been recorded as others for the period ended 31 August 2009 was reclassified to steel pipe manufacturing services.

Sales by geography

	2009		2008	
	RMB'000	%	RMB'000	%
Overseas sales	**1,766,155**	**62.5%**	1,371,996	52.3%
Domestic sales	**1,059,621**	**37.5%**	1,252,643	47.7%
Total	**2,825,736**	**100%**	2,624,639	100%

GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit for 2009 was approximately RMB641.9 million, an improvement of 19.5% or RMB104.9 million compared to the gross profit of approximately RMB537.0 million in 2008. Gross profit margin increased from 20.5% for 2008 to 22.7% for 2009. The increase in both gross profit and gross profit margin was mainly attributable to (i) the significant increase in our manufacture and sale of ERW steel pipes resulted from our success in securing significant orders from a customer in the Sultanate of Oman which orders also command higher profit margins due to its special technical requirement for anti-corrosive ERW steel pipes; and (ii) the economies of scale achieved by the significant increase in sales volume of ERW steel pipes.

Gross profit and gross profit margin

	2009		2008	
Manufacture and sales of steel pipes:	**RMB'000**	**%**	RMB'000	%
LSAW steel pipes	**390,498**	**19.5%**	412,574	18.6%
ERW steel pipes	**195,534**	**29.2%**	20,375	10.1%
Sub total	**586,032**	**21.9%**	432,949	17.9%
Steel pipe manufacturing services:				
LSAW steel pipes	**35,922**	**55.6%**	103,010	63.3%
ERW steel pipes	**4,294**	**47.7%**	(469)	(12.5%)
Sub total	**40,216**	**54.6%**	102,541	61.6%
Others	**15,657**	**19.5%**	1,460	3.3%
Overall gross profit margin	**641,905**	**22.7%**	536,950	20.5%

OTHER INCOME AND GAINS

Other income and gains increased by 453.3% or RMB29.2 million from approximately RMB6.4 million in 2008 to approximately RMB35.6 million in 2009. The increase was mainly due to the gain on disposal of items of property, plant and equipments of RMB26.6 million which mainly represents the gain on the disposal of a production line in Zhangjiagang, Jiangsu Province, the PRC which forms part of our Group's development and expansion plan.

SELLING AND DISTRIBUTION COSTS

Selling and distribution expenses increased by 53.3% or RMB30.4 million from approximately RMB57.2 million in 2008 to approximately RMB87.6 million in 2009. The selling and distribution expenses as a percentage of our total revenue were approximately 2.2% in 2008 and 3.1% in 2009. This increase was mainly due to the increase in commission paid to our sales agents by RMB25.9 million which was attributable to the increase in our overseas sales.

ADMINISTRATIVE EXPENSES

Administrative expenses decreased by 11.2% or RMB10.1 million from RMB90.0 million in 2008 to RMB79.9 million in 2009. The decrease was primarily due to the composite effect of (i) a decrease in professional fees from RMB21.8 million in 2008, which was in relation to the proposed listing incurred during the year 2008, to RMB2.9 million in 2009; (ii) the increase in bank charges amounted to RMB3.6 million which mainly represented the charges for the issuance of bank acceptance notes to our suppliers; (iii) the increase in bad debt provision amounted to RMB2.0 million.

FINANCE COSTS

Finance costs decreased by 35.7% or RMB23.3 million from approximately RMB65.2 million in 2008 to approximately RMB41.9 million in 2009. The decrease was mainly attributable to the decrease in average loan balance and the drop in the effective interest rate charged by banks for our short term interest bearing bank loans.

EXCHANGE LOSS, NET

Exchange loss decreased by 80.2% or RMB7.2 million from RMB9.0 million in 2008 to RMB1.8 million in 2009. The decrease is mainly because the Renminbi exchange rate against the US dollars remained relatively stable during 2009 when compared with that for the year 2008, and therefore the effect of change in exchange rates on our overseas sales revenue was not significant.

INCOME TAX EXPENSES

Income tax expenses increased by 51.5% or RMB21.9 million from RMB42.5 million in 2008 to RMB64.4 million in 2009. The increase is primarily attributable to the increase in our profit before tax. The Group's effective tax rates for 2009 was approximately 13.8%, which was comparable to that of approximately 13.4% for 2008.

TOTAL COMPREHENSIVE INCOME FOR THE YEAR

As a combined result of the factors discussed above, our total comprehensive income for the year 2009 increased by 44.6% or RMB123.6 million from approximately RMB277.4 million in 2008 to approximately RMB401.0 million in 2009. Moreover, our net profit margin increased from 10.6% in 2008 to 14.2% in 2009.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2009.

LIQUIDITY AND FINANCIAL RESOURCES

The following table sets out certain information regarding the Group's consolidated statement of cash flows for the years ended 31 December 2008 and 2009:

	Year ended 31 December	
	2009	2008
	RMB'000	RMB'000
Net cash flows from operating activities	**592,005**	415,472
Net cash flows used in investing activities	**(274,271)**	(71,405)
Net cash flows used in financing activities	**(128,427)**	(328,763)
Net increase in cash and cash equivalents	**189,307**	15,304

NET CASH FLOWS FROM OPERATING ACTIVITIES

The Group's net cash flows from operating activities increased by 42.5% or RMB176.5 million from RMB415.5 million in 2008 to RMB592.0 million in 2009. The net cash flows from operating activities are primarily due to the combined effect of (i) operating profit before changes in working capital of RMB511.4 million; (ii) decrease in inventories of RMB190.5 million; (iii) increase in trade and bills payables of RMB197.2 million; (iv) increase in pledged deposit of RMB109.6 million and (v) decrease in other payables and accruals of RMB129.4 million.

NET CASH FLOWS USED IN INVESTING ACTIVITIES

The Group's net cash flows used in investing activities increased by 284.1% or RMB202.9 million from RMB71.4 million in 2008 to RMB274.3 million in 2009. The net cash outflow was mainly resulted from the combined effect of (i) the payment of deposit for the steel plate processing machines amounted to RMB253.8 million; (ii) the payment of RMB138.8 million which was mainly related to our Group's development of a new production line in Jiangyin, Jiangsu Province, which was under construction in 2009 and (iii) the proceeds from our disposal of certain items of property, plant and equipment that were mainly attributable to the sales of our production facilities in Zhangjiagang, Jiangsu Province, the PRC under our Group's new development and expansion plan.

NET CASH FLOWS USED IN FINANCING ACTIVITIES

The Group's net cash flows used in financing activities decreased by 60.9% or RMB200.4 million from RMB328.8 million in 2008 to RMB128.4 million in 2009. The net cash outflow was mainly resulted from the combined effect of (i) borrowing of new bank loans of RMB1,925.4 million; (ii) repayment of bank loans of RMB2,004.2 million and (iii) payment of dividend of RMB49.7 million.

EXCHANGE RISK EXPOSURE

The Group mainly operates in the PRC and most of its operating transactions are settled in RMB except for the export sales which are mostly denominated in USD. Most of its assets and liabilities are denominated in RMB. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group did not adopt formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the year ended 31 December 2009.

CAPITAL EXPENDITURE

Capital expenditure for 2009 amounted to approximately RMB392.6 million was primarily consisted of (i) a construction of a new production line in Jiangyin, Jiangsu Province amounted to RMB138.8 million; (ii) the payment of deposit for the steel plate processing machines amounted to RMB253.8 million. As at 31 December 2009, the Group had capital commitment amounted to RMB261.5 million mainly represents the remaining balance of the steel plate processing machines.

CONTINGENT LIABILITIES

As at 31 December 2009, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

The Group has pledged certain property, plant and equipments and land use rights with an aggregate net book value of RMB65,601,000 (2008: RMB39,393,000) and RMB83,713,000 (2008: RMB88,965,000), respectively to secure bank loans granted to the Group.

FINANCIAL INSTRUMENTS

The Group did not have any hedging contracts or financial derivatives outstanding for the year ended 31 December 2009.

GEARING RATIO

The Group's gearing ratio is calculated based on the summation of bank borrowings, government grants and amount due to the ultimate shareholders divided by total assets. The gearing ratio of the Group as at 31 December 2008 and 2009 are 38.8% and 29.8%, respectively.

As at 31 December 2009, total borrowings of the Group amounted to RMB670.0 million, of which 56.3% were long term borrowings.

The net debt-to-equity ratio, defined as a percentage of net interest bearing borrowings over shareholders' equity, improved from 117.7% to 33.7% as at the end of the reporting years.

The Group's banks borrowings are mainly denominated in Renminbi which carry interest rates that is referred to the benchmark lending rate published by People's Bank of China. There are also some banks borrowings denominated in USD during the year with interest rates benchmarked to the London interbank offered rates for US dollar loans.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 8 July 2009, 番禺珠江鋼管（連雲港）有限公司 (Panyu Chu Kong Steel Pipe (Lianyungang) Co. Ltd.*) ("PCKSP (Lianyungang)") was established as a wholly owned subsidiary of 番禺珠江鋼管有限公司 (Panyu Chu Kong Steel Pipe Co. Ltd*) ("PCKSP") with a registered capital of RMB40 million, which was fully paid in cash, to engage in the manufacture and sale of steel pipes. In October 2009, PCKSP (Lianyungang) increased its registered capital to RMB200 million, which additional capital contribution was fully paid in cash and is intended to be used in enlarging the scale and scope of operation so as to capture the business opportunity in the market of LSAW steel pipes. In November 2009, PCKSP (Lianyungang) further increased its registered capital to RMB700 million, which additional capital contribution was fully paid in cash and is intended for meeting the capital requirements for its future business operation. On 2 November 2009, the registered capital was fully paid up by PCKSP.

On 21 August 2009, 廣州珍珠河石油鋼管有限公司 (Guangzhou Pearl River Petroleum Steel Pipe Co. Ltd*) entered into a disposal agreement with an independent third party to dispose of the JCOE production line and the related ancillary production facilities then located in 廣州珍珠河石油鋼管有限公司（張家港分公司）(Guangzhou Pearl River Petroleum Steel Pipe Co. Ltd (Zhangjiagang branch)*) ("GPR Steel Pipe (Zhangjiagang branch)") at a consideration of approximately RMB119.2 million after arm's length negotiation. GPR Steel Pipe (Zhangjiagang branch) did not carry on any commercial operation since then. Its dissolution was completed on 26 February 2010.

Save as disclosed above, the Group had no other material acquisitions or disposals during the year.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING ("IPO") AND THE OVER-ALLOTMENT

The shares of the Company were listed on the Main Board on 10 February 2010 with net proceeds received by the Company from the global offering (including the 11,142,000 over-allotment shares) amounted to approximately HK$1,112.5 million (RMB973.7 million) after deducting underwriting commissions and all related expenses. The purpose of the net proceeds received from the global offering as stated in the prospectus of the Company dated 28 January 2010 is as follow:

Purpose of net proceeds	**Available to utilize** RMB million
Establishment of a new production base in Lianyungang, Jiangsu Province	681.6
Construction of new LSAW steel pipes production line and modification of an ancillary production line into a completed LSAW steel pipes production line	97.4
Repayment of bank loans	48.7
Expansion of overseas distribution network	19.5
Enhancement of our research and development capabilities	29.2
Working capital	97.3
Total	973.7

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2009, the Group had a total of 1,816 dedicated full time employees (2008: 1,858 employees). The following set forth the total number of our staff by functions:

	2009	2008
Management	**24**	29
Production and logistics	**1,075**	1,145
Sales and marketing	**32**	28
Finance	**15**	15
Quality control	**372**	369
Research and development	**45**	67
Procurement	**29**	29
General administration and others	**224**	176
Total	**1,816**	1,858

For the year ended 31 December 2009, the staff cost (including directors' remuneration in the form of salaries and other benefits) was RMB70.7 million (2008: RMB72.6 million). Details are set out in note 9 to financial statements.

The Group remunerates its employees based on their performance, experience and prevailing industry practice. Competitive remuneration package is offered to retain elite employees including salaries, medical insurance, discretionary bonuses, other benefits as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

FUTURE PLANS AND PROSPECTS

The Group strives to be a leading manufacturer of high quality longitudinal welded steel pipes products in the PRC and will continue to seek opportunities to realize sustainable growth of our business. Based on the experienced management team, research and development capabilities, well established relationship with our major suppliers and customers and emphasis on the quality of products, the Group is well-positioned to capture the anticipated growth of the steel pipe markets in the PRC and overseas.

The Group poised to achieve excellence while remaining in an enviable position in the global steel pipe industry capitalizing on the following core strategies:

EXPANDING, MODIFYING AND UPGRADING EXISTING FACILITIES

The Group intends to invest further in expanding, modifying and upgrading the existing facilities for the production of our steel pipes and ancillary products with a view to enhancing our production capacity and efficiency. Moreover, with the re-engineering and modification of existing facilities, it is expected to widen our product range and satisfy the ever changing customers' need.

