OVERVIEW

We were the largest steel pipe manufacturer in the PRC in terms of production volume of LSAW steel pipes in each of the three years ended 31 December 2009 as confirmed by CSPA and we are a forerunner in terms of the manufacture of LSAW steel pipes in the PRC as, according to CSPA and TGRC, our JCOE production line located in Panyu, Guangdong Province, the PRC was the first LSAW steel pipes production line in the PRC and our UOE production line was also the first LSAW steel pipes production line using UOE production method in the PRC. Moreover, we are also capable of producing LSAW steel pipes with the largest outside diameter in the PRC as confirmed by CSPA. According to TGRC, we are one of the four LSAW steel pipes manufacturers recognised 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. Since our Group's establishment in 1993, we have been focusing on the production of high quality longitudinal welded steel pipes and have gained sound market reputation manifested by the accreditations awarded to us in relation to the quality and market acceptance of our steel pipe products marketed under the brand name "PCK" throughout the years. Our steel pipe products are highly regarded by domestic and international customers with particular reputation on distinguished quality and services.

Our business model

We operate our business under a project-originated model through which the sales of our steel pipe products depend largely on the locations of our customers, and/or their end customers, as well as the locations of global pipeline construction projects, and our Group derived a high proportion of our revenue from our major customers in the PRC and a number of customers in over 50 overseas countries and regions during the Track Record Period, which customers base varies from year to year. Our varying customer base results in differing requirements or specifications for our steel pipe products designated by our customers and therefore the application of different processing know-how and technique in the production of the steel pipe products, which are customised for the relevant customer's projects. In addition, we supply our customised steel pipe products to our customers in such amount pursuant to the sales orders or contracts placed by our customers, which amount, as our Directors believe, will in general align with the pre-determined amount required by the relevant customer for its projects. After the signing of the sales contracts with our customers or successfully obtained a tender and within the validity period of the relevant raw material quotations, we will enter into a back-to-back purchase agreement with our suppliers to purchase the quantity of raw materials required in the corresponding sales contracts. As such, this made-to-order operational pattern could minimise our exposure to the risk of inventory accumulation. For details of our Group's sales and marketing activities and our customers, please refer to the paragraphs headed "Sales and marketing" and "Customers" below in this section.

Moreover, our steel pipe products are also used for infrastructural purposes, such as water, irrigation and sanitation pipes, steel tubular piles or towers, hollow structural sections for buildings, bridges and stadiums, and structural and mechanical pipes in marine engineering projects. We have entered into a framework agreement dated 14 April 2009 in relation to the provision of approximately 100,000 tonnes of longitudinal pipes for The Huainan – Shanghai 1000KV transmission and transformation project under the project of "Eastward Power Transmission from Anhui" with a total contract sum of approximately RMB500 million. This project is a long-distance power grid construction project in the PRC and also China's first 1000KV grade double-circuit extra high voltage transmission project.

As our steel pipe products, especially LSAW steel pipes, are mainly used in pipeline and infrastructure projects worldwide, our Directors believe that any quality failure in the steel pipes used in such projects might potentially bring disastrous consequences to the safety and well being of the public at large and hence the tolerance level for quality failure of steel pipes to be used in infrastructure project is extremely low. Therefore, the manufacturing of our steel pipes that are suitable for use in global pipeline and infrastructure projects requires advance production technology and stringent quality control in order to meet the stringent international quality standard. Given the above, our Directors believe that the consideration of our product quality, track record and market reputation prevail over that of the price of our steel pipe products when our customers or potential customers are to place orders for our steel pipe products and thus price sensitivity of our LSAW steel pipes are relatively low.

Taking into consideration our "made-to-order" business model, i.e., we produce steel pipe products that are customised to meet our customers' specifications, and the high quality of our steel pipe products, our Directors consider that the various anti-dumping measures imposed by the United States and the EU in recent years did not cause any significant adverse impact to the demand for our steel pipe products and our operations as a whole.

Our products and operations

Our principal line of business is the manufacture and sale of longitudinal welded steel pipes. At the same time, in order to satisfy customers with specific requirements on raw materials for their products, we also provide steel pipe manufacturing services whereby such customers provide us with principal raw materials, namely, steel coils and steel plates, for our further processing of the same into steel pipes. Moreover, we provide ancillary products and services such as coating and fittings to our customers.

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, or as casing pipes for oil wells. Domestically, a significant portion of our LSAW steel pipes and ERW steel pipes is sold to customers in the oil and gas industries in the PRC and CNPC, CNOOC and Sinopec are our major domestic customers. For each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, our sales to CNPC (as a group) amounted to approximately RMB51.2 million, RMB195.8 million, RMB580.2 million and RMB475.0 million, respectively, and contributed to approximately 4.7%, 13.4%, 22.1% and 23.5%, respectively, of our total revenue; our sales to CNOOC (as a group) amounted to approximately RMB156.9 million, RMB176.3 million, RMB46.8 million and RMB78.4 million, respectively, and contributed to approximately 14.3%, 12.1%, 1.8% and 3.9%, respectively, of our total revenue; and our sales to Sinopec (as a group) amounted to approximately RMB88.3 million, RMB104.3 million, RMB220.6 million and RMB96.1 million, respectively, and contributed to approximately 8.0%, 7.2%, 8.4% and 4.8%, respectively, of our total revenue. 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, with the Middle East being a market of growing significance. We have built up a broad and geographically diversified customer base with more than 690 customers as at 31 August 2009, which comprise oil fields operators, oil companies, gas companies, petrochemical companies, trading firms and engineering firms worldwide.

As a result of the overall increasing trend of the oil and natural gas prices in the past few years, the industry experienced massive investments in exploration and drilling activities during the recent years. Moreover, the increasing demand for and consumption of natural gas worldwide boost the transportation infrastructure. Higher usage of natural gas requires better and more economical transportation medium thus stimulate the construction of more pipelines. The growth in the global demand for crude oil in recent years has led to a corresponding increase in capital expenditure on crude oil exploration, refining and transmission. In China, capital expenditure on oil and gas exploration and production has also risen steadily in recent years and capital expenditure of China's three main oil and gas conglomerates (CNPC, CNOOC and Sinopec) increased from approximately RMB85.7 billion in 2003 to approximately RMB252.1 billion in 2008, representing a CAGR of approximately 24.1%.

Our steel pipe products can be broadly categorised into LSAW steel pipes and ERW steel pipes. As at the Latest Practicable Date, we had three production lines for LSAW steel pipes and one production line for ERW steel pipes with an aggregate annual production capacity of 1,150,000 tonnes of longitudinal welded steel pipes. Our principal production base is located in Panyu, Guangdong Province, the PRC, where our major production facilities, including two production lines for LSAW steel pipes, one production line for ERW steel pipes and various ancillary production facilities, such as coatings and fittings, are housed. We also established one LSAW steel pipes production line in Jiangyin, Jiangsu Province, the PRC to meet the growing demand for such product in the PRC and other countries and regions in the Middle East, Europe, America, and Southeast and Central Asia.

The following table shows the breakdown of our revenue by business lines during the Track Record Period:

	Year ended 31 December						Eight months ended 31 August	
	2006		2007		2008		2009	
	RMB'000	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000*	*% of revenue*
Manufacture and sale of steel pipes								
LSAW steel pipes	800,234	72.8	1,190,292	81.6	2,213,126	84.3	1,270,428	62.9
ERW steel pipes	211,947	19.3	174,290	12.0	201,180	7.7	633,111	31.3
Steel pipe manufacturing services								
LSAW steel pipes	40,054	3.6	44,134	3.0	162,773	6.2	29,721	1.5
ERW steel pipes	20,633	1.9	4,992	0.4	3,738	0.1	2,568	0.1
Others *(Note)*	26,873	2.4	44,320	3.0	43,822	1.7	85,475	4.2
	1,099,741	100.0	1,458,028	100.0	2,624,639	100.0	2,021,303	100.0

Note: Others mainly include manufacturing and sale of steel fittings, trading of steel pipes and sale of scrap materials.

We use JCOE or UOE production methods in the production of LSAW steel pipes. Among the three LSAW steel pipes production lines operated by our Group as at the Latest Practicable Date, two adopt the JCOE production method with an aggregate annual production capacity of 600,000 tonnes and one adopts the UOE production method with an annual production capacity of 400,000 tonnes. The ERW steel pipes production line has an annual production capacity of 150,000 tonnes.

The revenue generated from our manufacturing and sale and manufacturing services of LSAW steel pipes accounted for approximately 76.4%, 84.6%, 90.5% and 64.4% of our total revenue (i.e. represents a majority portion of our total revenue) for each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, respectively.

During the Track Record Period, the revenue generated from the manufacture and sale of ERW steel pipes accounted for approximately 19.3%, 12.0%, 7.7% and 31.3%, respectively, of our total revenue. When compared to LSAW steel pipes, technical requirements for the production of ERW steel pipes are relatively lower and the product specifications of ERW steel pipes are, in general, more standardised. The market competition of ERW steel pipe products is thus very keen and the gross profit margin for such products is usually lower than that of LSAW steel pipe products. However, during the eight months ended 31 August 2009, the sales volume of our ERW steel pipes increased by approximately 351.5% and the average selling price increased by approximately 78.3% as compared to those for the eight months ended 31 August 2008, which is mainly attributable to our success in our bid to secure big orders for an aggregate of over 44,000 tonnes of ERW steel pipes from a major customer in the Sultanate of Oman, which our Group has two years' trade relationship with, in July 2008 with a higher average selling price as a result of the customer's special technical requirement for anti-corrosive ERW steel pipes. The revenue generated from the manufacture and sale of such ERW steel pipes to the major customer in the Sultanate of Oman was approximately RMB550.5 million for the eight months ended 31 August 2009 and all the ERW steel pipes in relation to such sales order were delivered during the eight months ended 31 August 2009. Following the completion of this sales order and up to the Latest Practicable Date, our Group did not secure any recurring sales order from that major customer in the Sultanate of Oman and there had been no further sales orders placed by that major customer in the

Sultanate of Oman or other customers for similar ERW steel pipes. Due to our project-originated business model, our Directors are not in the position to comment on whether our Group will be able to obtain recurring or further sales orders for similar kind of ERW steel pipes from this major customer in the Sultanate of Oman in the future. If our Group cannot obtain the sales for similar kind of ERW steel pipes from such customer or other customers, our revenue from the manufacture and sale of ERW steel pipes may decrease significantly in the coming years and the profitability of our Group in the future may be adversely affected.

Despite these relatively lucrative orders 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, such as high pressure and deep water gas and oil transmission projects, due to their weld strength and quality. As such, we were more focused on the development of our LSAW steel pipe products during the Track Record Period and will continue to do so in the near future with a view to improving our overall gross profit margin while we will still consider to take up profitable sales orders for ERW steel pipes when we have spare production capacity and resources to accommodate those sales orders.

There were significant changes in our Group's product mix, sales mix and geographical revenue segment during the Track Record Period, which changes were to a large extent due to the different place of originations and product specifications of the sales contracts or orders which we secured worldwide and which are project based with no significant correlation with the historical trend of our sales. As such, our Directors believe that the significant changes in our results (and product mix, sales mix and geographical revenue segment) are rather erratic and should not be taken as a general characteristic of the industry in which we operate.

OUR COMPETITIVE STRENGTHS

We attribute our success to several principal competitive strengths which will enable us to maintain our preeminent position in the market and bolster our future prospects. These competitive strengths include:

We have a long-standing track record and well-established reputation in the industry

Our brand "PCK" was established in 1993. In 1996, our steel pipe products were awarded as 廣東省優秀新產品 (Guangdong Province Outstanding New Product*). In 2005 and 2006, our Group was awarded two 冶金產品實物質量金杯獎 (Gold Cup Prizes for Actual Quality of Metallurgical Products*) and 中國名牌產品 (China Top Brand Product*). PCKSP was recognised by Shell Global Solutions International B.V. as one of the registered compliants with the Shell Global Solutions' Design and Engineering Practices in 2009 and specified Shell Global Solution's piping specifications in 2008 and 2009. Furthermore, we have obtained certifications from DNV and the ISO 9001:2000 certifications until 2010. Given the above, our brand "PCK" is well-recognised as high quality steel pipes and we have established reputation in the steel pipe industry. We have also received accreditation from various entities since our establishment, details of which are set out under the paragraph headed "Awards and recognitions" in this section.

We have a solid, broad and geographically diversified customer base

We have an established worldwide sales network. Our steel pipe products are sold to customers in over 50 countries and regions, such as the PRC, the US, the Middle East, European Union, America and Southeast and Central Asia, with Middle East being a market of growing significance. Notwithstanding that the sales to our five largest customers in aggregate accounted for approximately 48.1%, 37.1%, 48.0% and 57.1% of our total revenue for each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, respectively, we have built up a solid, broad and geographically diversified customer base with more than 690 customers as at 31 August 2009. During the Track Record Period, the number of our active customers were 168, 120, 113 and 96, respectively. The decrease in the number of active customers during the Track Record Period was mainly attributable to our strategy to focus on the development of our LSAW steel pipe products as well as on the customers with larger order size. These customers comprise oil fields operators, oil companies, gas companies, petrochemical companies, trading firms and engineering firms worldwide.

Our Directors believe that the business relationship with these renowned customers has proven their recognition of the quality products and services of our Group, and our Directors consider these recognition and goodwill to be a key factor to succeed in the industry. Our worldwide sales network would also allow us to expand our sales more easily and reduce the market risk of being over-dependent on a single market.

Our sizeable production capacity allows us to take advantage of economies of scale

Currently, we have four steel pipe production lines with an aggregate annual production capacity of 1,150,000 tonnes of longitudinal welded steel pipes, and these lines are supported by our ancillary production facilities for coatings and fittings. With such production facilities, we are able to benefit from economies of scale and produce a large volume of longitudinal welded steel pipes at a lower average cost, which in turn allow us to market our steel pipe products at a competitive price. This has strengthened our position as one of the leading manufacturers of steel pipe products in the PRC and we will continue to improve and fine tune our production facilities to maintain our competitiveness. Our scale of production also provides us with flexibility to accommodate changes in market demand and enables us to meet requirements of a spectrum customers.

We have advanced production facilities capable of accommodating customers' requirements

We acquired our first JCOE production line in 1998 and according to CSPA, we are the first manufacturer establishing large diameter LSAW steel pipes production line in the PRC. Our JCOE production lines adopt continuous axis contorting J-C-O formation process with the characteristics of high forming accuracy and efficiency as well as balanced distribution of forming stress. Our JCOE production lines have the flexibility of producing pipes with different specifications within its production range.

As confirmed by CSPA, we are also the first manufacturer in the PRC that introduced and mastered UOE production method for producing LSAW steel pipes and are also one of a few manufacturers doing so in the PRC. According to different customers' requirements, the welded steel pipe produced using this method can also be expanded by mechanical or hydrostatic expander to enhance the dimension accuracy and eliminate residual stress. The UOE production line is characterised by high production efficiency, stable product quality and various accessories for manufacturing and inspection, and is superior to other production methods as it ensures more uniformity in strength throughout the body of the steel pipe and higher ability to withstand pressure, thereby reducing the risk of damage. To the best knowledge of our Directors, we are one of a few manufacturers in the PRC which possess both JCOE and UOE production lines for the manufacturing of LSAW steel pipes. With this distinguishing ability, we are able to produce different types of steel pipes with the most suitable production lines, and thus can make the best use of our equipment to raise the quality of our steel pipe products and reduce production costs. LSAW steel pipes produced using the JCOE and UOE methods can be applied in large scale energy and infrastructure projects.

With both the JCOE and UOE production lines, we are capable of producing LSAW steel pipes with a wide range of outside diameter from 406 mm to 1,829 mm and wall thickness from 6.0 mm to 54.0 mm. Such a wide and comprehensive production range enables us to lead an advantage as we can provide steel pipes of different dimensions that satisfy the specific needs of our customers.

We are the forerunner participating in the development of steel pipe industry of the PRC

We pay special attention to new industry standards and take the initiative to introduce new products into the PRC market.

In December 2006, our LSAW steel pipes were recognised by 廣州市科學技術局 (Guangzhou City Science and Technology Bureau*) to meet the X80 standard and are considered suitable for application in 西氣東輸二綫計劃 (Second West – East Gas Pipeline Project*) after the satisfactory completion of tests supervised by TGRC. According to TGRC, we are one of the four LSAW steel pipe manufacturers recognised 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 西氣東輸二綫計劃 (Second West – East Gas Pipeline Project*) covers 14 provinces starting from Xinjiang and extends eastward to Shanghai and

southward to Guangzhou with a total distance of approximately 9,000 km and total investment cost of which is estimated to be over RMB140 billion. The project will consist of one trunk line of approximately 5,000 km (with X80 steel standard) and eight feeder lines of approximately 4,000 km (with X70 steel standard). Utilisation of steel products is estimated to be approximately 4.4 million tonnes. We have the capability to produce the X80 pipe lines and we will closely monitor the progress of the project and submit tender for the supply of steel pipes in due course.

We are also one of the drafters of the national standard for welded steel pipes (namely, 焊管工藝設計規範 (Code for Design of Welded Pipe Process*) in the PRC. In 2006, 中國國家標準化管理委員會 (National Standardisation Technical Committee*), 中國冶金建設協會 (China Metallurgical Construction Association*), 中國鋼鐵工業協會 (China Iron & Steel Association*) entrusted PCKSP to draft and edit several national standards for the design of welded steel pipes in the PRC. Our Directors believe that our continuous involvement in industry standard development will help enhance our reputation within and outside of the PRC which will in turn be beneficial to our Group's development.

Capitalising on our past experience in manufacturing high quality steel pipes for applications in oil and gas projects, we strive to explore various business opportunities in the steel pipe industry by broadening the application of our steel pipe products. We have recently developed a new type of steel pipes suitable for application in steel tubular tower and have successfully won the bidding in April 2009 to provide longitudinal welded steel pipes for The Huainan – Shanghai 1000KV transmission and transformation project under the project of "Eastward Power Transmission from Anhui". This project is a long-distance power grid construction project in the PRC and also China's first 1000KV grade double-circuit extra high voltage transmission project. According to the framework agreement dated 14 April 2009 entered by our Group in relation to this project, the size of such sales order is expected to be approximately 100,000 tonnes of longitudinal welded steel pipes with a total contract sum of approximately RMB500 million. It is expected that the production of the steel pipe products for this project will be scheduled during the second and third quarters of 2010. All tubular towers are made of steel pipe components that are classified under the same category of our Group's LSAW steel pipes, but with special specifications to suit the requirements of power grid constructions, and the design of the towers is simple with the advantages of lightweight and reliable which enhance its ability to resist natural disasters under extreme conditions. This is the first time that a large-scale steel tubular tower has been used in the transmission of electricity in China.

The manufacturing process of steel pipe products includes forming, welding, expanding and inspection, but excludes assembling, while tubular towers have to undergo manufacturing process including processing and assembling by using steel pipe products but excluding forming and expanding. The new type of steel pipes are produced by our Group's existing LSAW steel pipes production line, but such new type of steel pipes with special specifications require further processing by specialised production equipment and additional technical knowhow to suit the requirements of power grid constructions. To the best knowledge of our Directors, there is no major difference in the profit margin of our existing steel pipe products and the new type of steel pipes. The successful bidding for the above project signified a great success of our research in new applications on electricity transmission circuit towers and highlighted the advanced designs, the highly reliable operation and cost effectiveness of our steel pipe products in the application of extra high voltage transmission lines longitudinal steel tubular towers.

Although no sales attributable to the above-mentioned new products was recognised as at the Latest Practicable Date, to the best knowledge of our Directors, 國家電網公司 (State Grid Corporation of China*) is encouraging the construction of tubular towers in China. Therefore, it can reasonably be expected that there will be a significant demand for steel pipes for power grid construction projects in China in the coming years. In addition, 國家電網公司 (State Grid Corporation of China*) has prescribed a set of standards for the steel pipes used for the construction of tubular towers, and our Group has acquired the capability and technology to manufacture steel pipe products which are able to meet those standards as evidenced by the successful winning of the bidding for the power grid construction project in April 2009. In view of the potential demand for the new type of steel pipe products in the coming years, and our Group's ability in meeting the standards set by 國家電網公司 (State Grid Corporation of China*), our Directors believe that if our Group proactively participates in bidding of other power grid construction and infrastructure projects in the future, it is probable that our Group's revenue from infrastructure and construction projects will recur after the completion of the abovementioned power grid construction project.

We have stringent quality control

Steel pipes used for oil and gas transmission require high level of durability and quality to ensure safety in the transmission process and therefore we place great emphasis on quality assurance and control systems.

We have established and maintained a quality assurance system in accordance with ISO 9001:2000 and API Specifications 5L, 5CT and Q1. Our quality control team is equipped with sophisticated inspection equipment such as steel plate ultrasonic tester, welded seam ultrasonic tester, weld seam X-ray tester, hydraulic tester, etc. Our measurement management system is also certified by 廣東省質量技術監督局 (Guangdong Province Quality and Technique Supervision Bureau*) as complying with the provincial secondary measurement management system which possesses various testing instruments such as universal raw material testers, low temperature impact testers, drop-weight tear tester, computerised vacuum direct-read automatic spectrum analysis instrument and microscope for metal analysis, etc. Our steel pipe products also comply with various international standards prescribed by API, DNV, BSI, etc.

We have experienced management and technical staff

Our strong and highly motivated sales team has enabled us to sustain good business relationships with our existing customers and to develop new business relationship with potential customers. Members of our team possess relevant experience and technical knowledge to handle customers' queries and to recommend value-added and customised products and services to meet their needs. Dedicated marketing personnel is assigned to serve our major customers in order to ensure timely response to their needs and enhance overall customer satisfaction.

Mr. Chen, a founder of our Group, has extensive technical, management and operational experience in the steel pipe industry. To enhance management efficiency of our Group, we have employed a team of senior management with concrete experience in steel pipe operations to assist our Board in the daily management of our business. Please refer to the section headed "Directors, senior management and staff" in this prospectus for further details on their qualifications and experience.

We have strong research and development capabilities

We place strong emphasis on research and development to introduce new products that cater to our customers' needs, expand our product range, keep ourselves abreast of the latest developments in technology, and to improve our existing production capacity and existing products. As at the Latest Practicable Date, our research and development team comprised 45 persons, all of whom received tertiary education with some of them having obtained doctoral degrees.

Our team members possess expertise in different areas including forming, machinery design, welding, hydraulic pressure, automation and non-destructive testing. Based on their sound technical knowledge, flexibility and innovations, we have developed proprietary mechanical expanding equipment at internationally advanced level. As at the Latest Practicable Date, we registered 43 patents*(Note)* in relation to steel pipes production machineries and methods.

Our Directors believe that our professionals are significant to our success and sustainable development. In order to keep them abreast of the latest development of technology and management, we second our senior managers and research and development team members to further studies on a regular basis. Under the auspice of our Group, 20 executive staff obtained a diploma from the 卓越總裁領導力高級研修班 (Distinct Director Leadership Advanced Course*) of 中山大學 (Sun Yat-Sen University*) in 2008. Four executive staff graduated with a master's degree in business administration from 亞洲(澳門)國際公開大學 (Asia International Open University (Macau)*) in December 2009. The other 16 executive staff are expected to submit their dissertations in early 2010 and are expected to graduate with a master's degree in business administration in

Note: As at the Latest Practicable Date, the relevant patent registration certificates in respect of two of the 43 patents in relation to steel pipes production machineries and methods were pending publication by way of public notice in the PRC. Please refer to the paragraph headed "Intellectual property rights of the Group" in Appendix VI to this prospectus for further details.

2010. On the other hand, seven technical staff are attending the engineering master class in 西安交通大學 (Xian Jiaotong University*). In 2008, our Group organised an adult workers education (university) course with 番禺區成人教育中心 (Panyu Adult Learning Centre*) and 韶關學院 (Shao Guan College*) and currently there are 53 staff members attending university level course in mechanics.

OUR STRATEGIES

We strive to be a leading manufacturer of high quality longitudinal welded steel pipe products in the PRC and will continue to seek opportunities to realise sustainable growth of our business. Based on our experienced management team, research and development capabilities, well-established relationships with our major suppliers and customers, and emphasis on the quality of products, our Directors believe that we are well-positioned to capture anticipated growth of the steel pipe markets in the PRC and overseas. We intend to implement the following plans to maintain and capitalise on our strengths so as to enhance our business prospects and profitability.

To increase our production capacity and to enhance our production efficiency and quality assurance and control systems

We intend to further promote our production technical know-how and upgrade our equipment so as to increase our production capacity, improve our production efficiency and enhance our product quality. In addition to investing further in expanding, modifying and upgrading our existing facilities for the production of our steel pipes and ancillary products in our Panyu production base with a view to enhancing our production capacity and efficiency, we entered into a lease agreement with an Independent Third Party in December 2008 for a factory complex in Jiangyin, Jiangsu Province, the PRC, with a total site area of approximately 19,079.81 sq.m. for an initial term of five years from 1 January 2009 to 31 December 2013. We further entered into transfer agreement in December 2009 to purchase the land use rights of the parcel of land on which Jiangyin Factory is erected and the ownership of Jiangyin Factory. Such factory complex housed a new LSAW steel pipes production line and its related ancillary production facilities, all of which commenced trial production in September 2009.

We also seek to enhance our market position by continuing to expand our production capacity and market share. In July 2009, we established PCKSP (Lianyungang) in Liangyungang, Jiangsu Province, the PRC for the planned establishment of a new production base in the region in addition to our existing principal production base in Panyu, Guangdong Province, the PRC and the new production facilities in Jiangyin, Jiangsu Province, the PRC, with a view to capturing business opportunities in Yangtze delta area. Such production base shall include a LSAW steel pipes production line with annual production capacity of 300,000 tonnes. Moreover, we believe that our ability to secure stable supply of quality steel plates (as the principal raw materials we use) will contribute significantly to our future capacity expansion. As such, we intend to expand vertically by establishing a steel plates processing line for, among others, the manufacture of our steel pipes. We have entered into an equipment sales agreement in March 2009 to acquire a steel plates processing equipment which is expected to be installed in the abovementioned planned production base in Liangyungang, Jiangsu Province, the PRC. We estimate to invest at least approximately RMB1.0 billion in this project by using net proceeds from the New Issue and internal resources, and had already paid a total of approximately RMB218.5 million for the establishment of such new production base up to the Latest Practicable Date. We expect the construction and installation of equipment of this production base to be completed in 2012 and to commence commercial production of all the production facilities therein by the end of 2012.

Our Directors expect that such expansion plan can be expedited and with a lower finance cost with the proceeds from the New Issue. As such, part of the net proceeds to be raised from the New Issue will be applied to fund the capacity expansion plan in Lianyungang, Jiangsu Province, the PRC. For details, please refer to the paragraph headed “Proposed use of net proceeds from the New Issue” in the section headed “Future plans and use of proceeds” in this prospectus.

In addition to the above, we plan to use the net proceeds from the Listing to establish a new LSAW steel pipes production line at a strategic overseas location and to modify an existing ancillary production line into a completed LSAW steel pipes production line in Panyu, Guangdong Province, the PRC during 2010 and 2011

with aggregate planned annual production capacity of 600,000 tonnes of LSAW steel pipes. Upon completion of the foregoing capacity expansion plans, we expect our annual production capacity to increase from approximately 1,150,000 tonnes of longitudinal welded steel pipes as at the Latest Practicable Date to approximately 2,050,000 tonnes by the end of 2012.

Furthermore, we will continue to keep a stringent quality assurance and control system and maintain a high standard in the inspection of our raw materials, semi-finished products and finished products. In addition, we will seek advice and collect feedback from industrial expertise and, where appropriate, adopt new measures to modify and improve our quality assurance and control systems.

To expand our distribution network and reinforce business relationship with our customers

We plan to expand our distribution network by cooperating with established international steel pipe distributors. We believe this to be an effective strategy to enlarge the market and geographical coverage of our steel pipe products, and to promote our corporate image and brand recognition in the international arena. Except for the sales and bidding agents disclosed under the paragraphs headed "Sales and marketing" in this section, we are not in negotiation with any other specific distributors and have not identified any such targets as at the Latest Practicable Date. We plan to recruit additional experienced personnel from overseas and establish a new sales and marketing team with a view to tapping business potential in overseas market.

In view of the market opportunities brought about by the 11th Five-year Plan, we expect that the PRC market will continue to be our principal market. Accordingly, we will continue to focus on strengthening the business relationship with our existing customers. We will also collaborate closely with them to identify changing customers' needs and market demand in order to develop new products or improve existing product mixes.

To strengthen our growth through organic growth, selective acquisitions and partnerships

Our Directors recognise the importance of maintaining a sustainable growth. Apart from relying on expanding the scale of our operations and introducing new products and technology, it is also our plan to conduct selective acquisitions to increase our production capability and market share. Our primary acquisition targets will be other steel pipe manufacturers and/or other complementary production facilities in the PRC, but we will also take into consideration other potential targets worldwide. Other than those production facilities acquisition disclosed elsewhere in this prospectus, we were not in negotiation with any other specific acquisition targets and had not identified any such targets as at the Latest Practicable Date. We may also establish partnerships with other market players in the areas of production, material sourcing, sales and research. Our Directors believe that such partnerships would create synergy effect and our Group could benefit from having lower costs of materials or sales and strengthened technical capabilities. We have been in negotiation with one of our overseas customers for the formation of a joint venture for the production of steel pipes since 2008. However, no specific conclusion was reached between the parties nor did we enter into any legally-binding agreement in this regard as at the Latest Practicable Date. We would comply with the relevant requirements under Chapter 14 of the Listing Rules (including the reporting, announcement and/or independent shareholders' approval requirements, as the case may be) as and when appropriate.

To strengthen our product research and development capability

Our Directors believe that our commitment to research and development is essential to enhancing our sales and marketing position and our ongoing research and development activities covering manufacturing techniques, processing technologies, quality control help bolster our manufacturing capabilities and improve our production efficiency, which as a result, lower our overall manufacturing costs and enhance our competitiveness. We will continue to place strong emphasis on research and development and we plan to recruit additional research and development staff with experience and expertise in relevant practices as well as allocate more resources to strengthen our in-house training. We will also dedicate more resources to re-engineering and modification of our existing facilities so as to widen our product range and satisfy the ever changing customers' needs.

To increase our marketing efforts to promote the brand recognition of our steel pipe products marketed under the "PCK" trademark

Currently, all our steel pipes are marketed under the "PCK" trademark. We recognise the importance of developing market recognition of our brand and establishing image of quality products under the "PCK" trademark. Hence, we promote our corporate and product by actively participating in trade fairs, industrial exhibitions and forums worldwide, and we also place advertisements on both online and traditional media. To enhance our brand recognition, we plan to allocate more resources to advertising and promotion activities.

In terms of geographical distribution, while sales in the overseas markets accounted for a significant portion of our Group's revenue during the Track Record Period, we reckon that there is still a huge potential in the PRC market. To further penetrate into the PRC market, we intend to increase our promotion budgets to attend more exhibitions and appoint professionals to improve and enrich our website and marketing materials. We also intend to devote further resources to expanding our marketing platform overseas, in particular, the Middle East where based on the understanding and expectation of our Directors the oil and gas exploitation and supply industry in that region is prospering.

OUR BUSINESS MODEL

We operate our business under a project-originated model through which the sales of our steel pipe products depend largely on the locations of our customers, and/or their end customers, as well as the locations of global pipeline construction projects, and our Group derived a high proportion of our revenue from our major customers in the PRC and a number of customers in over 50 overseas countries and regions during the Track Record Period, which customers base varies from year to year. Our varying customer base results in differing requirements or specifications for our steel pipe products designated by our customers and therefore the application of different processing know-how and technique in the production of the steel pipe products, which are customised for the relevant customer's projects. In addition, we supply our customised steel pipe products to our customers in such amount pursuant to the sales orders or contracts placed by our customers, which amount, as our Directors believe, will in general align with the pre-determined amount required by the relevant customer for its projects. After the signing of the sales contracts with our customers or successfully obtained a tender and within the validity period of the relevant raw material quotations, we will enter into a back-to-back purchase agreement with our suppliers to purchase the quantity of raw materials required in the corresponding sales contracts. As such, this made-to-order operational pattern could minimise our exposure to the risk of inventory accumulation. For details of our Group's sales and marketing activities and our customers, please refer to the paragraphs headed "Sales and marketing" and "Customers" below in this section.

Our sales in the domestic market are mainly made through open or invited tenders or through direct sales. Under the prevailing laws and regulations of the PRC, contractors and suppliers of certain state construction projects have to be selected through tender, and thus our sales to our major customers who are state-owned enterprises are mostly made through tenders. Our subsidiaries in the PRC have been in compliance with the provisions of《招標投標法》(Law on Tenders and Bids*) when they participated in tendering activities during the Track Record Period. Our Directors and our legal advisers as to PRC law confirm that they were not aware of any punishment imposed on any of our subsidiaries in the PRC due to the violation of《招標投標法》(Law on Tenders and Bids*).

In Hong Kong, we are a registered supplier of the government logistics department of the Hong Kong government, making us eligible to tender for the supply of pipes in government projects. Our Group also actively tender for the supply contract in various construction and infrastructure projects. In October 2007, we successfully obtained a steel pipe supply contract for a permanent aviation fuel facility in Hong Kong. For each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, revenue generated from such kind of supply contracts in Hong Kong amounted to approximately RMB4.8 million, RMB7.0 million, RMB26.8 million and RMB6.4 million, respectively.