CONSTRUCTION OF NEW PRODUCTION BASE

The Group intends to establish a new production base in Lianyungang with a view to capture business opportunities in Yangtze delta area. Such production base will include (i) a LSAW steel pipe production line which could enhance our market position by continuing to expand our production capacity and market share; (ii) a steel plates processing equipment which could secure the stable supply of quality steel plates to our production and will therefore contribute significantly to our future capacity expansion.

SELECTIVE ACQUISITION AND PARTNERSHIP

Apart from relying on the expansion of the scale of our operations and introducing new products and technology, the Group also intends to conduct selective acquisitions, the targets under which may include other steel pipe manufacturers and/or other complementary production facilities in the PRC or worldwide, with an aim to increase our production capability and market share. Alternatively, by establishing partnership with other market players in the areas of production, material sourcing, sales and research, the synergy effect could benefit the Group from having lower costs of materials or sales and strengthened technical capabilities.

The capital expenditure for the above future plans is expected to be funded by our IPO proceeds, internally generated funds and bank borrowings.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

MR CHEN CHANG (陳昌)

Mr Chen, age 64, is an executive Director and the chairman of the Company and also a member of the remuneration committee of the Company. Mr Chen is the father of Ms Chen Zhao Nian and Ms Chen Zhao Hua (both being the executive Directors). Being the founder of the Group, Mr Chen is primarily responsible for the overall management and strategic planning and business development of the Group. Mr Chen has over 30 years in the areas related to woodwork, machine tool equipment and lift/escalator equipment and accumulated experience and knowledge on mechanical and electrical industry. Mr Chen graduated from the graduate school of 中山大學 (Sun Yat-Sen University*) in Guangdong Province in October 1995 majoring in decision management. Mr Chen was appointed by several steel pipe related associations and organisations for various positions, including the member of 第四屆焊接鋼管學術委員會委員 (The Fourth Session of Welded Steel Pipe Academic Committee*) by 中國金屬學會軋鋼分會 (The Steel Rolling Branch Association of the Chinese Society for Metals*) in 2001, the vice president of 中國鄉鎮企業協會 (China Township Enterprises Association*), and the vice chairman of 第四屆理事會 (The Fourth Session of Board of Directors*) and 第五屆理事會 (The Fifth Session of Board of Directors*) by CSPA in 2004 and 2008 respectively. Mr Chen was awarded with various honours and obtained different qualifications. In 2004, he was honoured by Ministry of Commerce, Industry and Energy of Republic of Korea for his contribution to Korean economic development through trade revitalisation, and was also elected as 中國優秀民營科技企業家 (Excellent Entrepreneur in Chinese Private Technology Enterprises*) by All-China Federation of Industry & Commerce. In 2007, he was elected as the winner of 科學技術獎一等獎 (The First Prize of Science and Technology Awards*) by 廣州市人民政府 (Guangzhou Municipality People's Government*), and as authority expert of welded pipe industry by 中國國際權威專家協會 (Chinese International Authority Expert's Association*). In 2008, Mr. Chen was awarded the gold prize for his invention, 三輥成型工藝及設備 (Three-roller forming technology and equipment*), in 第六屆國際發明展覽會 (The Sixth Session of International Exhibition of Inventions*), and was awarded an outstanding award by 廣東省人事廳 (Guangdong Provincial Bureau of Personnel*) and 廣東省知識產權局 (Guangdong Province Intellectual Property Department*).

As at the date of this annual report, Mr Chen is the sole director and sole shareholder of Bournam Profits Limited, which was interested in 701,911,000 shares of the Company.

MS CHEN ZHAO NIAN (陳兆年)

Ms Chen, aged 33, a daughter of the founder, is an executive Director. Ms Chen is primarily responsible for the daily management and operations of the Group. Ms Chen joined the Group in October 2002 as vice general manager after her graduation. Ms Chen obtained her bachelor's degree in arts from the University of Central Lancashire in the United Kingdom in June 2000 and obtained her master's degree in accounting from Leeds Metropolitan University in United Kingdom in October 2002.

MS CHEN ZHAO HUA (陳兆華)

Ms Chen, aged 31, a daughter of the founder, is an executive Director. Ms Chen is primarily responsible for handling sales, business relationship with overseas customers and sales and bidding agents as well as overseas marketing activities. Ms Chen joined the Group in December 2002 as vice general manager after her graduation. Ms Chen obtained her master degree of L.L.M. in International Commercial Law from University of Nottingham in United Kingdom in December 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR CHEN PING (陳平)

Mr CHEN Ping (陳平), aged 44. Mr Chen Ping was appointed as an independent non-executive Director on 23 January 2010. Mr Chen Ping is also a member of the audit committee and remuneration committee of the Company. Mr Chen Ping graduated from the Jinan University, the PRC, in 1984 majoring in international finance and later obtained a doctoral degree in international finance in Nankai University, the PRC, in December 1990. Commencing from January 1991, Mr Chen Ping began lecturing at the Lingnan College, Guangzhou Sun Yat-Sen University, teaching international finance, and is currently the vice president of the Lingnan College. Mr Chen Ping also assumed various posts in societies and clubs concerning economics and finance, such as council member at 中國國際金融學會 (International Finance Society of China*) and 中國世界經濟學會 (China Society of World Economics*). Mr Chen Ping is also engaged in academic research which mainly focuses on finance theory and policy, global economics and so forth, and has published a number of essays and publications. As an experienced professor, Mr Chen Ping has won various awards for the lecture materials used and also for the essays published. In 1997, Mr Chen Ping's teaching materials entitled 《國際金融》 (International finance*) was awarded as 國家教學成果二等獎 (National Educational Achievement Award – Second Class*) by Committee of Education of the PRC. In May 2002, Mr Chen Ping's paper entitled 《上市公司兼併與收購的財富效應研究》 (Study on the effect of merger and acquisition of listed companies on wealth*) was selected for the Best Paper Award of the 9th Global Finance Association Annual Conference by the 9th GFA Annual Conference Program Committee. In 2005, Mr Chen Ping's teaching materials entitled 《教學國際化的探索與實踐》 (Exploration and practice of educational internationalisation*) was awarded as 廣東省教學成果一等獎 (Guangdong Province Educational Achievement Award – First Class*). In 2006, Mr Chen Ping was selected as nominee for 教育部新世紀優秀人才支持計劃 (Ministry of Education New Century Outstanding Person Support Scheme*). In 2007, Mr Chen Ping received 寶鋼優秀教師獎 (Bao Steel Outstanding Teacher Award*). Mr Chen Ping acted as an independent director of 深圳市中金嶺南有色金屬股份有限公司 (Shenzhen Zhongjin Lingnan Nonfemet Company Limited*), a company listed on the Shenzhen Stock Exchange, for six years until June 2008. Since January 2009, Mr Chen Ping has been acting as an independent director of 廣晟有色金屬股份有限公司 (Rising Nonferrous Metals Share Co., Ltd.*), a company listed on the Shanghai Stock Exchange.

MR LIANG GUO YAO (梁國耀)

Mr LIANG Guo Yao (梁國耀), aged 52. Mr Liang was appointed as an independent non-executive Director on 23 January 2010. Mr Liang is also the chairman of the remuneration committee of the Company and a member of the audit committee of the Company. Mr Liang completed professional courses specialising in economics in 中共廣東省委黨校 (Zhongong Guangdong Province Wei Dang Xiao*) in July 1992. From June 2003 to July 2006, Mr Liang worked as Committee Secretary and National People's Congress Chairman of Shiji Town, Panyu, Guangzhou. Mr Liang was then responsible for the strategic planning for major matters of Shiji Town, such as those in relation to economics, laws and politics, social order and human resources arrangement. In March 1996, Mr Liang was appointed as Mayor of Dagang, Panyu in the 1st Meeting of the 14th People's Representative Congress of Dagang town, Panyu, who was responsible for the overall planning and implementation for the social and economical development of Dagang, as well as considering and if thought fit granting approvals for major infrastructure proposals at Dagang. Having been a government official serving at the local government in the PRC for over 30 years since 1975 until his retirement in 2006, Mr Liang has gained profound management experience in the public sector.

MR SEE TAK WAH (施德華)

Mr SEE Tak Wah (施德華), aged 46. Mr See was appointed as an independent non-executive Director on 23 January 2010. Mr See is also the chairman of the audit committee of the Company. Mr See graduated from the Management School of Waikato University in New Zealand with a first class honours in Bachelor of Management Studies and is a member of the Institute of Chartered Accountants of New Zealand and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr See has over 20 years' experience in financial and general management where he previously worked as the regional business controller of Nokia Mobile Phones Asia Pacific, the managing director of Nokia Mobile Phones Hong Kong, the chief operating officer of First Mobile Group Holdings Limited and held key management position in the North Asia offices of Philips and Siemens. Mr See was an independent non-executive director of First Mobile Group Holdings Limited (Stock code: 0865) and resigned from such post with effect from 2 December 2009. Mr See is currently running his own strategic consultancy business. In addition, he currently serves as an independent non-executive director of Buildmore International Limited (Stock Code: 0108) and Sun East Technology (Holdings) Limited (Stock Code: 0365).

SENIOR MANAGEMENT

MR WANG LISHU (王利樹)

Mr WANG Lishu (王利樹), aged 52. Mr Wang joined PCKSP in June 1994 as deputy director in charge of production and now serves as its chief engineer and director responsible for technical research and development at PCKSP. Prior to his promotion to serve as PCKSP's chief engineer, Mr Wang had previously assumed various posts at PCKSP such as its engineer, vice director at its branch factory for the manufacturing of welded steel pipes and its assistant chief engineer. At PCKSP, Mr Wang has been in charge of the installation, tuning and testing of the ERW steel pipes production line, JCOE production line and UOE production line. In 1982, he graduated from西安礦業學院(Xi'an Mining Institution*), the PRC, and majored in mechanisation of coal mine, and was recognised as senior mechanical engineer by 廣東省人事廳 (Guangdong Provincial Bureau of Personnel*) in 1998. In 1996, "Pressure ERW Steel Pipe Products" in which Mr Wang participated in designing was awarded as 廣東省優秀新產品獎 (Outstanding New Product Award of Guangdong Province*). In 1997, "Research & Manufacturing of Pressure ERW Steel Pipes" in which Mr Wang participated in designing was awarded the 2nd class prize by 廣東省重化工廳 (Guangdong Provincial Bureau of Heavy Chemical Industry*) and 廣東省市科技局 (Guangzhou Municipal Bureau of Science and Technology*). Mr Wang was appointed as member of 全國標準化技術委員會委員 (National Standardization Technology Committee*) in 2003. In 2004, Mr Wang was granted the qualification by the People's Government of Panyu District to enjoy special governmental subsidy. In 2006, he was accepted as member of 中國金屬學會軋鋼分會第五屆焊接鋼管學術委員會 (the 5th Academy Committee of Welded Steel Pipes under Steel Rolling Branch of China Metal Association*). In 2006, Mr Wang acted as member of the editorial board of the magazine 《鋼管》 (Steel Pipe*). In 2007, Mr Wang was granted the silver award at 第十六屆全國發明展覽會 (the 16th China Invention Exhibition*) for recognition of his welded pipes production technique patent in 2006, and was elected as the winner of 科學技術獎一等獎 (The First Prize of Science and Technology Awards*) by 廣州市人民政府 (Guangzhou Municipality People's Government*). In 2007, Mr Wang was employed as deputy director of 廣東省鄉鎮企業協會 (the Committee on The Teaching of Science under the Guangdong Township Enterprises Association*) and was honoured as 番禺區科技創新帶頭人 (Technology Innovation Pioneer in Panyu District*) by 廣州市番禺區科技工作領導小組 (Guangzhou City Panyu District Technology Work Leading Committee*). In 2008, Mr Wang was appointed as a committee member of the assistant supervisor of 全國鋼標準化技術委員會鋼管分會技術委員會 (Technical Association of Steel Pipe Branch of National Technical Committee for Steel Standardization*).

MR LI JUNQIANG (李軍強)

Mr LI Junqiang (李軍強), aged 37. Mr Li joined PCKSP in July 1995 as a technician and thereafter acted as research engineer and manager of general planning. He is now the vice general manager of PCKSP in charge of procurement and logistic management. In 1995, he graduated from 北京科技大學 (University of Science and Technology Beijing*), the PRC, and majored in ferrous metallurgy, and was recognised as a mechanical engineer by 廣州市人事局 (Guangzhou Municipality Bureau of Personnel*) in 2005. In 2007, Mr Li was elected as the winner of 科學技術獎一等獎 (The First Prize of Science and Technology Awards*) by 廣州市人民政府 (Guangzhou Municipality People's Government*). Mr Li has over 13 years of experience in the ferrous metallurgy industry.