There was an increasing trend of sales to our overseas customers during the Track Record Period. However, our Directors consider that such increasing contribution of overseas sales to our Group does not have any significant financial impact on our gross profit margin. Under our cost-plus pricing model, the difference in the gross profit margin between our domestic and exports sales is insignificant during the Track Record Period. However, as almost all of our exports sales are related to the manufacture and sale of steel pipes, increase in our exports sales virtually leads to a change in sales mix. For the financial impact of change in our sales mix, please refer to the paragraphs headed "Major factors affecting our results of operations and financial conditions" in the section headed "Financial information" in this prospectus. Further, given that most of our exports sales are denominated in US dollars, our exports sales are exposed to foreign exchange risk, the impact of which is discussed in the sections headed "Risk factors" and "Financial information" in this prospectus.

As we sell all of our steel pipe products under our established brand name "PCK", we focus on promoting the "PCK" brand name by participating in exhibitions, trade conferences and product shows, and advertising in newspapers, trade publications and professional journals such as《中國冶金報》(China Metallurgical News*),《焊管》(Welded Pipe and Tube*),《南方鋼鐵》(Southern Steel*),《石油管道報》(Petroleum Pipe News*) and《中華建築報》(China Architecture News*) so as to increase the brand awareness of our steel pipe products among our customers and potential customers, and to associate our brand image with high quality steel pipe products.

As our steel pipe products, especially LSAW steel pipes, are mainly used in pipeline and infrastructure projects worldwide, our Directors believe that any quality failure in the steel pipes used in such projects might potentially bring disastrous consequences to the safety and well being of the public at large and hence the tolerance level for quality failure of steel pipes to be used in infrastructure project is extremely low. Therefore, the manufacturing of our steel pipes that are suitable for use in global pipeline and infrastructure projects requires advance production technology and stringent quality control in order to meet with the stringent international quality standard. Given the above, our Directors believe that the consideration of our product quality, track record and market reputation prevail over that of prices of our steel pipe products when our customers or potential customers are to place orders for our steel pipe products and thus price sensitivity of our LSAW steel pipes are relatively low.

Taking into consideration our "made-to-order" business model, i.e., we produce steel pipe products that are customised to meet our customers' specifications, and the high quality of our steel pipe products, our Directors consider that the various anti-dumping measures imposed by the US and the EU in recent years did not cause any significant adverse impact to the demand of our steel pipe products and our operation as a whole.

OUR PRODUCTS

Steel pipes

Our steel pipe products can be generally classified into LSAW steel pipes and ERW steel pipes. While our steel pipe products can be used in an array of industries, a majority of our steel pipe products are sold to enterprises in the oil, petrochemicals and natural gas industry and used for onshore and offshore conveyance and transmission of oil, petrochemicals, natural gas, city gas and coal slurry. Our steel pipe products are also used for infrastructural purposes, such as water, irrigation and sanitation pipes, steel tubular piles, steel tubular tower, hollow structural sections for buildings, bridges and stadiums, and structural and mechanical pipes in marine engineering projects.

LSAW steel pipes

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 DNV and API standards.

LSAW steel pipes are, in general, of larger diameters (406 mm or 16 inches to 1,829 mm or about 72 inches, and above) than ERW steel pipes. LSAW steel pipes are used in more demanding applications because of their weld strength, such as high pressure and deep water gas and oil transmission. They are mainly used in a range in which seamless steel tubes can no longer be manufactured cost-effectively. There are different types of forming processes, such as UOE and JCOE that are employed to produce LSAW steel pipes from steel plates or steel coils. These processes differ primarily in the method used to form the pipe body.

The UOE production method is considered a more efficient process which achieves highest output, but is also the most capital intensive. The steel pipes produced by our UOE production line have an outside diameter ranging from about 508 mm to 1,118 mm (20 inches to 44 inches).

The JCOE production method is considered to have the advantage of greater flexibility, better quality and lower investment costs. Steel pipes produced by our JCOE production line have an outside diameter ranging from about 406 mm to 1,829 mm (16 inches to 72 inches).

As early as back in 1996, our principal operating subsidiary, PCKSP, obtained qualification certificate from API permitting the use of API Monogram and the manufacturing and processing line pipes in accordance with API specification 5L and on the manufacturing and processing casing or tubing pipes in accordance with API specification 5CT. Certification from API is widely regarded and used by established enterprises in the oil and natural gas industry as an effective means in assessing whether the production or operating standards of manufacturers of oil and gas related products are in compliance with generally accepted industry standards.

ERW steel pipes

Our longitudinal ERW steel pipes are manufactured in compliance with international technical standards, such as API specification 5L, according to the requirements of our customers and are manufactured under a strict quality management system which conforms to international quality assurance standards such as API specification Q1 and ISO 9001:2000.

ERW steel pipes are in general characterised 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 tubes and city tube networks. It is considered that offshore application may require longitudinal welded steel pipes, such as LSAW steel pipes given its weld strength.

Our ERW steel pipes can be classified into three types according to their cross-sections: round pipes, square pipes and rectangular pipes. Each type of products is available in various sizes to cater for the requirements of different customers.

Our round pipes have outside diameter ranging from 114 mm to 356 mm (about 4.49 inches to 14 inches) and wall thickness ranging from 3.0 mm to 12.7 mm (about 0.12 inch to 0.50 inch), which are mainly used as sub-tubes in the transmission of oil and gas.

We are also capable of producing square pipes which have a cross section ranging from 100 mm x 100 mm to 250 mm x 250 mm (about 3.94 inches x 3.94 inches to 9.84 inches x 9.84 inches) with wall thickness ranging from 3.0 mm to 10.0 mm (about 0.12 inch to 0.39 inch) and rectangular pipes with cross section ranging from 120 mm x 80 mm (about 4.72 inches x 3.15 inches) to 350 mm x 150 mm (about 13.78 inches x 5.9 inches), with wall thickness ranging from 3.0 mm to 10.0 mm (about 0.12 inch to 0.39 inch). Both the square and rectangular pipes are mainly used for construction purposes.

Ancillary products and services

In addition to our steel pipe products, we also engage in the provision of ancillary products and services such as coatings and fittings as value-added services to our customers according to their specifications. The provision of these processing services will mainly depend on our production schedule and the availability of production capacity in support of our steel pipe business. The processing fees for coating services are charged mainly based on cost plus certain profit margin on top of the selling price of the steel pipes customers acquired from us. As for fittings, we normally charge our customers the raw material costs and manufacturing fees as in the case of charging our customers of our steel products.

Coatings

According to different applications and customers' requirements, we can provide various coating and lining in accordance various international standards. The products of our Group comply with various international standards such as API Specifications 5L, 5CT and Q1, DNV, ISO, ASTM, etc. Our coating services include single or double layer fusion bond epoxy coating, two or three layers polyethylene or polypropylene coating, internal or external bitumen coating, internal cement lining and internal liquid epoxy coating. The coating can prevent the steel pipes from corrosion and rust, and as such, the coating can improve the durability of the pipes. Different coating and lining will be used for pipes for different applications.

Fittings

To meet the requirements of different pipeline projects of our customers, we also provide an array of fittings such as induction bend, elbow, reducer, tee, cross, etc. which are used as ancillary components of the pipelines.

PRODUCTION

Production facilities

As at the Latest Practicable Date, our main production facilities consisted of four sets of production machinery which has an aggregate annual production capacity of 150,000 tonnes of ERW steel pipes, 600,000 tonnes of LSAW steel pipes (JCOE production line) and 400,000 tonnes of LSAW steel pipes (UOE production line).

Three of our steel pipe production lines are located at our headquarters in Panyu, Guangdong Province, the PRC which comprise a two-storey office building, a single storey workshop building and three single storey buildings accommodating two production lines for LSAW steel pipes, one production line for ERW steel pipes, and various workshops for electricity plant, air compressor and water pump, with a total gross floor area of approximately 72,718.97 sq.m.

The fourth production line, which produces LSAW steel pipes using JCOE method, is located at our new production plant in Jiangyin, Jiangsu Province, the PRC. The establishment of this new production line did not cause material changes in our Group's operational, trading and financial position for the four months ended 31 December 2009 on the basis that:

(i) This production line was still in the trial production stage during the four months ended 31 December 2009 and according to the unaudited financial information of our Group, the balance of inventory as per the accounting records of this new production line was nil as at 31 December 2009.

(ii) According to the unaudited financial information of our Group, the addition to property, plant and equipment for the four months ended 31 December 2009 was approximately RMB11.5 million which represents approximately 2.3% of our Group's unaudited balance of property, plant and equipment as at 31 December 2009.

(iii) According to the unaudited financial information of our Group, the operating costs incurred by this production line for the four months ended 31 December 2009 were approximately RMB877,000 which only represents approximately 0.2% of the estimated profit for the year ended 31 December 2009.

(iv) This production line did not experience any significant start up problems since the commencement of its trial production that might led to the incurrence of any substantial extra costs for the four months ended 31 December 2009.

The following table summarises the details of our major production facilities and products manufactured by each of the production lines during the Track Record Period and up to the Latest Practicable Date:

	Outside diameter *(mm)*	**Wall thickness** *(mm)*	**Description of products manufactured and applications**	**Date of commencement of commercial production**
LSAW steel pipe				
UOE production line (Panyu)	508-1,118	6.4-25.4	Steel pipes used in pipelines for oil, gas and water transmission; building construction, steel tubular tower and other infrastructure	September 2002
JCOE production line (Panyu)	406-1,829	6.0-25.4		November 1998
JCOE production line (Zhangjiagang)(1)	406-1,626	6.0-60.0		March 2008
JCOE production line (Jiangyin)(2)	406-1,626	6.4-54.0		January 2010
ERW steel pipe				
ERW steel pipes production line (Panyu)	114-356	3.0-12.7	Includes round, square and rectangular steel pipes mainly for oil, gas and water transmission; public transportation; chemical industrial use, irrigation and building construction as well as hollow structural sections for building construction; structural pipes	July 1995

Notes:

1 This JCOE production line (Zhangjiagang) was disposed of by our Group in August 2009 since the lessor of the factory complex (comprising a parcel of land with two major buildings and structures erected thereon) for such JCOE production line failed to provide valid title certificates or other relevant documents evidencing that the lessor has the requisite title or right to lease such property and therefore the lease agreement has not been duly registered in compliance with the PRC law.

2 A new JCOE steel pipes production line with annual production capacity of 300,000 tonnes. It commenced trial production in September 2009 and commercial production in January 2010.

The following table sets out the annualised production capacities, average utilisation rates and respective production volumes of each of our production line of steel pipes during the Track Record Period:

	Year ended 31 December			Eight months ended 31 August
	2006	2007	2008	2009
	(tonnes)	*(tonnes)*	*(tonnes)*	*(tonnes)*
Annual production capacity [(1)]				
UOE production line (Panyu)	400,000	400,000	400,000	400,000
JCOE production line (Panyu)	300,000	300,000	300,000	300,000
JCOE production line (Zhangjiagang) [(2)]	–	200,000	200,000	200,000
ERW steel pipes production line (Panyu)	150,000	150,000	150,000	150,000
Actual production volume				
UOE production line (Panyu)	87,052	155,046	158,475	64,646
JCOE production line (Panyu)	49,152	52,373	111,966	28,708
JCOE production line (Zhangjiagang) [(2)]	–	18,138[(3)]	152,711	23,807
ERW steel pipes production line (Panyu)	67,752	37,730	48,770	54,439
Converted actual production volume [(4)]				
UOE production line (Panyu)	163,279	294,390	303,691	192,536
JCOE production line (Panyu)	100,806	258,657	340,610	177,566
JCOE production line (Zhangjiagang) [(2)]	–	22,446	196,922	98,148
ERW steel pipes production line (Panyu)	100,553	40,908	75,992	121,608
Average utilisation rate				
UOE production line (Panyu)	41%	74%	76%	72%
JCOE production line (Panyu)	34%	86%	114%[(5)]	89%
JCOE production line (Zhangjiagang) [(2)]	–	34%[(6)]	98%	74%
ERW steel pipes production line (Panyu)	67%	27%	51%	122%[(7)]

Notes:

(1) The annual production capacity is the maximum achievable capacity determined based on certain assumptions including, among others, optimum pipe diameter and wall thickness, number of sustainable working days per year, regular maintenance, allowances for equipment shutdown for repair, and mould and tooling changes. During the three years ended 31 December 2008, we conducted certain equipment modification and upgrade on our UOE, JCOE and ERW steel pipes production lines in Panyu, Guangdong Province, the PRC through our ongoing research and development efforts to improve our production efficiency. However, as advised by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional surveyors and an Independent Third Party engaged and commissioned by our Group to conduct an assessment of the production capacity and utilisation rate of our production lines, it is impracticable to quantify the production capacity of these production lines during that period retrospectively. Therefore, the respective annual production capacity for our UOE, JCOE and ERW steel pipes production lines in Panyu, Guangdong Province, the PRC for each of the three years ended 31 December 2008 has been assumed to be the same as that for the eight months ended 31 August 2009 for consistency purpose.

(2) This production line commenced trial production in October 2007 and commercial production in March 2008. The average utilisation rate of this production line during the Track Record Period was mainly resulted from the fact that we intentionally shifted some of our orders of pipes with relatively larger sizes to such production line for its trial run during its trial production period. This JCOE production line (Zhangjiagang) was subsequently disposed of by our Group in August 2009.

(3) Production volume for the test run and trial production period for the four months ended 31 December 2007.

(4) The converted actual production volume is derived from actual production volume adjusted by certain assumptions including, among others, optimum pipe diameter and wall thickness.

(5) Higher utilisation rate of the JCOE production line (Panyu) for the year ended 31 December 2008 was due to a large order for pipes with similar pipe diameter and wall thickness during that period which thereby reduced the time for mould and tooling changes as well as the shift change downtime. Moreover, to satisfy our customers' orders during that period, we added more workers and shortened our staff's holidays for the Chinese New Year in 2008 which resulted in high utilisation rate for the JCOE production line (Panyu) in 2008.

(6) The annualised average utilisation rate is pro-rated for the four months ended 31 December 2007.

(7) About 85% of the production of the ERW steel pipes production line was for the same size (ϕ168.3 mm) pipe with large quantities per production run resulting in reduced mould change time and resulted in significantly high production utilisation rate during the eight months ended 31 August 2009 when compared to the annual production of the same production line in previous years.

Our production line in Zhangjiagang, Jiangsu Province, the PRC was sold to an Independent Third Party in August 2009 at the consideration of RMB119.15 million which was determined after arm's length negotiation between our Group and the buyer after taking into account (i) the costs of relevant individual components of production facilities, including the spare parts and the machineries; and (ii) the time and effort we spent in the installation and assembly of different spare parts and machineries into a complete steel pipes production line. Our Directors believe that as the buyer could start production of LSAW steel pipes immediately with such production facilities, and therefore, the buyer was willing to pay certain premium to our Group for the acquisition of the said production line. The total cost of the production line is approximately RMB97.9 million which mainly include the cost of spare parts and machineries.

Our Directors consider that although the buyer of this Zhangjiagang production line may produce similar type of LSAW steel pipe products to our Group, the potential competition from this buyer following our disposal of the production line will not cause significant adverse impact on our Group's competitive advantages since our Directors consider that the success of our Group is attributable to various factors other than the production facilities, such as the ability to produce quality steel pipes with advanced production technology and the ability to secure quality and sizeable sales orders. In addition, our Group or our steel pipe products have obtained various industry quality certifications such as API, DNV and BSI which, our Directors believe, are essential for the manufacture and sale of LSAW steel pipes for the use of global pipeline projects. As such, our Directors believe that the buyer of this Zhangjiagang production line will not pose any material competition threat to our Group by merely acquiring the production line from us.

Moreover, although the production line in Zhangjiagang, Jiangsu Province, the PRC was capable of producing steel pipes with wall thickness of up to 60 mm (whereas the production line in Jiangyin is currently capable of producing steel pipes with wall thickness of 54 mm), our Group did not have significant amount of sales orders for steel pipes with such thickness requirements during the Track Record Period. For each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, the sales of steel pipes with wall thickness exceeding 54 mm are nil, nil, approximately RMB1.1 million and nil, respectively. In view of such insignificant amount of sales of steel pipes of up to 60 mm thickness, our Directors are of the view that the impact of disposing of the production line in Zhangjiagang, Jiangsu Province, the PRC without replacing a new production line with similar production capability in terms of wall thickness of steel pipes produced (i.e., more than 54 mm) in Jiangyin, Jiangsu Province, the PRC is minimal to our Group.

Meanwhile, we have set up a new production line in Jiangyin, Jiangsu Province, the PRC with an annual production capacity of 300,000 tonnes of LSAW pipes in order to replace the production line in Zhangjiagang, Jiangsu Province, the PRC. As a result of such production line replacement, our Group's aggregate annual production capacity of LSAW steel pipes increased from 900,000 tonnes for the eight months ended 31 August 2009 to 1,000,000 tonnes for the four months ended 31 December 2009 and the net effect of this replacement on the aggregate production capacity of our Group's LSAW production lines is only approximately 100,000 tonnes. Nevertheless, our Directors consider that the actual effect on our Group's trading and operational position attributable to the additional production capacity of the production line in Jiangyin, Jiangsu Province, the PRC to our Group as a whole is minimal given the fact that, the annualised production capacity of our Group's LSAW steel pipes only increased from 900,000 tonnes to approximately 933,333 tonnes after the said production line replacement, representing an increase of approximately 3.7%.

Our production lines normally operate on a continuous basis, subject to the necessary temporary stoppage for machine cleaning, calibration of production facilities for different product specifications as well as regular inspection and maintenance work. Our Group conducts annual maintenance and overhaul on our production lines during Chinese New Year for approximately 10 days. During the Track Record Period, we had not experienced any material disruption to our business operations as a result of malfunctioning of our production equipment. As changes in our equipment utilisation rates can have a significant effect on our unit costs and gross profit margins, we therefore plan our production schedules carefully so as to minimise the shutdown time required for modifying our production machines for changes in product and specification.

As at the Latest Practicable Date, our production team consisted of more than 1,000 staff. We organise our production staff into three shifts, while each shift works eight hours per day and seven days a week, so that we can maximise our production capacity.

Machinery and equipment

Most of our major machinery and equipment, such as weld temperature controller, on-line seam annealer, on-line ultrasonic tester, hydrostatic tester and off-line ultrasonic tester, edge mill, crimping press, hydrostatic testing and expanding machine and welding equipment are precise, sophisticated, computerised and numerically controlled machinery. A majority of them were manufactured by foreign manufacturers in Germany, the United States and Taiwan. The time required for ordering and delivery of machinery and equipment from these foreign manufacturers was about three months. The repair and maintenance services for all machinery and equipment are available in the PRC in the local service centres of these foreign manufacturers. However, during the Track Record Period, the daily and annual maintenance works of our production equipment were mainly conducted by our in-house technicians.

Apart from acquiring machinery and equipment from third parties, we also, through our own research and development team, design and develop specific equipment, such as 大直縫埋弧焊管快速生產方法 (Fast producing methods for large LSAW steel pipes*) for, and tooling for the forming unit of, our steel pipe production line.

Over the years, we have developed sound equipment installation and application skills which have managed to minimise the time required for equipment installation. Leveraging on such expertise and experience, we have been able to complete the installation of our UOE production line within one year, which our Directors believe to be relatively short compared to other manufacturers in the industry.

In addition, we have successfully set up a mechanical pipe expanding facility and ultrasonic testers and have registered various patents in relation to expanding, edge planning and end facing techniques, which are applied in the production of both LSAW steel pipes and ERW steel pipes.

Production process

LSAW steel pipes production line

Rotating JCOE production line

The following illustrates the major steps involved in the production of LSAW steel pipes by the rotating JCOE production line:

Inspection on raw materials

First of all, to ensure that the raw materials meet the technical requirements, we will conduct ultrasonic scan on the steel plates using parallel band or grid scanning mode and will examine both sides of steel plates using a turning device.

Edge milling

Upon satisfactory quality check, the steel plates are then positioned for edge planing on both sides in order to produce a shape required by welding process.

Forming

A steel plate is crimped and formed in two processes. As the mandrel turns under power, the steel plates move together as a result of friction and remain still relative to the roll surface. In the first forming process, half of the steel plate bent along the roll face under the bending movement created by the mandrel and the supporting roller. After the mandrel stops turning, the section of the steel plate is in "J" shape. After the first half of a steel plate has passed through the forming machine, the remaining half of the steel plate will then be fed into the mandrel to make an "O" shape in the end. In this process, the section of the steel plate will transitionally turn into "C" shape. After being formed into an "O" shape, the steel plate is drawn out of the mandrel and fed into the following process.

Pre-welding, interior welding and exterior welding

After the forming process, the steel plate becomes a steel roll with an open end, which is to be welded to turn the steel roll into a pipe. This process is called pre-welding. The pre-welded pipes then have to undergo further interior and exterior welding processes so as to satisfy industrial requirements.

Mechanical expansion

After the forming and welding process, the welded steel pipe's diameter has to be expanded with mechanical expansion machine to make it more circular.

Edge trimming

Subsequent to mechanical expansion, the edges of the steel pipes are trimmed as per clients' requirements. This process is completed by an edge-trimming machine.

Ultrasonic and X-ray testing and quality control

After edge-trimming, the quality control staff will conduct quality tests using ultrasonic and X-ray testers, then they will assess the exterior and interior quality of the steel pipes. The quality inspection results and the mechanical properties of the steel pipes have to meet certain requirements.

Girth welding

As our clients may require steel pipes of different length, the steel pipes will then be girth welded after passing ultrasonic and X-ray tests.

Labelling and packaging

After all the inspection and tests, specifications of the steel pipes and the logo of our Group are painted on the surface of the finished steel pipes. Protection ring may be added to the ends of steel pipes according to customers' requirements.

Bending JCOE production line

The following illustrates the major steps involved in the production of LSAW steel pipes by the bending JCOE production line:

Inspection on raw materials

First of all, to ensure that the raw materials meet the technical requirements, we will conduct ultrasonic scan on the steel plates using parallel band or grid scanning mode and will examine both sides of steel plates using a turning device.

Edge milling

Upon satisfactory quality check, the steel plates are then positioned for edge planing on at both sides in order to produce a shape required by welding process.

Forming

The forming process involves the use of a presser to press the pre-bended steel plates by section and to change cross-sections of steel plates to “J”, “C” and “O” shapes gradually. As heavy-duty pressers are available, this kind of forming can process steel pipes with greater thickness.

Pre-welding, interior welding and exterior welding

After the forming process, the steel plate becomes a steel roll with an open end, which is to be welded to turn the steel roll into a pipe. This process is called pre-welding. The pre-welded pipes then have to undergo further interior and exterior welding processes so as to satisfy industrial requirements.

Mechanical expansion

After the forming and welding process, the welded steel pipe's diameter has to be expanded with mechanical expansion machine to make it more circular.

Edge trimming

Subsequent to mechanical expansion, the edges of the steel pipes are trimmed as per clients' requirements. This process is completed by an edge-trimming machine.

Ultrasonic and X-ray testing and quality control

After edge-trimming, the quality control staff will conduct quality tests using ultrasonic and X-ray testers. The inspection results and the mechanical properties of the steel pipes will have to meet certain requirements. Our staff will then assess the exterior and interior quality of the steel pipes.

Girth welding

Depending on our clients' requirement as to the length of the steel pipes, the steel pipes will then be girth welded after passing ultrasonic and X-ray tests.

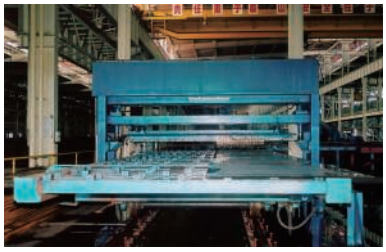
Labelling and packaging

After all the inspection and tests, specifications of the steel pipes and the logo of our Group are painted on the exterior and interior surfaces of the finished steel pipes. Protection ring can be added to the ends of steel pipes if required.

UOE production line

The following illustrates the major steps involved in the production of LSAW steel pipes by the UOE production line:

Inspection on raw materials



First of all, to ensure that the raw materials meet the technical requirements, we will conduct ultrasonic scan on the steel plates using parallel band or grid scanning mode and will examine both sides of steel plates using a turning device.

Edge milling and crimping

After the ultrasonic test, both longitudinal sides of the steel plates are to be milled according to width specification requirements. Pre-crimping the sides of steel plates is a necessary process to obtain an ideal arc of steel pipes and in consideration of the inner stress effect after welding.

Forming

The forming process comprises the “U” shape forming and “O” shape forming. For “U” shape forming process, steel plate is inserted into a “U” shape mould, and the middle part of the steel plate will receive an upward press and turn into a “U” shape. After “U” shape forming, the “U” shape plate will be transferred into an “O” shape mould for final shaping. During this process, the “U” shape plate will receive strong press upwards and downwards from two hemicyclic moulds and turn into a final “O” shape.

Welding

After forming, steel pipes will be welded in its interior and exterior according to the welding requirements.

Testing and inspection

Welded steel pipes will be inspected for defects by using ultrasonic and X-ray testing equipment.

Hydrostatic or mechanical expansion

According to customer’s requirements, steel pipes will also receive hydrostatic or mechanical diameter expansion. Hydraulic diameter expansion is a soft expansion technique, under which sealed pipes will be filled with water and pressured. With the increase of hydrostatic pressure, the steel pipe will expand in the mould until it reaches the required outside diameter. Mechanical diameter expansion is a hard expansion technique. Steel pipe is expanded gradually in sections by an expanding shaft. The shaft drives the expanding clamps, and through the sliding part connected to expanding clamps, the horizontal movement of expanding clamps is transformed into vertical movement of sliding part. When the swelling pincers in the sliding part touch the steel pipe, they begin expanding the steel pipe. So long as the movement of the sliding part is controlled properly, the level of expansion can be controlled so as to achieve desired ellipticity and inside and outside diameters. Both expansion processes have their own advantages and disadvantages, and thus are employed in different situations. Expansion processing will also help eliminating the Bauschinger Effect.

Edge trimming

According to customers’ requirements, the welding steel pipes are usually beveled at the ends for better joint effect between pipes. The expanded steel pipes are then transferred to the edge trimming machine for process.

Ultrasonic and X-ray testing and quality control

After edge trimming, the steel pipes will be inspected for invisible defects using ultrasonic testing machines and X-ray machines, with the surface polished according to appearance requirements, and conduct various mechanical property tests and examinations.

Labelling and packaging

After passing through a series of inspection and testing, the final products will be labelled with the specification of the steel pipe and the logo of our Group will be printed on the surface as well. Protection ring can be added to the ends of steel pipes depending on customers' requirements.

Longitudinal ERW steel pipes production line

Uncoiling

The hot rolled steel coils are first inspected by the quality control staff to ensure that they meet the quality requirements of the specific order. Upon satisfaction of the quality requirements, the coils are then placed on a feed ramp. Each coil is positioned in the centre of the mill and fed into the uncoiling machine.

Longitudinal cutting, steel belt joining

The uncoiled rolls of hot rolled steel coils are cut into strips of predetermined sizes to form steel pipes of specific dimensions before they are fed into the forming machine. An electrically operated shear cuts off the end of each coil and the coils are then welded together to form a continuous strip. The continuous strip is then accumulated at the super accumulating unit to ensure that the forming unit is fed with a continuous strip of steel in the production process.

Roll forming

The steel strips are then fed into the flattening machine before they are rolled into the forming machine, in which they are pressed by high precision moulds into round pipe sections with predetermined sizes, with the longitudinal edges of the strips ("**skelp edges**") contoured for welding.

Welding and deburring

After forming, the skelp edges still remain in the steel pipes. The steel pipes are then fed into a high frequency welder which heats the longitudinal edges of the strips to a very high temperature. The skelp edges are sealed together by welding. The heated edges are then squeezed together to form a fusion weld. After the welding process, the pipes still need to be deburred to remove excess weld beads on both the inner and the outer surfaces of the steel pipe.

Mid-frequency heat processing

The fusion weld and hot affect zone of the steel pipes are subject to heat treatment, which will increase the mechanical strength and hardness of the steel pipes. The heated pipes will then be air and water cooled.

Diameter setting

After heat and cool processing, the steel pipes are then pressed by mould into pipes of different outside diameters according to customers' specifications and/or market standards.

Sawing

The steel pipes will be tested by ultrasonic testing machines again for invisible defects before they are cut into their designated lengths according to customers' specifications. After cutting, the steel pipes will have plain ends.

Trimming

Subject to customers' specifications, the steel pipes may be bevelled at one or both ends in order to produce a wedged edge for better contact surface for connection. The ends are to be smoothed as specified by customers.

Hydro-testing

The finished products are then inspected by the quality control staff on interior quality and mechanical performance by using testing equipment. The steel pipes are also tested by a hydrostatic testing machine for mechanical strength and leakage.

Labelling and packaging

After passing through a series of inspection and testing, the final products are labelled with their specifications and the logo of our Group, and are then packaged in bundles before being transferred into storage for delivery to customers.

AWARDS AND RECOGNITIONS

Since the establishment of our Group, we have been granted a number of awards and recognitions from government authorities with respect to our Group or products. The major awards and recognitions are set out below:

Products

Year	Awards and recognitions	Award/grant/issuing organisation	Date of certificate/validity period
1996	廣東省優秀新產品 (Guangdong Province Outstanding New Product*)	廣東省經濟委員會 (The Economic Commission of Guangdong Province*)	June 1996
1997	冶金產品實物質量金杯獎 (Gold Cup Prize for Actual Quality of Metallurgical Products*)	中國冶金工業部 (Ministry of Metallurgical Industries of the PRC*)	26 December 1997 (for five years)
1999	冶金產品質量認證證書 (Certificate for Accreditation of Quality Metallurgical Products*)	國家鋼鐵產品質量監督檢驗中心 (The National Quality Control Inspection Centre for Steel Products*)	21 June 1999 to 20 June 2004
2005	冶金產品實物質量金杯獎－(A級鋼管及B級鋼管) (Gold Cup Prize for Actual Quality of Metallurgical Products – Steel Pipes Class A and Class B*)	中國鋼鐵工業協會 (China Iron & Steel Association*)	27 December 2005 to 26 December 2010
2006	中國名牌產品 (China Top Brand Product*)	國家質量監督檢驗檢疫總局 (General Administration of Quality Supervision, Inspection and Quarantine of the PRC*)	September 2006 to September 2011
	中國馳名商標 (China Well-known Trademark*)	中國工商局商標管理局 (The Trademark Office of the State Administration for Industry and Commerce*)	12 October 2006
2007	國家火炬計劃項目 (China Torch Item*)	中國科學技術部 (Science and Technology Department of the PRC*)	Not applicable
	廣東省名牌產品 (Guangdong Province Top Brand Product*)	廣東省質量技術監督局 (Guangdong Provincial Bureau of Quality and Technical Supervision*)	September 2007 to August 2010

Year	Awards and recognitions	Award/grant/issuing organisation	Date of certificate/validity period
	2007年廣東企業創新紀錄最佳首創產品 (Best Original Product of Innovative Record for Guangdong Enterprise in 2007*)	廣東省企業聯合會及廣東企業創新紀錄審定委員會 (Association of Enterprise in Guangdong Province & The Innovative Record of Guangdong Enterprise Approval Commission*)	November 2007
	中國石油石化裝備馳名品牌 (China Petroleum and Petro-chemical Equipment Well-known Brand*)	中國石油和石油化工設備工業協會 (China Petroleum and Petro-chemical Equipment Industry Association*)	December 2007 to December 2010
2008	廣東省著名商標 (Guangdong Province Famous Trademark*)	廣東省著名商標認定委員會 (The Famous Trademark Recognition Commission of Guangdong Province*)	February 2008 for three years
	中國國際發明展覽會金獎 (China International Exhibition of Inventions Golden Award*) – 三輥成型工藝及設備 (Three-roller forming technology and equipment*)	中國發明協會 (China Inventions Association*)	October 2008
2009	廣東專利優秀獎 (Guangdong Province Patent Excellence Award*) – 三輥成型工藝及設備 (Three-roller forming technology and equipment*)	廣東省人事廳及廣東省知識產權局 (Guangdong Provincial Bureau of Personnel & Intellectual Property Office of Guangdong Province*)	March 2009

Corporate

Year	Awards and recognitions	Award/grant/issuing organisation	Date of certificate/validity period
2001	高新技術企業認定證書 (Certificate for the Recognition of High and New Technology Enterprises*)	廣州市科學技術委員會 (Guangzhou City Science and Technology Committee*)	12 June 2001