MR HU CHUNG MING (胡宗明)

Mr HU Chung Ming (胡宗明), aged 37, is a fellow member of The Hong Kong Institute of Certified Public Accountants and a certified practicing accountant of the Australian Society of Certified Public Accountants. Mr Hu graduated from the University of Queensland in Australia with a bachelor's degree in commerce. Mr Hu is the Group chief financial officer and company secretary. He is responsible for overseeing all the finance, company secretarial and investors relations matters of the Group. Prior to joining the Group in September 2009, Mr Hu had over seven years of experience in accounting and finance.

Profile of Directors and Senior Management

MS LIU YONGHE (劉咏荷)

Ms LIU Yonghe (劉咏荷), aged 41, joined PCKSP in June 1994 and had worked as accounting staff and financial manager. Ms Liu has built up profound experience in financial management, accounting and auditing during her employment with PCKSP for over ten years. Ms Liu is now the vice general manager and a director of PCKSP, responsible for cash flow and working capital control. She completed her professional accounting education at Lanzhou University of Finance and Economics, the PRC, in 1990 with a bachelor's degree in Economics and obtained the professional qualification as assistant accountant in 1991. Ms Liu has over 19 years of experience in the accounting and finance industry. She was awarded as the "March 8th Flag Bearer" in 1999 and 2002, respectively, and the post she held was awarded as the *Women's Exemplary Post* by the Guangzhou Women's Union in March 2005. In October 2009, Ms Liu obtained a master's degree in the Executive Master of Business Administration (EMBA) programme at the Asia International Open University (Macau).

MR XU QILIN (徐啟林)

Mr XU Qilin (徐啟林), aged 52, joined PCKSP in January 2001 and had worked as mechanical engineer and vice production manager. Prior to joining PCKSP, Mr Xu worked at 荊州機床廠 (Jingzhou Machine Tool Factory*) for about 18 years during which he took up several posts, including vice department head of the craftsmanship department, department head of the technical department and branch factory director. With his experience in machinery construction, Mr Xu received awards for his performance. With PCKSP, Mr Xu has participated in the refinement project of the UOE production line, and also led the construction project of PCKSP in connection with the JCOE production line in Zhangjiagang, Jiangsu Province, the PRC in 2006 and 2007 as well as the construction project of the JCOE production line in Jiangyin, Jiangsu Province, the PRC in 2008 and 2009. Mr Xu is now the vice general manager of PCKSP, responsible for production management. He completed his bachelor's degree in machinery manufacturing at Wuhan Polytechnic University, the PRC, in 1982 and became a senior engineer in March 1995. Mr Xu has over 26 years of experience in machinery manufacturing. He was awarded as Excellent Non-local Worker in Panyu, Guangzhou in October 2006.

MR WANG ZHIMING (王志明)

Mr WANG Zhiming (王志明), aged 47, joined PCKSP in 1997 and had worked as quality engineer, quality manager and quality controller. Mr Wang has participated in the construction project of the JCOE (Panyu) production line and UOE production line of PCKSP, and is primarily responsible for the manufacturing, installation and testing of quality control device for the production lines in PCKSP. In 2003, Mr Wang was appointed as an assistant to the general manager of the PCKSP and has gained experience for the sales and marketing of PCKSP's products in the PRC. Mr Wang is now the vice general manager of PCKSP, responsible for quality control and domestic sales. He completed his professional non-destructive testing education at Kunming University, the PRC, in 1987 and obtained a Grade III qualification in aerospace non-destructive ultrasonic testing in 1989. Mr Wang was elected as the winner of 科學技術獎一等獎 (The First Prize of Science and Technology Awards*) by 廣州市人民政府 (Guangzhou Municipality People's Government*) in 2007, and was awarded 科技進步獎三等獎 (The Third Prize of Technology Advancement Award*) by 中國石油和化學工業協會 (China Petroleum and Chemistry Industry Society*) in 2009. Mr Wang has over 20 years of experience in non-destructive testing and quality control.

COMPANY SECRETARY

MR HU CHUNG MING (胡宗明)

Mr Hu is the company secretary of the Company. Mr Hu is working for the Company on a full time basis. Details of his biography are set out above in this section.

REPORT OF THE DIRECTORS

The directors hereby present their report and the audited financial statements of the Group for the year ended 31 December 2009.

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands on 9 January 2008 as an exempted company with limited liabilities under the Cayman Islands Companies Law.

Pursuant to the Reorganisation, the Company became the holding company of the subsidiaries now comprising the Group on 23 January 2010.

The Shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 February 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the manufacture and sale of welded steel pipes and the provision of related manufacturing services. There were no significant changes in the nature of the Group's principal activities during the year.

Details of the company's principal subsidiaries as at 31 December 2009 are set out in note 2 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 42 to 97.

The Directors do not recommend the payment of a final dividend and propose that the profit for the year be retained.

Report of the Directors

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the last four financial years, as extracted from the audited financial statements, is set out on page 98. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Group during the year are set out in the combined statement of changes in equity.

At 31 December 2009, the Company's reserves available for distribution to the shareholders in accordance with the Articles of Association were RMB580 million.

The reserves of the Group available for distribution depend on the dividend distributable by the Company's subsidiaries. For dividend propose, the amount which the Company's subsidiaries in the PRC can legally distribute by way of a dividend is determined by reference to their distributable profits as reflected in the PRC statutory financial statements which are prepared in accordance with accounting principles generally accepted in the PRC. These distributable profits differ from those that are reflected in the Group's financial statements prepared in accordance with the IFRSs.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling RMB87,000.

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Company's shares.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2009, sales to the Group's five largest customers accounted for 54.1% of the total revenue of the Group, and sales to the largest customer included therein amounted to 35.6%. Purchases from the Group's five largest suppliers accounted for 56.6% of the total purchases for the year.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The directors during the year and up to the date of this annual report are as follows:

Executive directors:
Mr. Chen Chang
Ms. Chen Zhao Nian
Ms. Chen Zhao Hua

Independent non-executive directors*:
Mr. Chen Ping
Mr. Liang Guo Yao
Mr. See Tak Wah

* *Independent non-executive directors were appointed on 23 January 2010.*

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from Messrs. Chen Ping, Liang Guo Yao and See Tak Wah, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out in the section headed "profile of Directors and Senior Management" on pages 19 to 22 of this annual report.

In accordance with article 105(A) of the Articles, Messrs. Chen Chang and Chen Zhao Nian will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of our executive directors has entered into a service contract with the Company for an initial term of three years which commenced on 1 February 2010. Each of our independent non-executive directors has entered into a letter of appointment with the Company for an initial term of two years commencing from 1 February 2010 and is subject to termination by either party giving not less than three months' written notice.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The remuneration of the directors is determined with reference to directors' duties, responsibilities and performance and the results of the Group.

Details of the remuneration of the directors are set out in note 10 to financial statements.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

The shares of the Company were listed on 10 February 2010 on the Main Board of the Stock Exchange. As at 31 December 2009, being the balance sheet date of the year under review and prior to the Listing, none of the Directors or chief executives had any interest and short positions in the shares, underlying shares and debentures of the Company or the associated corporations (within the meaning of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (c) were required, to be notified to the Company and the Stock Exchange pursuant to the Model Code ("Model Code") for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance, to which the Company, or any of its holding companies, subsidiaries and fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2009.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors or any of their respective associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

SHARE OPTION SCHEME

On 23 January 2010, pursuant to resolutions in writing passed by the then sole Shareholder, the Company adopted its share option scheme ("Scheme"). The details of the Scheme are disclosed below pursuant to the requirements under Chapter 17 of the Listing Rules:

1. Purpose of the Scheme: The purpose of Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

2. Participants of the Scheme include:

    (a) any employee (whether full time or part time, including any executive Director but excluding any non-executive Director) of the Company or any of its subsidiaries or any equity entity ("Invested Entity") in which any members of the Group holds an equity interest;

    (b) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

    (c) any supplier of goods or services to any member of the Group or any Invested Entity;

    (d) any customer of the Group or any Invested Entity;

    (e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

    (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

    (g) any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and

    (h) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the Group.

3. Total number of Shares available for issue under the Scheme: The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and other share option scheme of the Group (if any) must not in aggregate exceed 10% of the Shares in issue on the day on which trading of the Shares commence on the Main Board (i.e. not exceeding 100,000,000 Shares). Up to the date of this annual report, no options have been granted under the Scheme and thus the total number of Shares available for issue under the Scheme remained 100,000,000 Shares, representing about 9.89% of the issued share capital of the Company as at the date of the annual report.

4. Maximum entitlement of each participant under the Scheme: For any 12-month period, shall not exceed 1% of the issued share capital of the Company for the time being.

5. Period within which the securities must be taken up under an option: An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

6. The minimum period for which an option must be held before it can be exercised: Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no such minimum period.

7. The amount payable on application or acceptance of the option: A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

8. Basis for determining the exercise price: Such price will be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a Share.

9. The remaining life of the Scheme: The Scheme will remain in force for a period of 10 years commencing on 23 January 2010, being the date on which the Scheme was adopted.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INTEREST AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2009, being the balance sheet date of the year reported on and prior to the Listing, no persons or corporations (not being a director or a chief executive of the Company) have an interest or a short position in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year ended 31 December 2009, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report section set out in pages 33 to 39.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands.

COMPLIANCE WITH THE MODEL CODE

During the year ended 31 December 2009 when the shares of the Company have not yet been listed on the Stock Exchange, the Company has not yet adopted the Model Code (as defined below). The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules on 23 January 2010. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code since the Listing of the Company on 10 February 2010 to the date of this annual report.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2009, the Group had transactions with Guangzhou Fulingda Elevator Co., Ltd. ("GZFLD") and Guangzhou City Pearl River Machine Tool Works Co., Ltd. ("GZMT") respectively for purchasing spare parts from GZFLD and GZMT. Given GZFLD and GZMT are both ultimately, wholly and beneficially owned by Mr. Chen Chang, an executive Director, both GZFLD and GZMT are associates of Mr. Chen and are connected persons of the Company, and the above transactions constituted non-exempt continuing connected transactions. Such transactions were governed by the master purchase agreement with GZFLD and the master purchase agreement with GZMT. Spare parts are purchase from GZFLD and GZMT at prices and on terms to be determined from time to time by the Group respectively with GZFLD and GZMT, which in any event shall be no less favourable than the prevailing market prices of the spare parts and on such other customary terms of sale and purchase applicable from time to time which include, among others, procedures to place purchase orders, quality of the spare parts required, mode of delivery and inspection of products and payment terms, provided that such terms are on normal and usual commercial terms and are no less favourable than those applicable to the purchase of the same type and quality of the spare parts for comparable quantity by the Group from independent third parties. The term of both the GZFLD Master Agreement and the GZMT Master Agreement commenced on 23 January 2010 and will expire on 31 December 2012, unless terminated earlier.

The independent non-executive Directors have reviewed the above continuing connected transactions and confirm that the transactions have been entered into:

1. in the ordinary and usual course of business of the Group;

2. on normal commercial terms; and

3. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Details of the related party transactions carried out by the Group in the ordinary course of business are set out in note 31 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained the prescribed public float under the Listing Rules as at the latest practicable date prior to the issue of this report.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 34 to the financial statements.

AUDITORS

The Company has appointed Ernst & Young as auditors of the Company for the year ended 31 December 2009. A resolution will be proposed for approval by shareholders at the forthcoming annual general meeting to re-appoint Ernst & Young as auditors of the Company.

ON BEHALF OF THE BOARD

Chen Chang
Chairman
Hong Kong
20 April 2010

CORPORATE GOVERNANCE REPORT

The board of directors (“the Board”) is committed to maintaining a good standard of corporate governance practices and business ethics in the firm belief that they are essential for maintaining and promoting investors’ confidence and maximizing shareholders’ returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders and comply with the increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance.

The Company has adopted the Code Provisions in the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) as its own code of corporate governance. The Board considers that since the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) on 10 February 2010 (“Listing Date”) and up to the date of this annual report, in the opinion of the Board, saved as disclosed below, the Company has complied with the CG Code.

CG CODE PROVISION A.2.1

The Company is aware of the requirement under paragraph A.2.1 of the CG Code that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not have any officer with the title of “chief executive officer”. Mr. Chen Chang, the Chairman and founder of the Group, is also responsible for the leadership and effective running of the Board, ensuring that all material issues are decided by the Board in a conducive manner. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive Directors and senior management, who are in charge of different functions complement the role of the chairman and chief executive officer. The Board is of the view that this structure provides the Group with strong and consistent leadership, facilitates effective and efficient planning and implementation of business decisions and strategies, and ensures the generation of shareholders’ benefits.

The Board shall nevertheless review the structure from time to time to ensure appropriate move is being taken should suitable circumstance arise.