Year	Awards and recognitions	Award/grant/issuing organisation	Date of certificate/validity period
2004	中國石油專用管材製造業2004年十強企業 (China Reserved Petroleum Pipeline Manufacturing Industry – Top Ten Enterprises in 2004)	中國石油和石油化工設備工業協會 (China Petroleum and Petro-chemical Equipment Industry Association*)	20 November 2004
2006	2005年廣東省質量管理先進企業 (Leader in Quality Management in Guangdong Province in 2005*)	廣東省質量技術監督局 (Guangdong Provincial Bureau of Quality and Technical Supervision*)	April 2006
2007	廣東省出口名牌 (Export Top Brand of Guangdong Province*)	廣東省對外貿易經濟合作廳 (Department of Foreign Trade and Economic Cooperation of Guangdong Province*)	June 2007 to June 2010
	廣州市科技進步一等獎 (First Prize for Sci-Tech Achievement in Guangzhou City*)	廣州市人民政府 (The People's Government of Guangzhou City*)	11 November 2007
2008	工廠認可證書 (Certificate of Works Approval*)	中國船級社 (China Classification Society*)	14 May 2008 to 13 May 2012
2008	高新技術企業證書 (High-tech Enterprise Certificate*)	廣東省科學技術廳 (Department of Science and Technology of Guangdong Province*), 廣東省財政廳 (Guangdong Province Department of Finance*), 廣東省國家税務局 (Guangdong Municipal Office of the State Administration of Taxation*) and 廣東省地方税務局 (Guangdong Provincial Local Taxation Bureau*)	16 December 2008 to 16 December 2011
2008	PCKSP – Registered Compliant with specified Shell Global Solutions' piping specifications	Shell Global Solutions International B.V.	25 February 2008 to 25 February 2011/ 27 January 2009 to 27 January 2012
2009	PCKSP – Registered Compliant with the Shell Global Solutions' Design and Engineering Practices	Shell Global Solutions International B.V.	25 February 2009 to 24 February 2012

* *For identification purposes only*

SALES AND MARKETING

Due to the nature of our Group's business, we have been proactively seeking for sales opportunities in both domestic and foreign markets. During the Track Record Period, a significant portion of our steel pipes were sold in the PRC and the remaining were sold to over 50 countries and regions in the Middle East, European Union, America, and Southeast and Central Asia. The following table shows the breakdown of our revenue by geographical areas for each of the three years ended 31 December 2008 and the eight months ended 31 August 2009:

Market	Year ended 31 December						Eight months ended 31 August	
	2006		2007		2008		2009	
	RMB'000	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000*	*% of revenue*
Mainland China	599,523	54.5	663,590	45.5	1,252,643	47.7	752,700	37.2
America *(Note)*	145,507	13.2	291,498	20.0	613,451	23.3	164,105	8.1
European Union	217,104	19.8	11,803	0.8	61,742	2.4	97,466	4.8
Middle East	13,699	1.2	225,085	15.4	325,639	12.4	718,947	35.6
Other Asian countries	80,351	7.3	155,485	10.7	290,856	11.1	185,033	9.2
Others	43,557	4.0	110,567	7.6	80,308	3.1	103,052	5.1
	1,099,741	100.0	1,458,028	100.0	2,624,639	100.0	2,021,303	100.0

Note: For the three years ended 31 December 2008 and for the eight months ended 31 August 2009, among our sales to America, our sales to the US accounted for approximately 9.7%, 9.7%, 8.2% and 2.3%, respectively, of our total revenue.

As at the Latest Practicable Date, our sales and marketing team consisted of 32 full time staff and is divided into groups responsible for different markets. Among these 32 staff, 21 of them are responsible for domestic sales and 11 of them are responsible for exports sales. In view of the distinctive market features and the composition of our client base, our domestic sales team is further divided into three sub-teams whereby each sub-team focuses on one of our three major customers who are state-owned oil and gas producers as well as other domestic customers.

For overseas markets, we have entered into various agency agreements with certain foreign companies which engage in the supplies of oil and gas industry to promote our steel pipe products and solicit sales for us in certain countries such as Africa and Middle East and our marketing strategy in developing overseas markets can be broadly divided into three prongs. First, our Group appoints overseas sales agents ("**Sales Agents**") to promote sales and obtain orders for our Group's products in the specific territories and/or for certain projects. Our Group is required to furnish to the Sales Agents information and support for promoting our steel pipe products and the Sales Agents shall normally be entitled for a commission of a fixed percentage of not less than 2% on the contract value of the orders made by the customers introduced by them. The commission is paid to the Sales Agents within 15 days upon receipt of full payment from the customers by our Group. Most of the agreements with the Sales Agents are valid for a fixed term ranging from one to three years and can be terminated, in some cases, by written notice of a predetermined period ranging from one to three months by either parties, or in other cases, by mutual consent of both parties. For each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, the commission paid to the Sales Agents were approximately RMB0.8 million, RMB6.1 million, RMB19.6 million and RMB33.1 million, respectively. The significant increase in the commission paid to the Sales Agents during the Track Record Period can be ascribed to the corresponding increase in the sales orders introduced by or secured through the Sales Agents during the relevant periods, and in particular the significant increase in the commission that we paid to the Sales Agents during the eight months ended 31 August 2009, which substantial increase was mainly due to the one-off commission paid to a bidding agent who assisted us in our successful bidding of a contract of over 44,000 tonnes of ERW steel pipes from a major customer in the Sultanate of Oman, which commission amounted to 5% of the total selling price of that project for the eight months ended 31 August 2009.

Second, our Group also cooperates with large scale services providers of the oil and gas and utilities industries ("**Principal Contractors**") to participate in the tenders of the supply of our steel pipe products in overseas projects. We will provide our commercial proposals in relation to the supply of our steel pipe products to the Principal Contractors, who would then submit bidding documents for the relevant projects. Our Group is required to cooperate with the Principal Contractors by providing information to, and allow inspection by, the ultimate users of our steel pipe products, and in most cases our Group is also required to issue letters of support showing our commitment to allocate sufficient resources to produce the required products if the Principal Contractors succeed in obtaining the tender. If the tenders of the Principal Contractors are accepted, the relevant Principal Contractor will enter into agreement with the ultimate customer on one side and will make purchase order with our Group on the other side setting out the amount of products to be purchased, the unit price of the products, method of payment and the delivery date. In such cases, our sales are made to the Principal Contractors on normal sales terms and we do not deal directly with the ultimate users. While Sales Agents receive commission at a certain percentage of the contract value as remuneration, sales to Principal Contractors are on project basis whereby Principal Contractors usually tender for large scale project and our sales to them are usually counted towards their total costs for the project. For each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, our revenue contributed from the Principal Contractors were approximately RMB207.3 million, RMB42.4 million, RMB246.1 million and RMB165.3 million, respectively.

Third, we also deal directly with foreign end users, such as oil and gas producers in Malaysia and Brazil as well as trading firms. In any of the above three prongs of strategy, our exports sales team play an important part in planning, development and implementation of the planned marketing strategies of our Group. They are primarily responsible for, including but not limited to, the provisions of the required production information, follow-up with customers for settlements and the delivery arrangements.

The following table shows the breakdown of our exports sales revenue by the above-mentioned marketing strategies in overseas markets during the Track Record Period. We adopted a consistent revenue recognition policy for the sales revenue generated from such marketing strategies throughout the Track Record Period.

	Year ended 31 December						Eight months ended 31 August	
	2006		2007		2008		2009	
	RMB'000	*% to total*	*RMB'000*	*% to total*	*RMB'000*	*% to total*	*RMB'000*	*% to total*
Sales through Sales Agents	11,482	2.3	347,922	43.8	579,807	42.3	571,555	45.1
Sales to Principal Contractors	207,280	41.4	42,378	5.3	246,121	17.9	165,289	13.0
Direct sales to our overseas customers	281,456	56.3	404,138	50.9	546,068	39.8	531,759	41.9
	500,218	100.0	794,438	100.0	1,371,996	100.0	1,268,603	100.0

Our Group has been proactively seeking sales opportunities in both domestic and foreign markets. It is our continuous marketing strategy in developing overseas markets including those countries that we are less familiar with to enlarge the market and geographical coverage of our steel pipe products. Accordingly, we have put our efforts in identifying suitable Sales Agents or Principal Contractors to assist us in increasing sales volumes to targeted overseas markets as these Sales Agents or Principal Contractors are familiar with the end-user market and have better market intelligence in their respective locality. As a result of the above-mentioned marketing strategy and our continuous efforts, the percentage of our Group's exports sales revenue through the Sales Agents or the Principal Contractors increased during the Track Record Period as compared with that of the sales revenue generated from direct sales to our overseas end customers.

As at the Latest Practicable Date, our Group had engaged in agency arrangements with a total of seven Sales Agents and two Principal Contractors, who are Independent Third Parties. One of such Sales Agents and Principal Contractors had been acting in dual capacities as both a Sales Agent and a Principal Contractor during the Track Record Period.

Our Group offers free-of-charge after-sale services which include maintenance and replacement of defective products. For overseas customers, our Company would engage third party contractors to provide maintenance services upon request. During the Track Record Period, no provision for warranties has been made as we did not incur any warranty expenses and we had not engaged any such third party contractors to provide maintenance service for our overseas customers as no such request had been made by such customers during the relevant period. During the Track Record Period, there had been no stock return from our customers. To improve the relationship with our customers, we send questionnaires to our customers to obtain feedback on our product quality on a regular basis. In addition, we regularly invite our customers to visit our production facilities. Through these services and activities, we can introduce our products and quality management to our customers and at the same time solicit sales orders. These services also enable us to better understand the needs of our customers and to keep abreast of the latest market trends.

During the Track Record Period, all of our domestic sales are denominated in RMB and almost all of our exports sales are denominated in US dollars. During the Track Record Period, we did not formally adopt any hedging policy to protect ourselves against any fluctuations in foreign exchange rate and we only entered into a few non-speculative hedging transactions for amount to be settled in more than three months. Such hedging transactions are governed by certain foreign currency forward contracts we entered into with a domestic bank in the PRC with a total contract sum of approximately US$7.2 million and pursuant to which we were required to purchase the equivalent amount of Renminbi at a fixed exchange rate on certain specified future dates by settlement denominated in US dollars. The relevant transactions were entered into and fully settled in 2008. A loss of approximately RMB768,000 is recorded in the item of exchange loss in our Group's statements of comprehensive income included in the accountants' report as set out in Appendix I to this prospectus. Except as aforesaid, our Group had not entered into any hedging transactions during the Track Record Period and we did not have any outstanding hedging contracts as at the Latest Practicable Date.

In order to avoid any potential loss from the appreciation of Renminbi against US dollars, or other foreign currencies where relevant in the future, it is our intention that we, after internal assessment by our financial department, may consider entering into further foreign currency forward contracts to hedge our future foreign currency receivable from our customers if there is a certain date of receipt, or a certain range of dates of receipt of such foreign currency which is over three months or more. For this purpose, our management will closely monitor the amount of foreign currency forward contracts entered into by our Group which shall not exceed the expected receipt of the relevant foreign currencies from our customers. This ensures that such foreign currency forward contracts will not be entered into for speculative purposes.

Anti-dumping and countervailing measures

We export an increasing volume of steel pipe products during the Track Record Period. For each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, exports sales accounted for approximately 45.5%, 54.5%, 52.3% and 62.8%, respectively, of our total revenue. Exports sales accounted for approximately 62.5% of our unaudited total revenue for the eleven months ended 30 November 2009. Due to heightened competition in international trade, foreign countries may from time to time impose anti-dumping or countervailing measures or other trade restrictions such as imposition of duties on any goods exported by the PRC (including our steel pipe products) so as to protect their own industries. Given our geographical presence in certain countries where anti-dumping and countervailing measures are adopted, we may face anti-dumping and countervailing measures that, among other things, impose duties on our exported steel pipe products. For details of the anti-dumping measures imposed by the EU, and several anti-dumping and countervailing orders and investigations in relation to certain steel pipes and pipe fittings imposed by the United States, please refer to the paragraph headed "Change of rules and regulations, including anti-dumping and countervailing measures, by foreign countries may affect our exports sales into those countries." in the section headed "Risk factors", the paragraphs headed "Anti-dumping and countervailing duties in the United States" and "Anti-dumping duties in the EU" in the section headed "Industry overview" in this prospectus.

To the best of their knowledge after making all reasonable enquiries, our Company and Directors are not aware that any of our steel pipe products that were shipped to the United States or the EU where anti-dumping and countervailing measures were in place during the Track Record Period and up to the Latest Practicable Date were among those products targeted by the US and EU anti-dumping and countervailing measures. In addition, to the best of their knowledge after making all reasonable enquiries (including conducting market researches and making consultation with our sales agents), our Company and Directors are not aware that any of our steel pipe products that were shipped to countries other than the United States or the EU that have relevant anti-dumping and countervailing measures in place were among those products targeted by such relevant anti-dumping and countervailing measures in those other countries.

Further, to the best knowledge of our Directors, under the anti-dumping rules and regulations of the EU and the United States, the PRC may be treated as a "non-market economy" and, as a result, may be subject to special rules in determining whether imports of products from the PRC constitute dumping and in determining anti-dumping duty rates. For details, please refer to the paragraph headed "Anti-dumping determination and "non-market economy"" in the section headed "Industry overview" in this prospectus.

Pricing and payment terms

Pricing of our steel pipes and steel pipes manufacturing services are similar except that the cost of steel plates and steel coils will not be included in the pricing of our steel pipes manufacturing services. Pricing of our products and services are determined with due consideration on, inter alia, costs of raw materials and manufacturing charge, and we usually set our tender/selling prices taking the following steps:

- The production department will first review the technical requirements of the products and generate information on production costs such as cost of raw materials.

- The finance department will then estimate relevant administrative and ancillary expenses to be incurred, including cost of order and testing, etc.

- The sales department will collate such information and collect information on the domestic and global conditions for the relevant product.

Depending on the specification of the product and the level of complexity and technology involved in the production, we will impose different manufacturing charge. The pricing of our coating services are charged such that the cost and certain profit margin are usually added on top of the selling price of the steel pipes that our customers acquired from us. As for fittings, we normally charge our customers the raw material costs and manufacturing fees as in the case of charging our customers of our steel pipe products.

As safety and durability of our steel pipe products are of utmost importance to potential customers, our Directors believe that when making purchase decisions, these potential customers will not only consider the price of the products but also the track record of the suppliers, which means their price sensitivity is relatively low.

For domestic sales, we request for prepayments from our customers, which are usually equivalent to approximately 30% of the total contract sum at the time we entered into sales contracts with our customers with the remaining balance settled within the credit terms that we grant to them. Finished goods will be delivered to domestic customers and sales will be recognised, in general, upon the inspection and acceptance of finished goods by our customers. Settlements made by our domestic customers are usually by way of telegraphic transfer. For exports sales, in most cases, after sales contracts are entered into with our overseas customers, a letter of credit from such overseas customers will be issued to us pursuant to the settlement and credit terms prescribed in the sales contracts. Finished goods will be delivered to our overseas customers usually by terms of FOB (free-on-board) or CIF (cost, insurance and freight) and, in general, sales will be recognised when the goods are declared at custom. Settlements made by our overseas customers are usually by way of letter of credits whereby the funds under such letters of credit will be released to our Group either upon or within a specified period, as stated in the sales contracts, after the presentation of relevant shipping documents of finished goods to the notifying bank. Credit terms granted to our Group's domestic and overseas customers generally ranges from 30 to 60 days. However, in some cases, domestic customers are requested to settle the bills upon inspection and acceptance of finished goods. For the eight months ended 31 August 2009, sales revenue settled by our domestic customers upon inspection and acceptance of finished goods and

within certain credit period granted by us accounted for approximately 6.9% and 93.1% of the total domestic sales, and sales revenue settled by our overseas customers by way of letters of credit at sight and letters of credit carried certain settlement period specified in the sales contracts accounted for approximately 40.2% and nil of the total exports sales.

However, it usually takes 10 to 30 days for the forwarders to issue the relevant shipping documents and for notifying banks to release funds to our Group upon presentation of required documents specified under the terms of letters of credits. The effective credit period for exports sales is, in practice, longer than that for domestic sales.

Most of our domestic customers retain an amount equivalent to 2% to 10% of the total contract sum as a quality assurance fund and such amount will be paid to us upon the end of our quality assurance period, which is usually within six months and up to 18 months from inspection and acceptance. There was no default in recovering retention money from customers during the Track Record Period. In some cases, we receive the said quality assurance fund from our customers and letters of guarantee are issued to our customers in return, and such amount is deposited to our bank as pledged deposit and will not be released until the end of our quality assurance period. For some of our overseas customers, we are requested to issue performance security in the amount of 2% to 10% of total contract price or the total value of the letter of credit payable to our customers as compensation for any loss resulting from any of our failure to perform the contracts. The performance security will be discharged and released to us after our fulfilment of obligations under the contracts.

To ensure the timely collection of our account receivables and to minimise and avoid the incurrence of bad debts, we adopt a tight credit control policy and our finance department closely monitors the account receivables and conduct stringent collection and loss management measures. To enhance our liquidity, we also enter into forfeiting arrangement with the banks whereby our Group sells the letters of credit at a discount to the banks for immediate funds. For each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, total amount of such forfeiting arrangements amounted to approximately nil, US$8.3 million, US$36.3 million and nil, respectively (equivalent to approximately nil, RMB56.8 million, RMB248.4 million and nil, respectively), accounting for approximately 0%, 7.4%, 18.1% and 0% of our revenue from exports sales in the respective periods.