Corporate Governance Report

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions, internal control, risk management systems and monitoring the performance of the senior management. The management is responsible for the daily operations of the Group under the leadership of the Chairman. The Directors have the responsibility to act objectively in the interests of the Company.

The Board currently comprises three executive Directors and three independent non-executive Directors from different business and professional fields. The profiles of each Director are set out in the "Directors and Senior Management" section in this annual report. The Directors, including the independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions.

The Company has received annual confirmation from each of the independent non-executive Directors of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

The Board has delegated various responsibilities to the Board committees including the Audit Committee and the Remuneration Committee. Further details of these Committees are set out below on pages 36 to 37.

Since the Board Committees were not yet established during the year under review, the members of these Board Committees did not hold any meeting during the year under review.

BOARD MEETINGS

After listed on the Stock Exchange, the Company has adopted the practice of holding Board meetings regularly for at least four times a year at approximately quarterly intervals. Ad-hoc meetings will also be convened if necessary to discuss the overall strategy as well as financial performance of the Group. Notice of Board meeting is sent to all Directors at least 14 days prior to a regular Board meeting. Reasonable notice will be given to the Directors for ad-hoc Board meetings. Directors may participate either in person or through electronic means of communication.

Agenda and Board papers together with all appropriate, complete and reliable information will be provided to all the Directors before meetings. All the Directors will be provided with sufficient resources to discharge their duties, and, upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expenses. All Directors will have the opportunity to include matters in the agenda for Board meetings. The company secretary of the Company is responsible to keep the minutes of Board meetings and meetings of Board committees. All minutes are open for inspection by any Director at reasonable time on reasonable notice.

Since the Listing Date and up to the date of this annual report, one Board meeting was held, at which the Directors approved the annual results of the Group for the year ended 31 December 2009 and reviewed the results announcement and annual report.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

The Board is responsible for selection and approval of candidates for appointment as directors to the Board. The Company has not established a Nomination Committee for the time being.

Each of the executive Directors has entered into a service contract with the Company for a period of three years commencing from 1 February 2010. All of their appointments are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Each of the independent non-executive Directors has been appointed for an initial term of two years commencing from 1 February 2010, and are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

All Directors shall be subject to retirement by rotation at least once every three years.

BOARD COMMITTEES

AUDIT COMMITTEE

The Company established the Audit Committee on 23 January 2010 in compliance with Rules 3.21 and Appendix 14 to the Listing Rules. The Audit Committee consists of three Independent Non-Executive Directors, namely Mr. Chen Ping, Mr. Liang Guo Yao and Mr. See Tak Wah. Mr. See Tak Wah is the Chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and the internal control procedures of our Group. The Audit Committee has reviewed the Company's financial statements and the Group's combined financial statements for the year ended 31 December 2009, including the accounting principles and practices adopted by the Company and Group.

Since the Listing Date and up to the date of this annual report, one meeting was held by the Audit Committee. At the meeting, it reviewed the annual results of the Group for year ended 31 December 2009 with the independent auditors and also the activities of the Group's internal control functions. It also reviewed the Company's progress in implementing the corporate governance requirements as set out in the CG Code.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 23 January 2010 in compliance with Appendix 14 to the Listing Rules. The Remuneration Committee consists of three members, namely Mr. Chen Ping, Mr. Liang Guo Yao and Mr. Chen Chang. Mr. Liang Guo Yao is the Chairman of the Remuneration Committee. The primary functions of the Remuneration Committee are to make recommendations to the Board on the remuneration of our Directors and senior management and determine on behalf of the Board specific remuneration packages and conditions of employment for our Directors and senior management.

Since the Listing Date and up to the date of this annual report, one meeting was held to review the remuneration packages paid to Directors for the financial year.

The attendance of individual members of the Board and other Board Committees meetings since the Listing Date and up to the date of this annual report is set out in the table below:

	Meeting attended/held		
	Board	Audit Committee	Remuneration Committee
Executive Directors			
Chen Chang	1/1	–	1/1
Chen Zhao Nian	1/1	–	–
Chen Zhao Hua	0/1	–	–
Independent Non-Executive Directors			
Chen Ping	1/1	1/1	1/1
Liang Guo Yao	1/1	1/1	1/1
See Tak Wah	1/1	1/1	–

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has since 23 January 2010 adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code since the Listing of the Company on 10 February 2010.

FINANCIAL REPORTING AND INTERNAL CONTROL

FINANCIAL REPORTING

The Board, supported by the chief financial officer and the finance department of the Group, is responsible for the preparation of the financial statements of the Company and the Group. In the preparation of financial statements, International Financial Reporting Standards have been adopted and the appropriate accounting policies and statutory requirements have been consistently complied with. The Board aims to present a clear and balanced assessment of the Group's performance in the annual and interim reports to the shareholders, and make appropriate disclosure and announcements in a timely manner.

INDEPENDENT AUDITORS

During the year ended 31 December 2009, the remuneration paid or payable to the independent auditors, Ernst & Young, for services rendered is broken down below:

	2009 HK$'000
Statutory audit	**1,680**
Non-audit services	**NIL**
Total	**1,680**

The Audit Committee will recommend the re-appointment of Ernst & Young for audit service, and consider the engagement of the non-audit services to ensure the independence and objectivity of audit service.

INTERNAL CONTROLS

The Board is responsible for the internal control of the Group and for reviewing its effectiveness. Procedures have been designed to safeguard the assets of the Company and ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, ensure compliance of applicable laws, rules and regulations.

After reviewing the effectiveness of the Group's internal control system, the Board considers that the internal control system is effective and adequate for the Group as a whole. The Board further considers that (i) there was no issue relating to the material controls, including financial, operational and compliance controls and risk management functions, of the Group; and (ii) that there were adequate staff with appropriate qualifications and experience, resources and budget of its accounting and financial reporting function, and adequate training programmes have been provided; for the year ended 31 December 2009.

DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for the year ended 31 December 2009 with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and suitable accounting standards.

The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; judgements and estimates made are prudent and reasonable; and the financial statements are prepared on a going concern basis.

NON-COMPETITION UNDERTAKINGS

The independent non-executive Directors have also reviewed the confirmation given by Mr. Chen Chang and Bournam Profits Limited, being controlling shareholders of the Company, in respect of each of their compliance with the Non-Competition Undertakings as disclosed and as defined in the Prospectus.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain an on-going dialogue with its shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation. The Chairman of the Board and Chairman of the Audit Committee will make themselves available at the annual general meeting to meet with the shareholders.

The forthcoming annual general meeting of the Company will be held on 18 June 2010.

The Company will continue to maintain an open and effective investor communication policy and to update investors on relevant information on the Group's business in a timely manner, subject to relevant regulatory requirement.

Independent Auditors' Report

ERNST & YOUNG
安 永

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

To the shareholders of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 42 to 97, which comprise the combined statement of financial position as at 31 December 2009, and the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

Independent Auditors' Report

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with IFRSs and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
20 April 2010

Combined Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
REVENUE	*7*	**2,825,736**	2,624,639
Cost of sales		**(2,183,831)**	(2,087,689)
Gross profit		**641,905**	536,950
Other income and gains	*7*	**35,574**	6,430
Selling and distribution costs		**(87,628)**	(57,172)
Administrative expenses		**(79,940)**	(90,033)
Other expenses		**(827)**	(4,000)
Finance costs	*8*	**(41,893)**	(65,186)
Exchange loss, net		**(1,784)**	(9,021)
PROFIT BEFORE TAX	*9*	**465,407**	317,968
Income tax expense	*12*	**(64,389)**	(42,504)
PROFIT FOR THE YEAR		**401,018**	275,464
Other comprehensive income:			
Exchange differences on translating foreign operations		**(18)**	1,925
Income tax relating to component of other comprehensive income		**–**	–
Other comprehensive income for the year, net of tax		**(18)**	1,925
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**401,000**	277,389
Profit attributable to:			
Owners of the Company		**401,018**	275,464
Total comprehensive income attributable to:			
Owners of the Company		**401,000**	277,389
EARNINGS PER SHARE ATTRIBUTABLE TO OWNER OF THE COMPANY			
Basic and diluted	*14*	**RMB0.53**	RMB0.37

Combined Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*15*	**499,891**	479,637
Deposit paid for purchases of items of property, plant and equipment		**278,814**	25,009
Prepaid land lease payments	*16*	**84,659**	86,812
Goodwill	*17*	**4,075**	4,075
Deferred tax assets	*18*	**1,320**	1,066
Pledged deposits	*22*	**11,566**	37,537
Total non-current assets		**880,325**	634,136
CURRENT ASSETS			
Inventories	*19*	**520,157**	710,694
Trade receivables	*20*	**267,158**	240,183
Prepayments, deposits and other receivables	*21*	**116,223**	168,225
Pledged deposits	*22*	**201,056**	183,772
Cash and bank balances	*22*	**349,302**	41,765
Total current assets		**1,453,896**	1,344,639
TOTAL ASSETS		**2,334,221**	1,978,775
CURRENT LIABILITIES			
Trade and bills payables	*23*	**395,570**	198,326
Interest-bearing bank loans	*24*	**292,953**	637,706
Other payables and accruals	*25*	**266,220**	385,491
Tax payable		**24,236**	26,652
Due to the ultimate shareholder	*31*	**20,540**	15,282
Total current liabilities		**999,519**	1,263,457
NET CURRENT ASSETS		**454,377**	81,182
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,334,702**	715,318
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	*24*	**377,000**	111,000
Government grants	*26*	**5,771**	3,681
Total non-current liabilities		**382,771**	114,681
Net assets		**951,931**	600,637
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*27*	**–**	–
Reserves	*28*	**951,931**	600,637
Total equity		**951,931**	600,637
TOTAL EQUITY AND LIABILITIES		**2,334,221**	1,978,775

Chen Chang
Director

Chen Zhao Nian
Director

Combined Statement of Changes in Equity

Year ended 31 December 2009

	Attributable to owners of the Company						
	Issued capital RMB'000	Contributed surplus RMB'000 *Note (a)*	Capital reserve RMB'000 *Note (b)*	Statutory reserve fund RMB'000 *Note (c)*	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 1 January 2008	–	233,372*	57,607*	6,422*	20,499*	5,348*	323,248
Total comprehensive income for the year	–	–	–	–	275,464	1,925	277,389
Profit appropriation to reserves	–	–	–	26,594	(26,594)	–	–
At 31 December 2008 and 1 January 2009	–	233,372*	57,607*	33,016*	269,369*	7,273*	600,637
Total comprehensive income for the year	–	–	–	–	401,018	(18)	401,000
Profit appropriation to reserves	–	–	–	40,691	(40,691)	–	–
Dividends	–	–	–	–	(49,706)	–	(49,706)
At 31 December 2009	**–**	**233,372***	**57,607***	**73,707***	**579,990***	**7,255***	**951,931**

* These reserve accounts comprise the combined reserves of RMB951,931,000 (2008: RMB600,637,000) in the combined statement of financial position as at 31 December 2009.

Notes:

(a) The contributed surplus of the Group represents the difference between the nominal value of shares of the subsidiaries acquired pursuant to the Group Reorganisation, and the nominal value of the Company's shares issued in exchange therefore.

(b) Capital reserve represents the excess capital paid over the registered capital of Panyu Chu Kong Steel Pipe Co., Ltd. ("PCKSP") by Lessonstart Enterprises Limited ("Lessonstart").

(c) In accordance with the Company Law of the People's Republic of China (the "PRC"), the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 25% of the registered capital after such usage.

Combined Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**465,407**	317,968
Adjustments for:			
Finance costs	*8*	**41,893**	65,186
Bank interest income	*7*	**(4,819)**	(4,546)
Gain on disposal of items of property, plant and equipment, net		**(26,267)**	–
Depreciation	*15*	**31,534**	35,259
Amortisation of prepaid land lease payments	*16*	**2,153**	2,153
Impairment of trade receivables	*20*	**2,035**	82
Reversal of impairment of deposits and other receivables	*21*	**(555)**	(586)
		511,381	415,516
Decrease/(increase) in inventories		**190,537**	(282,156)
Decrease/(increase) in trade receivables		**(29,010)**	38,996
Decrease in prepayments, deposits and other receivables		**52,557**	164,840
Increase in pledged deposits		**(109,588)**	(86,795)
Increase in trade and bills payables		**197,244**	114,881
Increase/(decrease) in other payables and accruals		**(129,397)**	150,126
Increase/(decrease) in amount due to the ultimate shareholder		**5,258**	(11,056)
Increase in government grants		**2,090**	1,513
Cash generated from operations		**691,072**	505,865
Interest received	*7*	**4,819**	4,546
Interest paid		**(42,454)**	(65,321)
Corporate income tax paid		**(61,432)**	(29,618)
Net cash flows from operating activities		**592,005**	415,472
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(392,597)**	(67,405)
Proceeds from disposal of items of property, plant and equipment		**118,326**	–
Acquisition of a subsidiary		**–**	(4,000)
Net cash flows used in investing activities		**(274,271)**	(71,405)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**1,925,447**	2,354,283
Repayment of bank loans		**(2,004,168)**	(2,683,046)
Dividends paid		**(49,706)**	–
Net cash flows used in financing activities		**(128,427)**	(328,763)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**189,307**	15,304
Exchange realignment		**(45)**	(4,859)
Cash and cash equivalents at beginning of year		**160,236**	149,791
CASH AND CASH EQUIVALENTS AT END OF YEAR		**349,498**	160,236
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*22*	**349,302**	41,765
Pledged bank deposits with original maturity of less than three months when acquired	*22*	**196**	118,471
CASH AND CASH EQUIVALENTS AT END OF YEAR		**349,498**	160,236

Notes to Financial Statements

31 December 2009

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 9 January 2008 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), pursuant to which the Company became the holding company within the Group on 23 January 2010. Further details of the Group Reorganisation (the "Reorganisation") were set out in the Company's prospectus dated 28 January 2010.