CUSTOMERS

Over the years, we have built up a broad and geographically diversified customer base with more than 690 customers as at 31 August 2009, which is comprised oil fields operators, oil companies, gas companies, petrolchemical companies, trading firms and engineering firms worldwide. As our steel pipe products are mainly used for, amongst others, conveyance and distribution of oil and natural gas, the locations of our customers, to a large extent, depend on the location of global pipeline construction projects in relation to the onshore and offshore transportation infrastructure of oil and gas.

Our PRC customers

During the Track Record Period, our sales to the customers in the PRC accounted for approximately 54.5%, 45.5%, 47.7% and 37.2%, respectively, of our total revenue. Although there was a decreasing trend in the proportion of revenue generated from our customers in the PRC during the Track Record Period, our Group is still and expects to be continuously heavily dependent on the PRC market, as the PRC market contributed to more than one-third of our revenue during the same period. We have established long-term business relationships with our major customers in the PRC, which include CNPC, CNOOC and Sinopec (in each case, on a group basis), which collectively operate considerably all of China's onshore oil and gas pipelines. These customers were among the five largest customers of our Group for each of the year/period during the Track Record Period. Given these customers' high quality requirements for their large-scale pipeline projects, our Directors consider that their placing orders with our Group is an emphatic recognition of our high product quality. In general, we enter into direct sales transactions with our PRC customers.

Our overseas customers

Our exports sales accounted for approximately 45.5%, 54.5%, 52.3% and 62.8%, respectively, of our total revenue during the Track Record Period. Such an increasing number of exports sales were made to a

large number of overseas customers in more than 50 countries and regions. In relation to the sales to overseas markets, we have entered into various agency agreements and/or cooperation agreements with the Sales Agents and the Principal Contractors for promoting our steel pipe products and soliciting sales for us in certain countries in Africa and Middle East. We also deal directly with foreign end customers, such as oil and gas producers in Malaysia and Brazil as well as trading firms. For details of our arrangements with the Sales Agents and the Principal Contractors, please refer to the paragraph headed "Sales and marketing" above in this section.

For each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, sales to our five largest customers in aggregate accounted for approximately 48.1%, 37.1%, 48.0% and 57.1%, respectively, of our total revenue. For the same period, our sales to the largest customer accounted for approximately 18.8%, 9.2%, 14.0% and 27.2%, respectively, of our total revenue.

The following table illustrates the sales to our five largest customers with respective regions during the Track Record Period:

Customer[1]	Year ended 31 December 2006			2007			2008			Eight months ended 31 August 2009		
	Region	*RMB'000*	*% of revenue*	*Region*	*RMB'000*	*% of revenue*	*Region*	*RMB'000*	*% of revenue*	*Region*	*RMB'000*	*% of revenue*
First largest	Germany	206,647	18.8	Mainland China[2]	134,413	9.2	Chile	366,366	14.0	Sultanate of Oman	550,453	27.2
Second largest	Mainland China	95,094	8.6	Malaysia[2]	120,260	8.2	Mainland China[2]	344,742	13.1	Mainland China[2]	358,462	17.7
Third largest	Mainland China[2]	86,973	7.9	Mainland China[2]	104,333	7.2	Mainland China[2]	218,287	8.3	Nigeria	93,763	4.6
Fourth largest	United States[2]	73,497	6.7	Chile	98,676	6.8	Malaysia[2]	175,670	6.7	Hong Kong	78,071	3.9
Fifth largest	Mainland China	66,500	6.0	United States[2]	83,421	5.7	United States[2]	155,698	5.9	Canada	72,477	3.6
		528,711	48.1		541,103	37.1		1,260,763	48.0		1,153,226	57.1

Notes:

1. To avoid any unnecessary legal dispute from our customers, our Group's sales to the five largest customers during the Track Record Period are disclosed on an anonymous basis.

2. The relevant customers had also been one of our five largest customers in another year/period during the Track Record Period.

For each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, our sales to CNPC (as a group) amounted to approximately RMB51.2 million, RMB195.8 million, RMB580.2 million and RMB475.0 million, respectively, and contributed to approximately 4.7%, 13.4%, 22.1% and 23.5%, respectively, of our total revenue; our sales to CNOOC (as a group) amounted to approximately RMB156.9 million, RMB176.3 million, RMB46.8 million and RMB78.4 million, respectively, and contributed to approximately 14.3%, 12.1%, 1.8% and 3.9%, respectively, of our total revenue; and sales to Sinopec (as a group) amounted to approximately RMB88.3 million, RMB104.3 million, RMB220.6 million and RMB96.1 million, respectively, and contributed to approximately 8.0%, 7.2%, 8.4% and 4.8%, respectively, of our total revenue. Our Group's sales to the customers, including CNPC and CNOOC, are on a project-by-project basis and depend to a very large extent on the progress of the customer's projects and also the size of steel pipe product requirement in the relevant projects. With regard to our Group's sales to CNPC, such sales in 2007 mainly represent the sale of our steel pipe products to CNPC in relation to three CNPC's pipeline projects while that for 2008 mainly represent sale of our steel pipe products to CNPC in relation to 11 CNPC's pipeline projects, and such increase is mainly due to the commencement of the implementation of a number of additional pipeline projects by CNPC in 2008. In relation to our Group's sales to CNOOC, although CNOOC ordered steel pipes of our Group mainly for five of its pipeline projects in both 2007 and 2008, CNOOC ordered from our Group a larger amount of our steel pipes for its projects in 2007 than in 2008, which larger demand was attributable to CNOOC's more intensive project schedule in 2007, and therefore, our Group's sales to CNOOC dropped in 2008 as compared to that for 2007.

None of our Directors, their respective associates or any shareholders holding more than 5% of the issued share capital of our Company held any interest in the five largest customers of our Group during the Track Record Period.

PROCUREMENT OF RAW MATERIALS AND SUPPLIERS

Our procurement department is responsible for the procurement of raw material and selection of suitable suppliers, as well as for coordinating with our quality control staff for the quality control of raw materials. We have implemented internal management systems in accordance with the principles of ISO9001:2000 to ensure our raw material procurement is in a steady and timely way.

Raw materials

The major raw materials that we use for the manufacturing of our steel pipes are steel plates and steel coils. For each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, cost of steel plates and steel coils accounted for approximately 90.4%, 90.9%, 91.7% and 90.6%, respectively, of our total cost of sales. As both product price and quantity are, in general, specified in the sales contracts, any increase in raw materials prices after the signing of sales contracts with our customers will affect our gross profit margin. In view of the above, we have adopted a back-to-back procurement policy since the first quarter of 2006 whereby a quotation of raw material prices, with specific validity period, will be obtained from our suppliers prior to the signing of sales contracts with our customers or the submission of tender document, and the pricing of sales orders or tender will be determined with reference to such quotation. After the signing of the sales contracts with our customers or successfully obtaining a tender and within the validity period of the said raw material quotations, we will enter into a back-to-back purchase agreement with our suppliers to purchase the quantity of raw materials required in the corresponding sales contracts. Notwithstanding the above, the terms of our sales contracts and purchase contracts are negotiated separately with our respective customers and suppliers. Our Directors consider that such procurement strategy minimises the impact of increase in raw material prices since we are generally able to fix the cost of raw materials with our suppliers in relation to specific sales contracts. Other than the above-mentioned back-to-back procurement policy, our Group had not entered into any hedging instruments relating to steel or steel related products during the Track Record Period. During the Track Record Period, almost all of our raw material purchases were settled in RMB.

Suppliers

In order to obtain better pricing terms from suppliers and to avoid reliance on any single source of supply, we maintain close business relationships with a number of suppliers for principal raw materials. Purchases from the five largest suppliers of our Group accounted for approximately 56.4%, 57.1%, 47.4% and 58.5%, respectively, of our total purchases for each of the three years ended 31 December 2008 and the eight months ended 31 August 2009. Purchases from the largest supplier of our Group for each of the three years ended 31 December 2008 and the eight months ended 31 August 2009 accounted for about 20.8%, 17.4%, 13.3% and 20.7%, respectively, of our Group's total purchases. None of the Directors, their respective associates or shareholders holding more than 5% of the issued share capital of our Company held any interests in any of our five largest suppliers in the Track Record Period.

As we maintain good relationship with our suppliers and purchase a large proportion of raw materials from them directly, we can benefit from assured quality, competitive purchase prices and steady and in-time deliveries, which, in turn, leads to reduction of inventory costs. During the Track Record Period, we did not experience any material shortage of steel coils or steel plates. As steel coils or steel plates required by our Group are not rare or difficult to source, our Directors do not anticipate any material difficulties in sourcing them.

We generally entered into supply agreements with our suppliers on a case-by-case basis. Since 2006, we have adopted the policy of entering into back-to-back purchase contracts with our suppliers once sales contracts are entered into with our customers in order to fix the cost of raw materials with our suppliers in relation to specific sales contracts. We are usually required to make a prepayment equivalent to approximately 10% to 30% of the total purchase amounts to secure the supply contract. In most cases, our suppliers require us to settle the remaining balance before the delivery of raw materials. Our Directors believe that these payment terms granted by our suppliers are in line with current general market practices in the PRC.

INVENTORY POLICY AND CONTROL

As at 31 August 2009, we had inventories of approximately RMB500.9 million, comprising raw materials, work-in-progress and finished goods. As our steel pipe products are produced based on committed orders from our customers with different specifications such as length, outside diameters, wall thickness and quality of steel to be used, we order our raw materials on a case-by-case basis according to our customers' needs.

It is our policy to closely monitor and control the inventory levels of our raw materials, work-in-progress products and finished products so as to optimise the allocation of our internal resources. We have implemented an inventory management system, which enables us to monitor the stock movement of the raw materials and work-in-progress goods which should be in alignment with our product delivery requirements and schedules.

On receipt of an order or invitation to tender, we will identify all raw materials and components required and review the delivery schedule for the raw materials previously ordered or, as appropriate, prepare a delivery schedule for the raw materials required by the order or tender. A production schedule will then be prepared to ensure efficient production.

The purchasing and production operations of our Group closely follow the production plans prepared by the production department on the basis of customer orders. The production plan lays down specific aspects of the order and will be passed to various departments to be followed up with. These departments will perform various functions, such as the checking of the available inventory, the ordering of raw materials, quality control on incoming raw materials, production, warehousing, delivery, as well as accounting functions, such as the processing of letters of credit, payment to suppliers and collecting payments from customers or bankers.

The production department prepares purchase requisition reports based on stock records and production schedules for confirmed orders. The actual purchase of raw materials is handled by the purchasing department based on the purchase requisition report. Based on the production and sales records, our accounting staff will prepare monthly management accounts for review by our management in its monitoring of our performance.

As a step to enhance our inventory control, we installed an ERP System through which we can plan our production activities, raw material procurement and inventory management in January 2008. This system also provides an information management platform to facilitate information exchange among our various departments so that we can improve the efficiency and control of our operations, especially in the production planning, inventory procurement and management and sales.

QUALITY CONTROL

We place great emphasis on preventive measures in the quality control process. These measures are implemented at various stages of the production process with the aim of identifying, analysing and solving irregularities at the earliest possible stage of the production process.

Most employees in the quality control department are graduates from polytechnics, vocational schools, colleges and universities with various diplomas and some of our employees have obtained master or doctoral degrees. In addition, some of our employees hold such qualification certificates as ISO9001:2000, ISO14000, OHSAS18000 and ISO10012 internal reviewer, measurement internal reviewer, mechanical and electrical engineer, quality engineer, safety officer, international welding engineer, submerged arc welding engineer, manual welding engineer, electrician, ultrasonic tester, radial tester, magnetic particle tester, penetration tester, material composition and physical properties inspector, measurement controller, intermediate mechanical quality inspector and anticorrosion operator.

In addition to the attainment of the aforementioned qualifications, our employees in the quality control department are also provided with basic introductory training, job-specific training, safety training and training on quality management system, various kinds of testing and inspection standards, business management and quality control. Our Group would also sponsor some of these employees to further their studies in classes of master of business administration degree.

Since the quality of our finished products is, to a large extent, determined by the quality of raw materials, all raw materials are sourced from reliable suppliers. Incoming raw materials are subject to detailed physical inspection according to our strict specifications on a random sampling basis before they are warehoused or enter into our production line.

On-line quality control procedures using advanced testing equipment such as hydrostatic, ultrasonic, X-ray testing equipment are followed to ensure that product specifications are met at various stages of the production process. The whole production process is closely monitored and the performance is properly logged so that the reasons for any default can be traced. Finished products are inspected before they are packaged for delivery or storage. Serial numbers are printed on every steel pipe so that we can effectively trace the production record if any quality problem occurs. As at the Latest Practicable Date, we had over 300 staff responsible for quality control and quality assurance.

We strive to maintain and improve the quality of our steel pipe products and have adopted continuous improvement strategy which requires each process to follow a set of total quality management guidelines. In recognition of its dedication to quality control in its business management and operations in manufacturing steel pipes, PCKSP was awarded the following major certifications, which remained effective as at the Latest Practicable Date:

Year	Certification	Description	Organisation	Expiry Date/ Validity Period
1996	ISO 9001:2000 *(Note 1)*	Compliance with the requirements of quality management system standard	HKQAA	8 October 2010
1996	BS EN ISO 9001:2000 *(Note 2)*	Compliance with the requirements of operating a quality management system	BSI	10 May 2011
1996	Authority to use the Official API Monogram *(Note 3)*	Right to use Official API Monogram in the production was granted after review according to the API quality system. Products can be widely applied in various oil fields related projects	API	29 January 2011
1999	Lloyd's Register Certificate *(Note 4)*	PCKSP was certified having adequate capability to produce ERW steel pipe and LSAW steel pipe to API Specification 5L	Lloyd's Register	Not applicable

Year	Certification	Description	Organisation	Expiry Date/ Validity Period
2002	Recognition for BV Mode II Survey Scheme *(Note 5)*	The manufacturing and testing facilities, associated procedures and relevant qualifications were found suitable for the supervision by Bureau Veritas surveyors of manufacturing, inspection and testing of pipe	Bureau Veritas	4 April 2006 to 4 April 2010
2004	ISO 14001:2004, GB/T 24001-2004 Certificate *(Note 6)*	Compliance with the requirements of environmental management system standard	中國質量認證中心 (China Quality Certification Centre*)	26 November 2010
2004	Occupational Health and Safety Management System Certificate (OHSAS18001:1999, GB/T 28001-2001) *(Note 7)*	Compliance with the requirements of occupational health and safety management system standard	中國質量認證中心 (China Quality Certification Centre*)	20 November 2010
2006	DNV's Rules for Classification Pt.2 *(Note 8)*	Certified as an approved steel tubes and pipes manufacturer	DNV	1 March 2006 to 30 June 2010

Notes:

1. Scope: manufacture of electric-resistance welded steel pipe (longitudinal seam) and longitudinal seam submerged arc welded steel pipe, manufacture and fabrication of oil casing tube, fittings and anticorrosive coated steel pipe. The issue of such certificate represents that PCKSP's quality management system has been audited and verified by the issuing organisation that it conforms to the requirements specified in the quality management system standards of ISO 9001:2000. The certificate was granted on 30 May 1996, amended on 30 July 2007 and will remain valid until 8 October 2010.

2. The issue of such certificate represents that PCKSP's quality management system has been audited and verified by the issuing organisation that it conforms to the requirements specified in the quality management system standards of ISO 9001:2000, which are based on eight quality management principles, namely customer focus, leadership, involvement of people, process approach, system approach to management, continual improvement, factual approach to decision making and mutually beneficial supplier relationships. The certificate was granted on 30 May 1996, amended on 30 July 2007 and will remain valid until 8 October 2010.

3. Scope: manufacturer of Line Pipe Plain End at PSL 1; manufacturer of Line Pipe Plain End at PSL 2; processor of Line Pipe Plain End at PSL 1; processor of Line Pipe Plain End at PSL 2. The issue of this certificate represents that PCKSP is granted the right to use the official API Monogram on manufactured products after review according to the API quality system under 5L, 5CT and Q1 specifications. Products can be widely applied in various oil fields related projects. The certificate was initially granted on 29 January 1996 and was renewed upon expiration. Such certificate was recently renewed on 29 January 2008 and will remain valid until 29 January 2011. We have also obtained a separate certificate for Manufacturer of Line Pipe Plain End at PSL 1 and PSL 2 (Type of Pipe: SAWL/Delivery Condition: M/Highest Grade: X70) for the effective period from 21 September 2009 to 9 June 2011. A separate certificate was granted on 29 January 2008 for the manufacturer of Casing or Tubing Plain End at Group I and such certificate will remain valid until 29 January 2011.