The shares of the Company were listed on the Stock Exchange on 10 February 2010.

The Reorganisation is accounted for using the merger accounting upon completion. The results of the Group have been prepared on a combined basis as if the current Group structure had been in existence throughout the year or since the respective dates of incorporation or establishment of the companies now comprising the Group, whichever is a shorter period.

The combined financial statements have been prepared in accordance with IFRSs issued by the IASB, and the disclosure requirements of the Hong Kong Companies Ordinance.

All material intra-group transactions and balances have been eliminated on combination.

2. CORPORATE INFORMATION

The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal activity of the Company is investment holding.

In the opinion of the directors, the ultimate holding company of the Company is Bournam Profits Limited ("Bournam"), which was incorporated in the British Virgin Islands.

The Group is involved in the manufacture and sale of seam welded steel pipes and the provision of related manufacturing services. There were no significant changes in the nature of the Group's principal activities during the year.

2. CORPORATE INFORMATION (continued)

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which have characteristics substantially similar to a private company incorporated in Hong Kong, the particulars of which are set out below:

Company name	Place and date of incorporation/ establishment	Nominal value of issued shares/ registered capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Lessonstart	British Virgin Islands 18 May 1993	US$300	100	–	Investment holding
Lucknow Consultants Limited ("Lucknow")	British Virgin Islands 22 November 1994	US$10	–	100	Investment holding
Crown Central Holdings Limited ("Crown Central")	Hong Kong 21 March 1995	HK$1,000	–	100	Trading of steel pipes
Chu Kong Steel Pipe Group Co., Limited ("CKSPG")	Hong Kong 13 December 2007	HK$100,000	–	100	Investment holding
PCKSP 番禺珠江鋼管有限公司	The PRC 7 June 1993	HK$800,000,000	–	100	Manufacture and sale of seam welded steel pipes
Guangzhou Pearl River Petrol-Fittings Co., Ltd. ("GPR Petrol-Fittings") 廣州珍珠河石化管件有限公司	The PRC 16 October 2006	HK$5,000,000	–	100	Manufacture and sale of petro fittings
Guangzhou Pearl River OCTG Co., Ltd. ("GPR Casing Pipe") 廣州珍珠河石油套管有限公司	The PRC 16 October 2006	HK$21,000,000	–	100	Manufacture and sale of oil country tubular goods
Guangzhou Pearl River Petroleum Steel Pipe Coating Co., Ltd. ("GPR Coating") 廣州珍珠河石油鋼管防腐有限公司	The PRC 16 October 2006	HK$10,000,000	–	100	Steel pipe casing and lining services

2. CORPORATE INFORMATION (continued)

Company name	Place and date of incorporation/ establishment	Nominal value of issued shares/ registered capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Guangzhou Pearl River Petroleum Steel Pipe Co., Ltd. ("GPR Steel Pipe") 廣州珍珠河石油鋼管有限公司	The PRC 16 October 2006	HK$50,000,000	–	100	Manufacture and sale of seam welded steel pipes
Panyu Chu Kong Steel Pipe (Lianyungang) Co., Ltd. ("PCKSP (Lianyungang)") 番禺珠江鋼管(連雲港)有限公司	The PRC 8 July 2009	RMB700,000,000	–	100	Manufacture and sale of seam welded steel pipes
Guangzhou Panyu Chu Kong Hualong Petroleum Steel Pipe Anti-Corrosion Co., Ltd. ("Hualong Anti-Corrosion") 廣州市番禺珠江華龍石油鋼管防腐有限公司	The PRC 19 October 1999	RMB2,060,000	–	100	Steel pipe casing and lining services

Except for Hualong Anti-Corrosion and PCKSP (Lianyungang) which were established as a Sino-foreign joint venture enterprise and a domestic-funded enterprise, respectively, all the above PRC companies are wholly foreign-owned companies.

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies set out in Note 4 below have been applied consistently with those used in the preparation of the accountants' report included in the Company's prospectus dated 28 January 2010 except as follows:

The Group has adopted the following new and revised IFRSs, which are effective for annual periods beginning on or after 1 January 2009, for the first time for the current year's financial statements:

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time adoption of IFRSs and* IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment In a Subsidiary, Jointly Controlled Entity or Associate*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 18 Amendment	*Amendment to Revenue – Determining whether an entity is acting as a principal or as an agent*
IAS 23 (Revised)	*Borrowing Costs*
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation and* IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives and* IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC 18	*Transfers of Assets from Customers*
Improvements to IFRSs (May 2008)	*Amendments to a number of IFRSs*

Regarding Improvements to IFRSs (May 2008), the Group adopted all the amendments except the amendments to IFRS 5, which will be effective for annual periods beginning on or after 1 July 2009.

The adoption of the new and revised IFRSs had no significant effect on the financial statements of the Group.

3.2. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the financial statements:

IFRS 1 (Revised)	*First-time Adoption of IFRSs* [1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs – Additional Exemptions for First-time Adopters* [2]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* [4]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2]
IFRS 3 (Revised)	*Business Combinations* [1]
IFRS 9	*Financial Instruments* [6]
IAS 24 (Revised)	*Related Party Disclosures* [5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
IFRIC 14 Amendments	Amendments to IFRSIC 14 *Prepayments of a Minimum Funding Requirement* [5]
IFRIC 17	*Distributions of Non-cash Assets to Owners* [1]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to IFRS 5 included in Improvements to IFRSs (May 2008)	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* [1]

Apart from the above, the IASB has issued Improvements to IFRSs in April 2009 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. Improvements to IFRSs issued in April 2009 contains amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, Appendix to IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16. Except for the amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 which are effective for annual periods beginning on or after 1 July 2009 and no transitional provisions for the amendment to Appendix to IAS 18 has been specified, other amendments are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

3.2. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of IFRSs, the amendments will not have any financial impact on the Group.

The IFRS 1 Amendments provide relief from the full retrospective application of IFRSs for the measurement of oil and gas assets and leases. As a result of extending the options for determining deemed cost to oil and gas assets, the existing exemption relating to decommissioning liabilities has also been revised. As the Group is not a first-time adopter of IFRSs, the amendments will not have any financial impact on the Group.

The IFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments to IFRS 2 also incorporate guidance that was previously included in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*.

The revised IFRS 3 introduces a number of changes in accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

The revised IAS 27 requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*. The changes introduced by the revised IFRS 3 and revised IAS 27 are to be applied prospectively and will affect the accounting of future acquisitions and transactions with minority interests.

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments*: *Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety by the end of 2010. The Group expects to adopt IFRS 9 from 1 January 2011. As the Group has not entered into any hedge transactions, the amendment is unlikely to have any financial impact on the Group.

3.2. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The revised IAS 24 clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The revision is unlikely to have any financial impact on the Group.

The IAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group expects to adopt the IAS 32 Amendment from 1 January 2011. As the Group currently has no such rights, options or warrants in issue, the amendment is unlikely to have any financial impact on the Group.

The IAS 39 amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group expects to adopt the IAS 39 Amendment from 1 January 2010. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

The IFRIC 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. As the Group has no defined benefit scheme, the amendments will not have any financial impact on the Group.

IFRIC 17 standardises practice in the accounting for all non-reciprocal distributions of non-cash assets to owners. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to IAS 10 *Events after the Reporting Period* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

3.2. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRIC 19 addresses the accounting by an entity when the terms of financial liability are renegotiated and resulted in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not undertaken such transactions, the interpretation is unlikely to have any material financial impact on the Group.

The Group is in the process of making an assessment of the impact of these new, revised and amended IFRSs and IFRICs upon initial application. So far, it is considered that while the adoption of IFRS 3 (Revised), IAS 27 (Revised) and IFRS 9 may result in significant changes in accounting policies, the other new and revised IFRSs and IFRICs are unlikely to have any significant impact on the Group's results of operations and financial position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SUBSIDIARIES

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statement of comprehensive income to extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

GOODWILL

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the statement of financial position as an asset, initially measured at cost and subsequently at cost less any impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GOODWILL (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

RELATED PARTIES

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the combined statement of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives and residual values used for this purpose are as follows:

	Estimated useful lives	Residual values
Land and buildings	40 years	10%
Plant and machinery	12~16 years	10%
Office and other equipment	3~15 years	10%
Motor vehicles	10 years	10%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the combined statement of comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress representing buildings, plant and machinery under construction is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

OPERATING LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the combined statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments represent the cost of land use rights paid to the PRC government authorities. Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

INVESTMENTS AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and held-to-maturity investments or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, quoted and unquoted financial instruments, and derivative financial instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the combined statement of comprehensive income. The loss arising from impairment is recognised in the combined statement of comprehensive income in other operating expenses.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in the combined statement of comprehensive income. The loss arising from impairment is recognised in the combined statement of comprehensive income in finance costs.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS (continued)

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the combined statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the combined statement of comprehensive income.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

DERECOGNITION OF FINANCIAL ASSETS

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

– the rights to receive cash flows from the asset have expired;

– the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

– the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DERECOGNITION OF FINANCIAL ASSETS (continued)

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, financial guarantee contracts, derivative financial instruments and interest-bearing loans.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the combined statement of comprehensive income. The net fair value gain or loss recognised in the combined statement of comprehensive income does not include any interest charged on these financial liabilities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL LIABILITIES (continued)

Loans and borrowings

After initial recognition, interest-bearing loans are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the combined statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the combined statement of comprehensive income.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the combined statement of comprehensive income.

INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials	Purchase cost on the weighted average basis
Finished goods and work in progress	Cost of direct materials and labour and an appropriate proportion of overheads

Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CASH AND CASH EQUIVALENTS

For the purpose of the combined statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the combined statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

EMPLOYEE BENEFITS

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the combined statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal government. These subsidiaries are required to contribute certain percentages of their payroll costs to the central pension schemes. The contributions are charged to the combined statement of comprehensive income as they become payable in accordance with the rules of the central pension schemes.

Other benefits

The Group contributes on a monthly basis to defined contribution housing, medical and other benefit plans organised by the PRC government. The PRC government undertakes to assume the benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for benefits for their qualified employees under these plans.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of manufacturing services, when the services have been rendered; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the combined statement of comprehensive income by way of a reduced depreciation charge.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

DIVIDENDS

Dividends are simultaneously proposed and declared. Consequently, dividends are recognised immediately as a liability when they are proposed and declared.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROVISIONS

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the combined statement of comprehensive income.

INCOME TAX

Income tax comprises current and deferred income tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred income tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

(a) where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of taxable temporary differences associated with investments in subsidiaries and an interest in a joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAX (continued)

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

(a) where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of deductible temporary differences associated with investments in subsidiaries and an interest in a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

FOREIGN CURRENCIES

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the end of the reporting period. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the combined statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FOREIGN CURRENCIES (continued)

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their statements of comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the combined statement of comprehensive income.

For the purpose of the combined statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

JUDGEMENTS

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in these financial statements:

Income tax provisions

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are made accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in the tax legislations and practices.

ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

ESTIMATION UNCERTAINTY (continued)

Impairment of non-financial assets other than goodwill

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable (i.e., more likely than not) that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgements regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amounts of the deferred tax assets and related financial models and budgets are reviewed at the end of each reporting period and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow the utilisation of the carryforward of tax losses, and that the asset balance will be reduced and charged to the combined statement of comprehensive income.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

ESTIMATION UNCERTAINTY (continued)

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of inventories. The assessment of the write-down required involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of inventories and the write-down charge/write-back in the period in which such estimate has been changed.

6. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services, and has one reportable operating segment: the manufacture and sale of seam welded steel pipes and the provision of related manufacturing services. Management monitors the operating results of the Group's business unit as a whole for the purpose of making decisions about resources allocation and performance assessment.

INFORMATION ABOUT PRODUCTS

The revenue of the major products is analysed as follows:

	2009 **RMB'000**	2008 RMB'000
Manufacture and sale of steel pipes:		
LSAW steel pipes	**2,001,961**	2,213,126
ERW steel pipes	**669,719**	201,180
Steel pipe manufacturing services:		
LSAW steel pipes	**64,618**	162,773
ERW steel pipes	**8,999**	3,738
Others*	**80,439**	43,822
	2,825,736	2,624,639

* Others mainly included the manufacture and sale of steel fittings, trading of steel pipes and sale of scrap materials. Manufacturing service of bended pipes which has been recorded as others for the period ended 31 August 2009 was reclassified to steel pipe manufacturing services.

6. OPERATING SEGMENT INFORMATION (continued)

INFORMATION ABOUT GEOGRAPHICAL AREAS

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers.

The following table presents the revenue information for the Group's geographical segments:

	2009	2008
	RMB'000	RMB'000
Sales to external customers:		
Mainland China	**1,059,621**	1,252,643
Middle East	**720,255**	325,639
Other Asian countries	**683,917**	290,856
America	**164,626**	613,451
European Union	**104,286**	61,742
Others	**93,031**	80,308
	2,825,736	2,624,639

Over 90% of the Group's assets and capital expenditure are located in Mainland China.

INFORMATION ABOUT MAJOR CUSTOMERS

For the year ended 31 December 2009, revenue from two customers of the Group amounting to RMB545,349,000 (2008: RMB366,366,000) and RMB384,571,000 (2008: RMB344,742,000) had individually accounted for over 10% of the Group's total revenue.

7. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of value-added tax ("VAT") and other sales taxes, after allowances for returns and discounts; and the value of services rendered, net of business taxes and surcharges during the year.

An analysis of the Group's revenue, other income and gains is as follows:

	2009 RMB'000	2008 RMB'000
Revenue		
Manufacture and sale of seam welded steel pipes and the provision of related manufacturing services	**2,825,736**	2,624,639
Other income and gains		
Bank interest income	**4,819**	4,546
Gain on disposal of items of property, plant and equipment	**26,459**	–
Subsidy income from the PRC government	**3,542**	1,415
Compensation	**114**	458
Others	**640**	11
	35,574	6,430

The subsidy income represented subsidies granted by the local finance bureau to PCKSP as encouragement for its technological innovation and improvements. There are no unfulfilled conditions or contingencies relating to such subsidies.

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2009 RMB'000	2008 RMB'000
Interest on bank loans	**41,893**	65,186

Notes to Financial Statements

31 December 2009

9. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2009 RMB'000	2008 RMB'000
Cost of inventories sold		**2,020,044**	1,931,112
Depreciation	*15*	**31,534**	35,259
Amortisation of prepaid land lease payments	*16*	**2,153**	2,153
Minimum lease payments under operating leases in respect of buildings		**787**	9,535
Auditors' remuneration		**2,212**	4,725
Exchange loss, net		**1,784**	9,021
Finance costs	*8*	**41,893**	65,186
Employee benefit expenses (including directors' remuneration (Note 10)):			
Wages and salaries		**65,778**	66,956
Retirement benefit scheme contributions		**4,894**	5,594
Impairment of trade receivables	*20*	**2,035**	82
Reversal of impairment of deposits and other receivables	*21*	**(555)**	(586)
Bank interest income	*7*	**(4,819)**	(4,546)
Gain on disposal of items of property, plant and equipment, net		**(26,267)**	–
Research and development costs		**4,160**	2,505

10. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

	2009 RMB'000	2008 RMB'000
Fees	**–**	–
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**1,580**	1,224
Retirement benefit scheme contributions	**45**	32
	1,625	1,256

(a) INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Ping, Mr. Liang Guo Yao and Mr. See Tak Wah were appointed as the independent non-executive directors of the Company on 23 January 2010. There were no fees or other emoluments payable to independent non-executive directors during the year.

(b) EXECUTIVE DIRECTORS

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement benefit scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2009				
Executive directors:				
Mr. Chen Chang	**–**	**610**	**11**	**621**
Ms. Chen Zhao Nian	**–**	**485**	**17**	**502**
Ms. Chen Zhao Hua	**–**	**485**	**17**	**502**
	–	**1,580**	**45**	**1,625**
Year ended 31 December 2008				
Executive directors:				
Mr. Chen Chang	–	456	6	462
Ms. Chen Zhao Nian	–	384	13	397
Ms. Chen Zhao Hua	–	384	13	397
	–	1,224	32	1,256

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year are analysed as follows:

	2009 RMB'000	2008 RMB'000
Directors	3	3
Non-director, highest paid employees	2	2
	5	5

Details of the remuneration of the above non-director, highest paid employees during the year are as follows:

	2009 RMB'000	2008 RMB'000
Salaries, allowances and benefits in kind	2,245	1,887
Retirement benefit scheme contributions	60	30
	2,305	1,917

The number of these non-director, highest paid employees whose remuneration fell within the following band is as follows:

	2009 RMB'000	2008 RMB'000
Nil to RMB1,000,000	2	2

During the year, no remuneration was paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived or agreed to waive any emoluments during the year.

12. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Company, which was incorporated in the Cayman Islands, is not subject to income tax.

Lessonstart and Lucknow, which were incorporated in the British Virgin Islands, are not subject to income tax.

Crown Central and CKSPG, which were incorporated in Hong Kong, are subject to profits tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year.

12. INCOME TAX (continued)

The PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") which was concluded on 16 March 2007 during the 5th Session of the 10th National People's Congress, was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Foreign investment enterprises of a production nature which have not fully utilised their five-year tax holiday will be allowed to continue to receive the benefits of tax exemption during the five-year transitional period. The State Council of the PRC passed the implementation guidance (the "Implementation Guidance") on 6 December 2007, which sets out the details of how the existing preferential income tax rate will be adjusted to the standard rate of 25%. The PRC subsidiaries of the Group are subject to the rate of 25% from 1 January 2008 onwards. According to the Implementation Guidance, the PRC subsidiaries of the Group, which are eligible for a 100% or 50% relief from enterprise income tax of the PRC, will continue to enjoy the preferential income tax rate up to the end of the transition period, after which, the 25% standard rate applies.

Further to the New Corporate Income Tax Law, from 1 January 2008 onwards, non-resident enterprises without establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC will be subject to withholding tax at the rate of 20% on various types of passive income such as dividends derived from sources in the PRC. However, the Implementation Guidance of the New Corporate Income Tax Law reduces the withholding rate to 10%. Nevertheless, the Double Tax Arrangement between Mainland China and Hong Kong further reduces the withholding tax rate on dividend to 5%.

PCKSP, as an advanced and new technology enterprise eligible for key support from the State qualified on 16 December 2008, is entitled to a reduced rate of 15% from 1 January 2008 to 31 December 2010. If it cannot be verified to be an "advanced and new technology enterprise eligible for key support from the State", it will be subject to the rate of 25% from 1 January 2011 onwards.

GPR Petrol-Fittings, GPR Casing Pipe, GPR Coating, and GPR Steel Pipe, which were established in 2006, are exempted from corporate income tax for two years commencing from the year 2008, and are entitled to a 50% tax exemption for the next three years in accordance with the relevant income tax laws and regulations of the PRC for manufacturing enterprises. Upon the implementation of the New Corporate Income Tax Law on 1 January 2008, the above companies continued to enjoy the preferential income tax rate up to the end of the transitional period, after which, the 25% standard rate applies.

PCKSP (Lianyungang), which was established in 2009, is subject to income tax at a rate of 25%.

Hualong Anti-Corrosion, as a Sino-foreign joint venture enterprise of a production nature established in a coastal economic open zone, is subject to the income tax rate of 25% upon the implementation of the New Corporate Income Tax Law on 1 January 2008.

Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

12. INCOME TAX (continued)

The major components of the income tax expense for the year are as follows:

	2009 **RMB'000**	2008 RMB'000
Group:		
Current – Mainland China charged for the year	**64,643**	41,714
Deferred *(Note 18)*	**(254)**	790
Total tax charge for the year	**64,389**	42,504

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rates to the tax expense at the Group's effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	Year ended 31 December 2009					
	Mainland China		**Hong Kong and others**		**Total**	
	RMB'000	**%**	**RMB'000**	**%**	**RMB'000**	**%**
Profit/(loss) before tax	**471,994**		**(6,587)**		**465,407**	
Tax at the statutory tax rate	**117,998**	**25.0**	**(1,087)**	**16.5**	**116,911**	**25.1**
Tax effect of:						
Tax holiday for PRC subsidiaries	**(15,490)**	**(3.3)**	**–**	**–**	**(15,490)**	**(3.3)**
Lower tax rate for a high-tech enterprise	**(38,680)**	**(8.2)**	**–**	**–**	**(38,680)**	**(8.3)**
Expenses not deductible for tax*	**561**	**0.1**	**–**	**–**	**561**	**0.1**
Tax loss not recognised	**–**	**–**	**1,087**	**(16.5)**	**1,087**	**0.2**
Income tax expense reported in the combined statement of comprehensive income at the Group's effective tax rate	**64,389**	**13.6**	**–**	**–**	**64,389**	**13.8**

12. INCOME TAX (continued)

	Year ended 31 December 2008					
	Mainland China		Hong Kong and others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	304,895		13,073		317,968	
Tax at the statutory tax rate	76,224	25.0	2,157	16.5	78,381	24.7
Tax effect of:						
Tax holiday for PRC subsidiaries	(20,869)	(6.8)	–	–	(20,869)	(6.6)
Lower tax rate for a high-tech enterprise	(19,942)	(6.5)	–	–	(19,942)	(6.3)
Effect on opening deferred tax of decrease in rates	681	0.2	–	–	681	0.2
Income not subject to tax	–	–	(707)	(5.4)	(707)	(0.2)
Expenses not deductible for tax*	6,410	2.1	1,793	13.7	8,203	2.6
Effect of utilisation of tax losses not recognised in prior years	–	–	(3,243)	(24.8)	(3,243)	(1.0)
Income tax expense reported in the combined statement of comprehensive income at the Group's effective tax rate	42,504	14.0	–	–	42,504	13.4

* Expenses not deductible for tax mainly comprised entertainment and commission expenses which exceeded the deduction limit set by the PRC tax authorities.

13. DIVIDENDS

No dividend has been paid or declared by the Company since the date of its incorporation.

The dividends paid by the Company's subsidiary to its then shareholders during the year were as follows:

	2009	2008
	RMB'000	RMB'000
Dividends	**49,706**	–

14. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share for the year ended 31 December 2009 is based on the profit attributable to owners of the Company of approximately RMB401,018,000 (2008: RMB275,464,000), and on the assumption that 750,000,000 shares have been in issue throughout the year, comprising 1,000,000 shares as at 31 December 2009, 99,000,000 shares to be issued due to the Reorganisation and 650,000,000 shares to be issued pursuant to the Capitalisation Issue.

No adjustment has been made to the basic earnings per share presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Company had no potentially dilutive ordinary shares in issue during those years.

For the purpose of preparation of these financial statements, the balance of the issued capital shown in the combined statement of financial position as at 31 December 2009 and 2008, respectively, represents the share capital of the Company immediately before the issue of 250,000,000 New Issue Shares in relation to the initial public offering of the Company's on the Stock Exchange and before the issue of 749,000,000 shares pursuant to the Capitalisation Issue and the Reorganisation.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2009						
At 31 December 2008 and 1 January 2009:						
Cost	110,122	575,517	13,471	16,668	12,601	728,379
Accumulated depreciation and impairment	(21,884)	(209,284)	(7,985)	(9,589)	–	(248,742)
Net carrying amount	88,238	366,233	5,486	7,079	12,601	479,637
At 1 January 2009, net of accumulated depreciation and impairment	88,238	366,233	5,486	7,079	12,601	479,637
Additions	–	7,542	856	3,492	131,962	143,852
Disposals	–	(88,313)	(168)	(2,237)	(1,341)	(92,059)
Depreciation provided during the year	(2,317)	(27,527)	(1,023)	(667)	–	(31,534)
Transfers	–	5,473	70	–	(5,543)	–
Exchange realignment	(3)	–	–	(2)	–	(5)
At 31 December 2009, net of accumulated depreciation and impairment	85,918	263,408	5,221	7,665	137,679	499,891
At 31 December 2009:						
Cost	110,116	490,632	14,172	17,218	137,679	769,817
Accumulated depreciation and impairment	(24,198)	(227,224)	(8,951)	(9,553)	–	(269,926)
Net carrying amount	85,918	263,408	5,221	7,665	137,679	499,891

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Land and buildings RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2008						
At 31 December 2007 and 1 January 2008:						
Cost	95,338	548,868	12,406	11,928	3,006	671,546
Accumulated depreciation and impairment	(19,982)	(177,252)	(7,502)	(8,747)	–	(213,483)
Net carrying amount	75,356	371,616	4,904	3,181	3,006	458,063
At 1 January 2008, net of accumulated depreciation and impairment	75,356	371,616	4,904	3,181	3,006	458,063
Additions	13,802	9,089	1,079	4,740	28,389	57,099
Depreciation provided during the year	(1,902)	(32,032)	(483)	(842)	–	(35,259)
Transfers	1,234	17,560	–	–	(18,794)	–
Exchange realignment	(252)	–	(14)	–	–	(266)
At 31 December 2008, net of accumulated depreciation and impairment	88,238	366,233	5,486	7,079	12,601	479,637
At 31 December 2008:						
Cost	110,122	575,517	13,471	16,668	12,601	728,379
Accumulated depreciation and impairment	(21,884)	(209,284)	(7,985)	(9,589)	–	(248,742)
Net carrying amount	88,238	366,233	5,486	7,079	12,601	479,637

The Group's land and buildings are held under medium term leases and are situated in Mainland China and Hong Kong.