4. The certificate was issued to PCKSP certifying that its manufacture facilities, procedures and quality control system have been examined in accordance with the requirements of API specification 5L. The certificate was issued on 17 December 1999.

5. The certificate was issued to PCKSP certifying that its manufacturing and testing facilities, associated procedures and relevant qualifications were found suitable, in the opinion of the issuing organisation, for the supervision by the surveyors of the issuing organisation of manufacturing, inspection and testing of its welded steel pipes in compliance with the Rules of Bureau Veritas Rules for Classification. The certificate was issued on 26 June 2002 and remains valid until 4 April 2010.

6. Scope: manufacturing and process design of long seam high frequency welded pipe, long seam submerged arc welded pipe, petroleum welded pipe and cold rolled section, manufacturing process and relevant management activities of casing, tubing, fittings and anti-corrosive coating pipe. The issue of such certificate represents that PCKSP's environmental management system has been audited and verified by the issuing organisation that it conforms to the requirement specified in the standards of ISO14001:2004 and GB/T24001-2004. The certificate was granted on 30 September 2004, renewed on 27 November 2007 and will remain valid until 26 November 2010.

7. Scope: manufacture and process design of long seam high frequency welded pipe, long seam submerged arc welded pipe, petroleum welded pipe and cold rolled section; manufacture process and related management activities of casing, tubing, fittings and anticorrosion coating. The issue of such certificate represents that PCKSP's occupational health and safety management system has been audited and verified by the issuing organisation that it conforms to the requirement specified in the standards of OHSAS 18001:1999 and GB/T 28001-2001. The certificate was granted on 30 September 2004, renewed on 21 November 2007 and will remain valid until 20 November 2010.

8. The certificate was issued to PCKSP certifying that it is an approved manufacturer of steel tubes and pipes in accordance with Det Norske Veritas' Rules for Classification Pt. 2. The certificate was issued on 1 March 2006 and remains valid until 30 June 2010.

Except for DNV's Rules for Classification Pt.2 which our Group is currently preparing to seek for the first renewal of the relevant certificate on or before its expiration in 2010, all other certifications listed above have been renewed upon their most recent expiries respectively. Our Directors consider that given our Group's prior successful experience in obtaining renewal and the improving standard quality management of our Group since we last obtained the relevant certificates, our Directors do not foresee any impediments for our Group to obtain the renewal of the above certificates on or before their expiration in 2010 or 2011.

Moreover, our calibration department is certified as a national second-grade calibration laboratory which contained various testing instruments such as universal raw material tester, low temperature impact tester, drop-weight tear tester, computerised vacuum direct-read automatic spectrum analysis instrument and microscope of metal analysis.

Our Directors believe that our Group has established a good reputation in the steel pipe market as a result of its commitment to product quality, which is one of the key factors contributing to our success.

DESIGN, RESEARCH AND DEVELOPMENT

We have a design, research and development team comprising qualified engineers, technical institute and university graduates specialising in machinery, welding, hydraulic pressure, electrical automatic and non-destructive testing. The research and development activities are aimed at (i) developing new products in line with technological changes and market trends; (ii) improving the quality of products; (iii) reducing production costs and enhancing production efficiency; and (iv) introducing and implementing new technologies or machinery to upgrade the existing production lines.

In order to facilitate the decision making for capital expenditure in research and development, our equipment management department will submit application documents to our research and development department for auditing whenever any new or heavy repair equipments are required or any technical innovation projects are proposed. Approval from our chief engineer will be required before the actual purchase of such equipment and the implementation of such projects. Our equipment management department will then continue monitoring the performance of such equipment and implementation of such projects.

We also provide our staff with opportunities to take part in industry conferences (行業學術交流會), patent innovation training (實用專利的創新和研發學習) and training held by the engineering community (工程師協會). As at the Latest Practicable Date, our research and development department comprised 45 staff which was overseen by nine senior engineer and technicians from the management team. Among the 54 staff in our research and development team, 16 were qualified engineers, 24 were assistant engineers and 14 were technicians possessing expertise in areas such as welding engineering, machine design and manufacturing, metal engineering, mechanical engineering, management, raw materials processing, application of direct numerical control and application of hydraulic pressure. All of them have received tertiary education and nearly half of them have over ten years of relevant experience.

In 2001, PCKSP was recognised as High-tech Enterprise by 廣州市科學技術委員會 (Guangzhou City Science and Technology Committee*). In 2008, PCKSP was issued a High-tech Enterprise Certificate in recognition for our Group's technological capabilities. In 2003, our Group's technology centre was authorised by 廣東省經濟貿易委員會 (The Economic and Trade Commission of Guangdong Province*) as a provincial technology centre.

Our research and development capability was recognised by National Standardization Technical Committee and was entrusted to participate in the drafting and editing of the national steel pipe standards in China. Based on our sound technological know-how and flexible innovation system, we have developed mechanical expanding equipment independently.

We are committed to design and develop new products to meet customers' requirements. Introduction of new products usually involves close co-operation between customers, suppliers and ourselves. Hence, our research and development team, in collaboration with other departments such as sales department and procurement department, liaise closely with the suppliers and customers to keep abreast of the latest market trend and relevant technologies development on a regular basis.

We continually enhance our production facilities and improve our production technique in order to lower the defective rate in the production process and to improve the quality of the products. Currently, we are working on the improvement of hydrostatic pressure testing techniques and the technology in the production of large size LSAW steel pipes.

The following are some of our significant achievements in product design and development:

(i) we have made significant improvements in the production process of longitudinal ERW steel pipes, which improve the quality of our longitudinal ERW steel pipes in terms of accuracy of dimensions, surface smoothness and physical properties;

(ii) we have successfully produced steel pipes meeting the Japanese Industrial Standards G3452, thus broadening our product range and increasing our competitive edge in the international market;

(iii) we have designed and produced effective production equipment, including some of the moulds used in the forming unit of our Group's ERW steel pipes production line, and an external copying apparatus for pipe chamfering (鋼管修端外角仿形裝置), which are designed to improve production efficiency and product quality, and help to achieve our policy of producing quality products at competitive costs; and

(iv) we have developed machinery and equipment (水壓擴徑機, 機械擴徑機) which meets international advanced technology standard and have obtained patent registration in the PRC for them.

We have registered and applied for registration of a number of utility model patents and invention patents with respect to our steel pipe production machineries and methods which were enhanced or developed through our research and development effort and are mainly related to the modifications or upgrading of the Group's production lines which improve our Group's production efficiency and technology. Further information relating to patents of our Group is set out under the paragraph headed "Intellectual property rights of the Group" in Appendix VI to this prospectus.

During the Track Record Period, the expenses incurred in relation to our design, research and development activities was approximately RMB864,000, RMB1,329,000, RMB2,505,000 and RMB3,026,000 respectively, which mainly includes staff cost of our Group's research and development department and patent-related expenses.

ENVIRONMENTAL PROTECTION

We recognise the importance of environmental protection and adopt stringent environmental protection measures with a view to reducing the impact of our operations on the environment and the risk of exposure to liabilities under the prevailing environmental protection laws and regulations.

Our production operations are subject to the national environmental protection laws and regulations and rules promulgated by the local governments in the jurisdictions where our production facilities are located in the PRC, including《中華人民共和國環境保護法》(Environmental Protection Law of the PRC*),《中華人民共和國環境影響評價法》(Laws of the PRC on Appraising of Environment Impacts*),《建設項目環境保護管理條例》(Administrative Regulations on Environmental Protection for Construction Project*),《中華人民共和國水污染防治法》(Law of the PRC on the Prevention and Control of Water Pollution*),《中華人民共和國大氣污染防治法》(Law of the PRC on the Prevention and Control of Atmospheric Pollution*),《中華人民共和國固體廢物污染環境防治法》(Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes*) and《中華人民共和國環境噪聲污染防治法》(Law of the PRC on Prevention and Control of Environmental Noise Pollution*).

We strive to conduct our business in a manner that we comply with the applicable environmental laws and regulations and, to the practicable extent, minimise any adverse effect on the environment to fulfill our social responsibility as a responsible enterprise. We have obtained governmental confirmation certifying our compliance with the applicable environmental laws and regulations for our production plants.

We have implemented environmental protection standards and procedures and perform constant internal inspection on environmental protection and our continuous efforts in this aspect are evidenced by the accreditation of ISO14001:2004 and GB/T 24001-2004 from China Quality Certificate Centre in September 2004. To obtain such accreditation, we have followed the stringent requirements and conducted different environmental-friendly measures, in particular,

- prevention of pollution: we constantly evaluate different aspects of our production process, including facilities employed and raw material, utilities and packaging materials used, so as to ensure compliance with environmental regulations. In addition, we reuse processed waste water, as much as practicable to reduce pollution. We also have on-site treatment centres for waste water, air and noise generated from our operations before they are discharged;

- control of emission: during the production process, the contents of waste water emitted from our production facilities are monitored daily;

- checking and monitoring measure: we put in place internal procedures to conduct regular checks on our environmental management system which are in compliance with the standards of ISO14001:2004. The ISO14001:2004 certification is renewed every three years subject to inspection by the accreditation institution and we have been accredited with such certification since 2004; and

- staff awareness: results of the emission readings and third party checking are shared with staff members and they are invited to give suggestion to the management to improve our overall environmental protection in the production process.

During the Track Record Period, our Group's expenditure in respect of the regulatory compliance with environmental matters were approximately RMB27,000, RMB52,000, RMB50,000 and RMB30,000, respectively. Our Directors expect that, to their best estimate, the annual cost of compliance with environmental matters will amount to approximately RMB50,000. In order to address any potential future environmental risks, our Group will continue to strictly adhere to the above measures as well as to continue to invest in environmental protection facilities for our production process if necessary, such as our plan to construct a new waste water treatment facilities with estimated cost of approximately RMB1.0 million.

We have assigned three staff members in our management department to be responsible for formulating and implementing environmental-friendly measures. Each of these staff members possesses at least three to four years of experience in environmental management. They have also completed training course for the ISO14000 environmental management system and obtained the relevant certificates.

Up to the Latest Practicable Date, we were not subject to any material fine or claim arising from non-compliance of environmental regulations. As advised by our Company's legal advisers as to PRC law and save as disclosed below, our Directors consider that our Group's production base established in the PRC complied with all applicable laws, regulations and requirements in the PRC in relation to environment protection and has not violated any local environmental protection laws or regulations of the PRC during the Track Record Period.

Save as disclosed below, our subsidiaries in the PRC had gone through the procedures or retrospective procedures and obtained the environmental inspection and pollutant discharge licences for all the production lines including the JCOE production lines of PCKSP, the external anti-corrosive production lines and the cement and bitumen anti-corrosive production lines of Hualong Anti-Corrosion, the JCOE production line of GPR Steel Pipe, the external anti-corrosive production line and internal epoxy coating anti-corrosive production line of GPR Coating, the pipe collar forming machine of GPR Casing Pipe, the bending pipe production line of GPR Petrol-Fittings and the JCOE production line of GPR Steel Pipe (Jiangsu branch) (with respect to its installed production line with an annual production capacity of approximately 300,000 tonnes of LSAW steel pipes).

As the aforesaid JCOE production lines of PCKSP, the external anti-corrosive production lines and the cement and bitumen anti-corrosive production lines of Hualong Anti-Corrosion commenced production before obtaining the necessary approval for relevant environmental impact evaluation and before completing the inspection procedures regarding environmental protection facilities, as advised by our Company's legal advisers as to the PRC law, PCKSP and Hualong Anti-Corrosion may be required by the relevant environmental authorities to take remedial actions within a specified period, or to cease construction, production and operation in case they failed to take such remedial actions or if any pollution is caused. They may also be subject to a penalty of an amount of RMB50,000 to RMB200,000.

Our Controlling Shareholders have agreed to indemnify us against, among other usual provisions regarding taxation and estate duty, any claims or demand made against or losses or expenses incurred by us as a result of our commencing production before obtaining the relevant necessary approval as described above and subject to the provisions of the deed of indemnity executed by our Controlling Shareholders in favour of the Group, more particularly described in paragraph 16 of Appendix VI to this prospectus.

OCCUPATIONAL HEALTH AND SAFETY

We are subject to various PRC work safety laws and regulations such as《中華人民共和國勞動合同法》(Labor Contract Law of the PRC*),《中華人民共和國 就業促進法》(Employment Promotion Law of the PRC*), and《中華人民共和國安全生產法》(Production Safety Law of the PRC*). Our compliance with such laws and regulations is manifested by the accreditation of OHSAS (the Occupation Health and Safety Management System) 18001:1999 certificate issued by China Quality Certificate Centre on 30 September 2004. Coupled with our compliance with ISO 14001:2004 standards, we have set up an integrated management system to ensure that we maintain a synchronous development in the aspects of environment-friendliness, health and safety.

We place emphasis on safe production and we have implemented the following effective measures to minimise the exposures of our employees to risk at work in compliance with the OHSAS 18001 standards:

- safety guidelines and tips on occupational safety such as safety production measures and procedures for handling certain emergencies are provided to our employees;

- occupational safety training are organised and conducted for our staff to promote safety awareness; and

- protective clothing, accessories and equipment are made available to our employees, and we regularly check to ensure these clothing, accessories and equipments are being properly used.

We have experienced personnel involved in formulating and implementing measures to minimise our employees' exposure to risk at work. They have extensive experience in safety management gained from various government departments and manufacturing companies and possess relevant professional qualifications, such as 廣東省安全主任資格證書 (Guangdong Province Safety Officer Qualification Certificate*), OHSAS內審員資格證書 (OHSAS Internal Inspector Certificate*) and 特種設備安全管理人員資格證書 (Special Equipment Safety Management Officer Qualification Certificate*).

In order to further minimise potential future risks associated with occupational health and safety, our Group plans to (i) intensify the training of staff members to raise their safety awareness; (ii) adhere strictly to the OHSAS and enhance the work health and work safety education and publication; and (iii) enhance the operational safety of our staff by improving the production environment, intensifying onsite supervision and perfecting safety production management policy.

During the Track Record Period, we were not subject to any material safety claims, lawsuits, penalties or disciplinary actions, and there had not been any material work accidents causing health or safety issues.

We have obtained governmental confirmations certifying that our subsidiaries in the PRC have all established a sound production safety accountability system and a labour protection system in accordance with the national and regional laws, regulations and other regulatory documents, which is adequate to ensure safe production by their staff. Our subsidiaries in the PRC have not violated the requirements on safety production.

We are also subject to various PRC laws and regulations on employee benefits such as《企業職工生育保險試行辦法》(Trial Measures for the Childbirth Insurance for Enterprise Employees*),《社會保險費徵繳暫行條例》(Provisional Regulation on the Collection and Payment of Social Insurance Premiums*),《社會保險登記管理暫行辦法》(Provisional Measures for Registration and Administration of Social Insurance*),《住房公積金管理條例》(Regulations on the Administration of Housing Pension Funds*) and《工傷保險條例》(Regulation on Work-Related Injury Insurances*). Our Directors confirm that, except for the recently established PCKSP (Lianyungang) which has not participated in the housing pension fund scheme as it had not commenced commercial operations nor employed any staff as at the Latest Practicable Date, we have obtained governmental confirmations certifying that our subsidiaries in the PRC have all participated in the housing pension fund scheme by making contributions on a regular basis for their staff in accordance with relevant national and provincial requirements. There has been no overdue or outstanding contributions to the housing pension fund, and our subsidiaries in the PRC have never been punished for non-compliance with the laws and regulations on housing pension fund contributions.

We have also obtained governmental confirmations certifying that our subsidiaries in the PRC have all entered into labour contracts with their staff and participated in the social security insurance by making contributions for their staff in accordance with the《中華人民共和國勞動合同法》(Labour Contract Law of the PRC*) and the requirements of the local laws and regulations on labour and social security. Our subsidiaries in the PRC have never been punished for non-compliance with the laws and regulations on labour and social security.

INSURANCE

We maintain insurance policies purchased with insurance companies that cover all of our production facilities (including buildings, machinery, equipment and vehicles). These policies cover damages to these production facilities (excluding business interruption losses) caused by fire, flood and other natural calamities.

We do not maintain product liability insurance as it is not a statutory requirement under the relevant PRC law.

We also provide social insurance for our employees as required by the PRC social security regulations, such as pension insurance, unemployment insurance, medical and industrial injuries insurance. For each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, our total insurance expenditures amounted to approximately RMB2.6 million, RMB3.3 million, RMB6.3 million and RMB4.2 million, respectively. Our Directors consider that our Group's insurance coverage is sufficient and in line with normal commercial and customary practice in the PRC.