Included in the total costs of plant and machinery are certain assets acquired in prior years for which government grants of RMB5,950,000 (2008: RMB5,950,000) were received and deducted from their costs in arriving at their carrying amounts. The original costs of those assets before the deduction of the grants amounted to RMB117,183,000 (2008: RMB117,183,000) as at 31 December 2009.

Details of the Group's property, plant and machinery pledged to secure the Group's bank loans are set out in Note 24.

Certificates of ownership in respect of certain buildings of the Group located in Guangzhou with a net carrying amount of approximately RMB20,189,000 (2008: RMB21,061,000) as at 31 December 2009, have not yet been issued by the relevant PRC authorities. As at the date of this report, the directors are still in the process of obtaining these certificates.

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2009	2008
	RMB'000	RMB'000
Carrying amount at 1 January	**88,965**	91,118
Amortisation provided during the year	**(2,153)**	(2,153)
Carrying amount at 31 December	**86,812**	88,965
Current portion included in prepayments, deposits and other receivables	**(2,153)**	(2,153)
Non-current portion	**84,659**	86,812

The Group's leasehold land is held under a medium term lease and is situated in Mainland China.

Details of the Group's leasehold land pledged to secure the Group's bank loans are set out in Note 24.

17. GOODWILL

	Group	
	2009	2008
	RMB'000	RMB'000
At beginning and end of the year	**4,075**	4,075

IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through a business combination has been primarily allocated to the cash-generating unit (the "CGU") of the anti-corrosion business of Hualong Anti-Corrosion for impairment testing.

The recoverable amount of the CGU is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections was 18.6% as at 31 December 2009. Cash flows beyond the five-year period were extrapolated using the estimated growth rate of 6% as at 31 December 2009. The growth rate does not exceed the projected long-term average growth rate for the anti-corrosion business of Hualong Anti-Corrosion in Mainland China.

Key assumptions were used in the value in use calculation of the CGU as at 31 December 2009. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – Management has determined the budgeted gross margins based on past performance and its expectations for market development.

17. GOODWILL (continued)

IMPAIRMENT TESTING OF GOODWILL (continued)

Discount rate – The discount rate used is before tax and reflect specific risks relating to the CGU.

Purchase price inflation – Management has considered the possibility of increases in purchase price inflation at rates ranging from 6% to 8%.

No impairment loss provision for the carrying value of goodwill has been considered necessary by management as at 31 December 2009.

18. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and their movements:

Group

	2009	2008
	RMB'000	RMB'000
At beginning of the year	**1,066**	1,856
Credited/(charged) to the combined statement of comprehensive income for the year *(Note 12)*	**254**	(790)
At end of the year	**1,320**	1,066

	Group	
	2009	2008
	RMB'000	RMB'000
Net deferred tax assets recognised in the combined statement of financial position	**1,320**	1,066

As at 31 December 2009, the Group had tax losses arising in Hong Kong of RMB21,702,000 (2008: RMB18,809,000), which is available indefinitely for offsetting against future taxable profits of the company in which the losses arose. Deferred tax assets have not been recognised in respect of these losses and impairment as they have arisen in Crown Central that has been loss-making for some time and it is not considered probable that taxable profits will be available for which the tax losses can be utilised.

As at 31 December 2009, there was an unrecognised deferred tax liability of RMB32 million (2008: RMB13 million) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries. A deferred tax liability has not been recognised in respect of these unremitted earnings as the directors have no intention to remit those earnings arising since 1 January 2008 in the foreseeable future.

19. INVENTORIES

	Group	
	2009	2008
	RMB'000	RMB'000
Raw materials	**166,604**	196,711
Work in progress	**49,820**	67,510
Finished goods	**303,733**	446,473
	520,157	710,694

20. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 60 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Within 60 days	**159,643**	158,981
61 to 90 days	**8,676**	24,220
91 to 180 days	**43,582**	34,575
181 to 365 days	**25,337**	24,102
1 to 2 years	**34,663**	1,503
2 to 3 years	**3,113**	2,623
	275,014	246,004
Less: Impairment of trade receivables	**(7,856)**	(5,821)
	267,158	240,183

The carrying amounts of the trade receivables approximate to their fair values.

20. TRADE RECEIVABLES (continued)

Movements in the provision for impairment of trade receivables are as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
At beginning of the year	**5,821**	5,739
Impairment losses recognised	**2,035**	413
Impairment losses reversed	**–**	(331)
At end of the year	**7,856**	5,821

The above provision for impairment of trade receivables are full provisions for individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in default or delinquency in interest or principal payments. The Group does not hold any collateral or other credit enhancements over these balances.

The analysis of trade receivables that were past due but not impaired is as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Neither past due nor impaired	**218,387**	190,690
Past due but not impaired		
1 to 180 days	**44,479**	34,115
181 to 365 days	**2,359**	15,378
Over 365 days	**1,933**	–
	267,158	240,183

The Group's neither past due nor impaired trade receivables mainly represent sales made to recognised and creditworthy customers for whom there was no recent history of default. These customers who trade on credit terms are subject to credit verification procedures.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2009	2008
	RMB'000	RMB'000
Prepayments	**96,158**	130,025
Deposits and other receivables	**17,763**	11,643
Tax recoverable	**692**	25,502
Current portion of land lease payments	**2,153**	2,153
	116,766	169,323
Less: Impairment of deposits and other receivables	**(543)**	(1,098)
	116,223	168,225

Movements in the provision for impairment of deposits and other receivables are as follows:

Group

	2009	2008
	RMB'000	RMB'000
At beginning of the year	**1,098**	1,684
Impairment losses reversed	**(555)**	(586)
At end of the year	**543**	1,098

As at 31 December 2009, the net balance of deposits and other receivables was neither past due nor impaired. Financial assets included in the above balance relate to receivables for which there was no recent history of default.

22. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

		Group	
		2009	2008
	Notes	**RMB'000**	RMB'000
Cash and bank balances		**349,302**	41,765
Pledged bank deposits	*(a)*	**212,622**	221,309
		561,924	263,074
Less:			
Pledged deposits with original maturity of over three months when acquired		**(212,426)**	(102,838)
Cash and cash equivalents	*(b)*	**349,498**	160,236

22. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS (continued)

Notes:

(a) The Group's pledged bank deposits were used as security for issuing bank acceptance notes to suppliers and letters of guarantee to customers.

(b) As at 31 December 2009, the Group's cash and cash equivalents denominated in RMB amounted to RMB319,068,000 (2008: RMB154,890,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The carrying amount of the cash and cash equivalents approximates to its fair value. The bank balances and time deposits are deposited with creditworthy banks in Mainland China with no recent history of default.

23. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Within 90 days	**57,286**	36,762
91 to 180 days	**3,410**	4,978
181 to 365 days	**3,306**	8,994
1 to 2 years	**9,385**	8,183
2 to 3 years	**1,686**	1,821
	75,073	60,738
Bills payable	**320,497**	137,588
	395,570	198,326

The trade payables are non-interest-bearing and are normally settled on 60-day terms. The carrying amounts of the trade payables and bills payable approximate to their fair values.

All the bills payable bear maturity dates within 180 days.

24. INTEREST-BEARING BANK LOANS

	Effective interest rate %	Maturity	Group 2009 RMB'000	Group 2008 RMB'000
Current				
Bank loans				
– secured	3.855~10.670	2010	**292,953**	637,706
Non-current				
Bank loans				
– secured	5.670~5.933	2011~2014	**377,000**	111,000
			669,953	748,706

	Group 2009 RMB'000	Group 2008 RMB'000
Analysed into bank loans repayable:		
Within one year or on demand	**292,953**	637,706
In the second year	**–**	21,000
In the third to fifth years, inclusive	**377,000**	90,000
	669,953	748,706

The Group's bank loans are secured by:

(a) a charge over certain property, plant and equipment of the Group with a net carrying amount of approximately RMB65,601,000 (2008:RMB39,363,000) as at the end of the reporting period; and

(b) a charge over certain leasehold lands of the Group with a net carrying amount of approximately RMB83,713,000 (2008: RMB88,965,000) as at the end of the reporting period.

In addition, certain interest-bearing bank loans of the Group of RMB126,050,000 (2008: RMB400,100,000) were guaranteed by related parties as at the end of the reporting period (Note 31(c)).

24. INTEREST-BEARING BANK LOANS (continued)

The Group has the following undrawn banking facilities:

	Group	
	2009	2008
	RMB'000	RMB'000
Floating rate		
– expiring within one year	**1,406,270**	756,650

Except for the secured bank loans of RMB4,432,000 as at 31 December 2009, which are denominated in Hong Kong dollars, the remaining bank loans are denominated in RMB.

The carrying amounts of the Group's interest-bearing bank loans approximate to their fair values.

25. OTHER PAYABLES AND ACCRUALS

	Group	
	2009	2008
	RMB'000	RMB'000
Deposits received and receipts in advance	**215,228**	332,732
Other payables*	**12,338**	12,813
Payroll payables	**8,707**	6,146
Accruals and other liabilities	**19,547**	25,480
Other tax payables	**10,400**	8,320
	266,220	385,491

* Other payables are non-interest-bearing and have an average term of two to three months.

26. GOVERNMENT GRANTS

As at 31 December 2009, government grants represented funds received in advance from the local finance bureau as encouragement to PCKSP for its technological innovation and improvements for which related expenditure has not yet been undertaken.

27. ISSUED CAPITAL

		Number of shares	Nominal value HK$	Nominal value RMB
Authorised (ordinary shares of HK$0.1 each)	*(b)*	10,000,000,000	1,000,000,000	880,000,000
Issued and fully paid (ordinary shares of HK$0.1 each)				
Issue of shares upon incorporation	*(a)*	1,000,000	100,000	88,000
Increase in issued share capital	*(c)*	99,000,000	9,900,000	8,712,000
Capitalisation Issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of the new shares to the public	*(d)*	650,000,000	65,000,000	57,200,000
Pro forma share capital as at 31 December 2009		750,000,000	75,000,000	66,000,000

Movements in the share capital of the Company are as follows:

(a) The Company was incorporated on 9 January 2008 with an authorised share capital of HK$100,000 divided into 1,000,000 shares of HK$0.10 each. On 9 January 2008, one share was allotted and issued, at nil paid, to Codan Trust Company (Cayman) Limited, which was transferred to Bournam Profits Limited ("Bournam") on the same date. 999,999 additional shares were allotted and issued, at nil paid, to Bournam on the same date;

(b) At the time of incorporation, the Company had an authorised share capital of HK$100,000 divided into 1,000,000 shares of HK$0.10 each. By a written resolution of the sole shareholder passed on 23 January 2010, the authorised share capital of the Company was increased from HK$100,000 to HK$1,000,000,000 by the creation of additional 9,999,000,000 shares of HK$0.10 each;

(c) The Company acquired from Bournam the entire issued share capital of Lessonstart pursuant to a share purchase agreement dated 23 January 2010, in consideration of and in exchange for (i) the allotment and issue, credited as fully paid, of 99,000,000 new shares to Bournam; and (ii) the crediting as fully paid at par the 1,000,000 nil-paid shares then held by Bournam, thereby becoming the ultimate holding company of the Group;

27. ISSUED CAPITAL (continued)

(d) Conditional on the share premium account being credited as a result of new shares issued to the public in connection with the Company's initial public offering as detailed in (e) below, the directors were authorised to capitalise HK$65,000,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 650,000,000 shares for allotment and issue to shareholder(s) whose name(s) appeared on the register of members of the Company at the close of business on 23 January 2010 to its/their then existing shareholdings in the Company and so that the shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the then existing issued shares;

(e) In connection with the Company's initial public offering, 250,000,000 shares of HK$0.1 each were issued at a price of HK$4.5 per share for a total cash consideration, before listing expenses, of HK$1,125,000,000. Dealings of these shares on the Stock Exchange commenced on 10 February 2010; and

(f) Pursuant to the Global Offering and Over-allotment Option approved on 23 January 2010, the Company granted an option to the international underwriters, exercisable by J.P. Morgan Securities Ltd. ("J.P. Morgan") in consultation with the joint bookrunners on behalf of the international underwriters at the sole and absolute discretion of J.P. Morgan, whereby the Company was required to allot and issue up to 45,000,000 additional shares to cover any over-allocation in the global offering. The exercise price per share for the Over-allotment Option is HK$4.5. On 4 March 2010, the Over-allotment Option was partially exercised and, as a result, the Company issued 11,142,000 additional shares. Dealings of these shares on the Stock Exchange commenced on 9 March 2010.

28. RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the combined statement of changes in equity of the Group.

29. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its factory and office premises under operating lease arrangements. Leases for properties are negotiated for terms of one to three years with an option for renewal after that date, at which times all terms will be renegotiated.

As at 31 December 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Within one year	**73**	4,547
In the second to fifth years, inclusive	**11**	3,347
	84	7,894

30. COMMITMENTS

In addition to the operating lease commitments detailed in Note 29 above, the Group had the following capital commitments:

	Group	
	2009	2008
	RMB'000	RMB'000
Contracted, but not provided for:		
Plant and machinery	**261,476**	72,643
Capital contributions payable to subsidiaries	**–**	33,075
	261,476	105,718

31. RELATED PARTY TRANSACTIONS

During the year, the directors are of the view that the following companies are related parties which entered into material transactions with the Group:

Name of party	Relationship
Guangzhou Fulingda Elevator Co., Ltd. ("GZFLD") 廣州富菱達電梯有限公司	GZFLD is a party of which Mr. Chen Chang is the ultimate shareholder.
Guangzhou City Pearl River Machine Tool Works Co., Ltd. ("GZMT") 廣州市珠江機床廠有限公司	GZMT is a party of which Mr. Chen Chang is the ultimate shareholder.
Guangzhou City Panyu Pearl River Import & Export Trading Co., Ltd. ("Pearl River Import & Export") 廣州市番禺珠江貿易進出口有限公司	Pearl River Import & Export is a party of which Mr. Chen Chang is the ultimate shareholder.

31. RELATED PARTY TRANSACTIONS (continued)

In addition to the related party information disclosed elsewhere in the financial statements, the Group entered into the following material related party transactions during the year:

(a) RECURRING TRANSACTIONS

Name of party	Nature of transaction	2009 RMB'000	2008 RMB'000
GZFLD	Purchases of spare parts	**3,471**	4,875
GZMT	Purchases of spare parts	**11,886**	10,180

These purchases were made at prices based on agreements entered into between the parties. The above related party transactions have continued after the listing of the Company's shares on the Stock Exchange.

(b) NON-RECURRING TRANSACTIONS

Name of party	Nature of transaction	2009 RMB'000	2008 RMB'000
GZFLD	Sale of steel pipes	**–**	84
Pearl River Import & Export	Sale of steel pipes	**76**	–

These sales were made at prices based on agreements entered into between the parties. The above related party transactions have not continued after the listing of the Company's shares on the Stock Exchange.

(c) GUARANTEES PROVIDED BY RELATED PARTIES OF THE GROUP

The Group's related parties and the ultimate shareholder have provided guarantees in connection with bank loans obtained by the Group as follows:

	Group 2009 RMB'000	 2008 RMB'000
GZFLD	**30,000**	59,300
GZMT	**–**	113,700
GZFLD and Mr. Chen Chang	**13,800**	105,700
Mr. Chen Chang	**82,250**	121,400
	126,050	400,100

31. RELATED PARTY TRANSACTIONS (continued)

(d) GUARANTEES GIVEN IN CONNECTION WITH BANK LOANS TO RELATED PARTIES

	Group	
	2009	2008
	RMB'000	RMB'000
Bournam	**–**	52,920
	–	52,920

On 21 April 2008, Bournam as borrower drew a term loan (the "Bournam Loan") with Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)") in the aggregate sum of HK$60,000,000 primarily for the purpose of the Reorganisation and/or the listing of the Company's shares on the Stock Exchange. Certain securities were given by certain members of the Group in favour of ICBC (Asia). The Bournam Loan was repaid on 13 May 2009.

The Group had outstanding payables to the ultimate shareholder as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Amount due to Mr. Chen Chang	**20,540**	15,282

The amount due to the ultimate shareholder was non-trade in nature, unsecured, interest-free and was repaid in February 2010. The carrying amount of the balance approximated to its fair value.

Compensation of key management personnel of the Group:

	2009	2008
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**3,637**	3,783
Retirement benefit scheme contributions	**110**	85
Total compensation paid to key management personnel	**3,747**	3,868

Further details of directors' emoluments are included in Note 10.

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

As at 31 December 2009

Financial assets

	Loans and receivables RMB'000
Trade receivables *(Note 20)*	**267,158**
Financial assets included in prepayments, deposits and other receivables *(Note 21)*	**17,763**
Pledged deposits *(Note 22)*	**212,622**
Cash and bank balances *(Note 22)*	**349,302**
	846,845

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables *(Note 23)*	**395,570**
Financial liabilities included in other payables and accruals *(Note 25)*	**12,338**
Interest-bearing bank loans *(Note 24)*	**669,953**
Due to the ultimate shareholder *(Note 31)*	**20,540**
	1,098,401

32. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows (continued):

As at 31 December 2008

Financial assets

	Loans and receivables RMB'000
Trade receivables *(Note 20)*	240,183
Financial assets included in prepayments, deposits and other receivables *(Note 21)*	11,643
Pledged deposits *(Note 22)*	221,309
Cash and bank balances *(Note 22)*	41,765
	514,900

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables *(Note 23)*	198,326
Financial liabilities included in other payables and accruals *(Note 25)*	12,813
Interest-bearing bank loans *(Note 24)*	748,706
Due to the ultimate shareholder *(Note 31)*	15,282
	975,127

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are business risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces prudent strategies on its risk management. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

(a) BUSINESS RISK

The Group conducts its operations in Mainland China, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, the influence of national authorities over pricing and the financing regulations.

(b) INTEREST RATE RISK

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans with a floating interest rate.

The Group regularly reviews and monitors the mix of fixed and floating interest rate borrowings in order to manage its interest rate risk. Interest-bearing loans, cash and short term deposits are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to the statement of comprehensive income as earned/incurred.

Management does not anticipate any significant impact resulting from the changes in interest rates because most of the Group's loans as at the end of each reporting period were at fixed interest rates which have no significant impact on cash flow interest rate risk.

If there would be a general increase/decrease in the interest rate of bank loans with floating interest rates by one percentage point, with all other variables held constant, the combined operating results would have been decreased/increased by approximately RMB6.3 million for the year ended 31 December 2009 (2008: RMB6.2 million), and there is no impact on other components of the combined equity, except for retained profits, of the Group. The estimated one percentage point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next year end date. The sensitivity analysis was performed on the same basis.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) FOREIGN CURRENCY RISK

The Group has transactional currency exposures. Such exposures arise from sales by operating units in currencies other than the units' functional currency. Approximately 65 % (2008: 52%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale.

The following table demonstrates the sensitivity as at the end of the reporting period to a reasonably possible change in the United States ("US") dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

Effect on profit before tax

		2009	2008
		RMB'000	RMB'000
Increase in the US dollar rate	+3%	**52,104**	42,654
Decrease in the US dollar rate	-3%	**(52,104)**	(42,654)

(d) CREDIT RISK

The Group has no concentration of credit risk. The Group's cash and cash equivalents are mainly deposits with state-owned banks in Mainland China.

The carrying amounts of trade and other receivables and cash and cash equivalents included in the combined statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. There are no significant concentrations of credit risk within the Group as the Group's trade receivables are widely dispersed among different customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in Note 20.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) LIQUIDITY RISK

The Group's objective is to ensure continuity of sufficient funding and flexibility by utilising a variety of bank loans with debt maturities spreading over a range of periods, thereby ensuring that the Group's outstanding borrowing obligation is not exposed to excessive repayment risk in any one year. Due to the capital intensive nature of the Group's businesses, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure. With regard to its future capital commitments and other financing requirements, the Group has already obtained banking facilities with several PRC banks of up to an amount of RMB2,394 million as at 31 December 2009, of which an amount of approximately RMB988 million has been utilised.

The directors have carried out a detailed review of the cash flow forecast of the Group for the next two years from the end of the reporting period. Based on this forecast, the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. In preparing the cash flow forecast, the directors have considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned loan financing which may impact the operations of the Group prior to the end of the next two years after the end of the reporting period.

The directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	31 December 2009			
	On demand	Less than 1 year	Over 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	–	395,570	–	395,570
Other payables	–	12,338	–	12,338
Interest-bearing bank loans	–	292,953	377,000	669,953
Due to the ultimate shareholder	20,540	–	–	20,540
	20,540	700,861	377,000	1,098,401

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) LIQUIDITY RISK (continued)

	31 December 2008			
	On demand	Less than 1 year	Over 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	–	198,326	–	198,326
Other payables	–	12,813	–	12,813
Interest-bearing bank loans	–	637,706	111,000	748,706
Due to the ultimate shareholder	15,282	–	–	15,282
Financial guarantees granted to related parties	–	52,920	–	52,920
	15,282	901,765	111,000	1,028,047

(f) CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group monitors capital using a gearing ratio, which is total debts, which are defined to include payables incurred not in the ordinary course of business, divided by total assets. Total debt includes interest-bearing bank loans, an amount due to the ultimate shareholder and government grants. The gearing ratios as at the ends of the reporting periods are as follows:

	2009	2008
	RMB'000	RMB'000
Interest-bearing bank loans	**669,953**	748,706
Due to the ultimate shareholder *(Note 31)*	**20,540**	15,282
Government grants	**5,771**	3,681
Total debts	**696,264**	767,669
Total assets	**2,335,576**	1,978,775
Gearing ratio	**29.8%**	38.8%

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(g) FAIR VALUE

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The carrying amounts of the Group's long term borrowings approximate to their fair values based on prevailing borrowing rates available for loans with similar terms and maturities at the end of the reporting period.

The carrying amounts of all other financial instruments approximate to their fair values due to the short term to maturity.

34. EVENTS AFTER THE REPORTING PERIOD

In addition to the subsequent events detailed elsewhere in these financial statements, the Group had the following significant events after the reporting period:

(a) On 23 January 2010, the companies now comprising the Group completed the Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange. For more details, please refer to Note 27.

(b) Pursuant to the board resolution dated 26 February 2010, the registered capital of PCKSP was increased to HK$800,000,000. The increased registered capital was approved by 廣州市對外貿易經濟合作局, and subsequently paid up.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2010.

FOUR-YEAR FINANCIAL SUMMARY

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last four financial years prepared on the basis set out in the note below is as follows:

RESULTS

	Year ended 31 December			
	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**2,825,736**	2,624,639	1,458,028	1,099,741
Cost of sales	**(2,183,831)**	(2,087,689)	(1,191,977)	(919,865)
Gross profit	**641,905**	536,950	266,051	179,876
Other income and gains	**35,574**	6,430	3,253	2,496
Selling and distribution costs	**(87,628)**	(57,172)	(63,106)	(47,408)
Administrative expenses	**(79,940)**	(90,033)	(48,616)	(36,976)
Other expenses	**(827)**	(4,000)	(2,876)	(1,635)
Finance costs	**(41,893)**	(65,186)	(45,439)	(43,185)
Exchange loss, net	**(1,784)**	(9,021)	(10,692)	(1,544)
Share of profit of a jointly controlled entity	**–**	–	–	2,475
Profit before tax	**465,407**	317,968	98,575	54,099
Tax	**(64,389)**	(42,504)	(28,224)	(16,102)
Profit for the year	**401,018**	275,464	70,351	37,997
Other comprehensive income for the year	**(18)**	1,925	2,897	1,424
Total comprehensive income for the year	**401,000**	277,389	73,248	39,421
Earnings per share (RMB) – basic	**0.53**	0.37	0.09	0.05

ASSETS AND LIABILITIES

	31 December			
	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**880,325**	634,136	574,744	473,206
Current assets	**1,453,896**	1,344,639	1,199,030	692,415
Current liabilities	**(999,519)**	(1,263,457)	(1,422,358)	(605,695)
Non-current liabilities	**(382,771)**	(114,681)	(28,168)	(313,431)
Total Equity	**951,931**	600,637	323,248	246,495

The financial information for each of the four years ended 31 December 2009 have been prepared upon the Reorganisation as if the group structure, at the time when the Shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The results for each of the three years ended 31 December 2008, and the assets and liabilities as at 31 December 2006, 2007 and 2008 have been extracted from the Prospectus.