INTELLECTUAL PROPERTY RIGHTS

To protect our proprietary rights, we rely upon the applicable patent and trademark laws, laws relating to protection of other intellectual property rights, and impose confidentiality obligations on our employees. We also protect our know-how by requiring our employees, in particular, the technical and mechanical personnel, to enter into confidentiality and non-competition undertakings with us.

We conduct our business principally under our trademarks "PCK", "PRST" and "金鳳朝珠" as registered in the PRC, the trademark "PCK" as registered in Hong Kong, Denmark, Brazil, Malaysia, US and with the World Intellectual Property Organization and the trademark "PCK" as being applied for registration in Iran and Pakistan. As at the Latest Practicable Date, we had 21 registered trademarks in the PRC, two registered trademarks (as a series of marks) in Hong Kong, 22 registered trademarks overseas, and have filed application for the registration of six trademarks in the PRC and two trademarks overseas.

In addition, we currently are the registered holder of 40 utility model patents*(Note)* and three invention patents, and have three invention patent registrations currently under application in the PRC. Further information in relation to the trademarks and patents of our Group is set out under the paragraph headed "Intellectual property rights of the Group" in Appendix VI to this prospectus.

Our Directors confirm that, as at the Latest Practicable Date, we were not involved in any proceedings in respect of, and we have not received any notice of any claims of infringement of, any intellectual property rights that may be threatened or pending, in which we may be involved whether as claimant or respondent.

PROPERTY

Owned properties in the PRC

As at the Latest Practicable Date, we owned various buildings and structures comprising 11 parcels of adjourning land with a total site area of approximately 461,001.40 sq.m. and various production plants, warehouses, office and other ancillary supporting facilities with a total gross floor area of approximately 72,718.97 sq.m. in our factory complex in Shiji Town, Panyu, Guangdong Province, the PRC. Further details of this property are set out in Property No.1 in the section headed "Group I – Properties held and occupied by the Group under long-term title certificates in the PRC and valued on the basis of Market Value" in Appendix IV to this prospectus. We have obtained the land use rights of this property. However, regarding a parcel of land with a site area of 10,362 sq.m. in this property, although PCKSP has the rights to use the land, it is reserved for public road purpose by the competent land bureau. As a result, PCKSP does not have the right to erect any permanent structure thereon. PCKSP shall surrender this portion of land at nil compensation if the government resumes the land for the purpose of public road extension to cope with future need and town planning requirement. During the term of the land use rights, PCKSP has the rights to use this portion of land and subject to relevant government's approval, it can assign, lease or mortgage this portion of land. However, the Directors consider that the usage of this portion of land is not crucial to our business as it is vacant and the resumption of it by the government would not affect our normal business operation.

Note: As at the Latest Practicable Date, the relevant patent registration certificates in respect of two of the 43 patents in relation to steel pipes production machineries and methods were pending publication by way of public notice in the PRC. Please refer to the paragraph headed "Intellectual property rights of the Group" in Appendix VI to this prospectus for further details.

Further, of the 16 major buildings and structures in our factory complex in Shiji Town, Panyu, Guangdong Province, the PRC that we own and occupy, we have not obtained valid building ownership certificates for 10 buildings and structures with a total gross floor area of approximately 27,302 sq.m., including a backup workshop, an anti-corrosive production plant, a ERW steel pipes ancillary workshop and other supporting facilities. Our Directors consider that such buildings and structures are not crucial to our Group's operation as a whole as they are mainly used for ancillary and complementary purposes only. Moreover, we have not yet obtained the valid building ownership certificate for a new workshop located in Shiji Town, Panyu, Guangdong Province, the PRC with a gross floor area of approximately 9,993.6 sq.m., as it is still under construction. Our Group has applied to the relevant authorities for the building ownership certificates for these buildings and structures.

As advised by our legal advisers as to PRC law, as PCKSP had started using such buildings and structures before completion of the required inspection, our Group may be subject to a fine of 2% to 4% of the value of the project contract, which our Directors estimated the maximum amount of such fine is approximately RMB400,000 (equivalent to approximately HK$456,000). In the event that we are not able to obtain the relevant building ownership certificates, our Controlling Shareholders have agreed to indemnify us against, among other usual provisions regarding taxation and estate duty, any claims or demand made against or losses or expenses incurred by us as a result of such absence of the relevant building ownership certificates pursuant and subject to the provisions of a deed of indemnity to be executed by the Controlling Shareholders in favour of the Group prior to the Listing. Having taken into consideration that (i) PCKSP has obtained valid State-owned Land Use Right Certificates for the land on which the above buildings and structures are erected; (ii) a confirmation was issued by 廣州市城市規劃局番禺區分局 (Panyu Branch of the Bureau of Urban Planning of Guangzhou Municipality*), confirming that according to their records, they are not aware of any investigation or punishment imposed on PCKSP due to the violation of any laws or regulations relating to urban planning; and (iii) a confirmation was issued by 廣州市番禺區建設局 (Construction Department of Panyu District of Guangzhou*), confirming that according to their records, they are not aware of any penalty imposed on PCKSP due to the violation of any construction regulations relating to the above buildings and structures, we do not envisage any difficulties in obtaining the building ownership certificates for the above buildings and structures and we are in the process of obtaining these certificates. Upon obtaining the relevant building ownership certificates, PCKSP has the right to occupy, use, lease, mortgage, and assign the buildings and structures. If there is any change of the position of the relevant local authorities regarding issuance of such certificates, our Group may incur additional cost to re-construct these buildings.

Our Directors consider that in the extreme event that the eleven buildings and structures mentioned above were required to be demolished for the lack of the required building ownership certificates, the impact on our Group's operation would not be material as (i) we may relocate our ancillary production lines or facilities to other buildings within our production complex; and (ii) if necessary, we may also sub-contract such ancillary and complementary production process to other service providers and re-schedule our production plan.

As at the Latest Practicable Date, we also owned a parcel of vacant land with a total site area of 9,103.30 sq.m. at Dalong Village Shaxia, Shiji Town, Panyu, Guangdong Province, the PRC. Further details of this property are set out in Property No.2 in the section headed "Group I – Properties held and occupied by the Group under long-term title certificates in the PRC and valued on the basis of Market Value" in Appendix IV to this prospectus. We have obtained the land use rights of this property.

As at the Latest Practicable Date, we also owned 23 residential units of various blocks with a total gross floor area of approximately 1,230.80 sq.m. at Qishan Zhong Road, Zone 3, Shiji Town, Panyu, Guangdong Province, the PRC which are used by our Group as staff quarters. Further details of this property are set out in Property No.3 in the section headed "Group I – Properties held and occupied by the Group under long-term title certificates in the PRC and valued on the basis of Market Value" in Appendix IV to this prospectus. We have obtained the right to use this property and is the only party having legitimate interest in this property.

Owned property in Hong Kong

As at the Latest Practicable Date, we owned two office units on 16th Floor, Wah Hing Commercial Centre, No. 383 Shanghai Street, Kowloon, Hong Kong with a total gross floor area of approximately 123.10 sq.m. Further details of this property are set out in Property No. 4 in the section headed "Group II – Property owned and occupied by the Group in Hong Kong and valued on the basis of Market Value" in Appendix IV to this prospectus. Crown Central is the registered owner of the aforesaid office units.

Leased properties

Pursuant to a lease agreement dated 31 December 2008 entered into by GPR Steel Pipe and 江陰泓聯鍍鋅鋼板有限公司 (Jiangyin Honglian Galvanised Steel Stripe Co., Ltd.*), an Independent Third Party, we have leased a workshop ("**Jiangyin Factory**") located at Jiangyin City, Jiangsu Province, the PRC with a total site area of approximately 19,079.81 sq.m. for a term of five years from 1 January 2009 to 31 December 2013 with the first right to renew the lease at the expiry of its term for a further term of five years. The terms of the lease for the Jiangyin Factory were agreed between us and the lessor on normal commercial terms after arm's length negotiation. The Jiangyin Factory housed a new JCOE production line with an annual production capacity of approximately 300,000 tonnes of LSAW steel pipes and the related ancillary production facilities. Such JCOE production line commenced trial production in September 2009 and commercial production in January 2010. We have been advised by our legal advisers as to PRC law that the lessor has obtained all requisite title certificates entitling it to lease the Jiangyin Factory to us, and that the lease agreement, which has been duly registered with the relevant local authorities, is legal, valid and enforceable. Subsequently on 11 December 2009, PCKSP entered into a transfer agreement with 江陰泓聯鍍鋅鋼板有限公司 (Jiangyin Honglian Galvanised Steel Stripe Co., Ltd.*) and 江陰泓華彩鋼板有限公司 (Jiangyin Honghua Color-coated Steel Stripe Co., Ltd.*) (collectively, the "**Transferors**"), both as Independent Third Parties, for the acquisition of the land use rights of the parcel of land on which Jiangyin Factory is erected from 江陰泓華彩鋼板有限公司(Jiangyin Honghua Color-coated Steel Stripe Co., Ltd.*) and the Jiangyin Factory from 江陰泓聯鍍鋅鋼板有限公司 (Jiangyin Honglian Galvanised Steel Stripe Co., Ltd.*), respectively, at an aggregate consideration of RMB40.35 million. The Transferors are both responsible for applying to the relevant authorities for the registration of the transfer for such land and Jiangyin Factory. Following the payment of the initial transfer fee of RMB40 million on 14 December 2009 by PCKSP according to the transfer agreement, the Transferors and PCKSP had begun the registration process of the ownership transfer of the land and the Jiangyin Factory. Upon the grant of the relevant title certificates to PCKSP by the local land bureau, PCKSP will become the sole legal and beneficial owner and has the right to occupy, use, lease, mortgage, and assign the land and the Jiangyin Factory.

Further details of the Jiangyin Factory are set out in Property No. 8 in the section headed "Group III – Properties occupied by the Group under various operating leases in the PRC" in Appendix IV to this prospectus.

We also leased three residential premises in Shiji Town, Panyu, Guangdong Province, the PRC. Further details of these properties are set out in Property Nos. 5 to 7 in the section headed "Group III – Properties occupied by the Group under various operating leases in the PRC" in Appendix IV to this prospectus.

Valuation and general

Details of the property valuation together with the summary of values and valuation certificate from LCH (Asia-Pacific) Surveyors Limited in respect of the land and buildings owned or leased by us are set forth in Appendix IV to this prospectus.

For the properties in the PRC (which our Group has interest in and which are crucial to our Group's operation) having defective title as at the Latest Practicable Date, the Controlling Shareholders have given indemnity in favour of our Group against possible losses (including penalties, fines and forfeiture of premium paid) in connection thereto.

LEGAL AND REGULATORY MATTERS

As advised by our legal advisers as to PRC law, all members of our Group in the PRC have been engaged in manufacturing businesses within the permitted scopes since their establishment and have obtained all requisite licences, permits, certificates or approvals which are necessary for their business operations and all of the licences and certificates listed below were valid and effective as at the Latest Practicable Date. As at the Latest Practicable Date, none of these companies had been penalised by any relevant government authorities for engagement in manufacturing businesses outside permitted business scopes or in violation of the applicable laws.

No.	Name of document	Issuer	Document No.	Date of issue	Validity
PCKSP					
1.	Enterprise legal person business licence	Industrial and Commercial Administrative Bureau of Panyu, Guangzhou City	Qi Du Yue Sui Zong Zi No. 304072	29 December 2007	7 June 1993 to 7 June 2043
2.	Certificate of approval for establishment of enterprises with investment of Taiwan, Hong Kong, Macau and overseas Chinese in the PRC	The People's Government of Guangzhou City	Shang Wai Zi Sui Wai Zi Zheng Zi [2007] No. 0060	29 December 2007	Valid, subject to annual review
3.	Manufacture Licence of Special Equipment (Pressure Pipeline Components)	General Administration of Quality Supervision, Inspection and Quarantine of the PRC	TS2710K19-2013	5 August 2009	5 August 2009 to 4 August 2013
4.	Customs registration certificate for import and export of products	Panyu customs of the PRC	HJ4423940640	7 June 1993 (registration date)	7 June 1993 to 7 June 2011
GPR Steel Pipe					
5.	Enterprise legal person business licence	Industrial and Commercial Administrative Bureau of Panyu, Guangzhou City	440126400001356	7 August 2009	16 October 2006 to 16 October 2017
6.	Certificate of approval for establishment of enterprises with investment of Taiwan, Hong Kong, Macau and overseas Chinese in the PRC	The People's Government of Guangzhou City	Shang Wai Zi Sui Pan Wai Zi Zheng Zi [2006] No. 0102	25 December 2007	Valid, subject to annual review
GPR Steel Pipe (Jiangsu branch)					
7.	Business licence	Industrial and Commercial Administrative Bureau of Jiangyin, Wuxi City	No.320281500001954	17 October 2008	Valid, subject to annual review
8.	Manufacture Licence of Special Equipment (Pressure Pipeline Components)	General Administration of Quality Supervision, Inspection and Quarantine of the PRC	TS2710K88-2013	19 November 2009	19 November 2009 to 18 November 2013

No.	Name of document	Issuer	Document No.	Date of issue	Validity
GPR Coating					
9.	Enterprise legal person business licence	Industrial and Commercial Administrative Bureau of Guangzhou City, Panyu Bureau	Qi Du Yue Sui Zong Zi No. 303865	30 October 2008	16 October 2006 to 16 October 2017
10.	Certificate of approval for establishment of enterprises with investment of Taiwan, Hong Kong, Macau and overseas Chinese in the PRC	The People's Government of Guangzhou City	Shang Wai Zi Sui Pan Wai Zi Zheng Zi [2006] No. 0104	25 December 2007	Valid, subject to annual review
GPR Casing Pipe					
11.	Enterprise legal person business licence	Industrial and Commercial Administrative Bureau of Panyu, Guangzhou City	Qi Du Yue Sui Zong Zi No. 303866	30 October 2008	16 October 2006 to 16 October 2017
12.	Certificate of approval for establishment of enterprises with investment of Taiwan, Hong Kong, Macau and overseas Chinese in the PRC	The People's Government of Guangzhou City	Shang Wai Zi Sui Pan Wai Zi Zheng Zi [2006] No. 0103	25 December 2007	Valid, subject to annual review
GPR Petrol-Fittings					
13.	Enterprise legal person business licence	Industrial and Commercial Administrative Bureau of Panyu, Guangzhou City	Qi Du Yue Sui Zong Zi No. 303867	21 November 2008	16 October 2006 to 16 October 2017
14.	Certificate of approval for establishment of enterprises with investment of Taiwan, Hong Kong, Macau and overseas Chinese in the PRC	The People's Government of Guangzhou City	Shang Wai Zi Sui Pan Wai Zi Zheng Zi [2006] No. 0101	25 December 2007	Valid, subject to annual review
Hualong Anti-Corrosion					
15.	Enterprise legal person business licence	Industrial and Commercial Administrative Bureau of Panyu, Guangzhou City	Qi Du Yue Sui Zong Zi No. 301976	29 December 2007	19 October 1999 to 19 October 2010
16.	Certificate of approval for establishment of enterprises with investment of Taiwan, Hong Kong, Macau and overseas Chinese in the PRC	The People's Government of Guangzhou City	Shang Wai Zi Sui Pan Wai Zi Zheng Zi [1999] No. 0027	25 December 2007	Valid, subject to annual review
PCKSP (Lianyungang)					
17.	Enterprise legal person business licence	Industrial and Commercial Administrative Bureau of Lianyungang, Jiangsu Province	No.320700000106388	12 November 2009	8 July 2009 to 7 July 2059

We had not been involved in any litigation, claim, administrative action or arbitration, which had a material adverse effect on our operations or financial condition during the Track Record Period and as at the Latest Practicable Date, we were not involved in any proceedings, the outcome of which could have a material adverse effect on our business.

OFAC regulations

The US Department of the Treasury's Office of Foreign Assets Control, or OFAC, administers certain laws and regulations, or US Economic Sanctions Laws, that impose restrictions upon US persons and, in some instances, foreign entities owned or controlled by US persons, with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of US Economic Sanctions Laws, or Sanctions Targets. US persons are also generally prohibited from facilitating such activities or transactions. In the Track Record Period, we sold a portion of our products to companies which we understand used such products in connection with projects for Sanctions Targets; we also made limited sales directly to entities in Sanctions Targets. To the best knowledge of our Directors, for each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, our indirect and direct sales to Sanctions Targets, including Burma, Sudan and Iran, accounted for approximately 4.9%, 0.3%, 1.4% and 5.3%, respectively, of our total revenue.

COMPETITION

We operate in a competitive industry. Our competitors may be categorised into PRC domestic and foreign competitors. We principally compete with other steel pipe manufacturers on price, quantity, research and development capabilities as well as ability to accommodate customers' needs.

Our Directors consider that as China is currently the net exporter of steel pipes, we are not competing with imported steel pipes in the PRC domestic market but we mainly compete with a number of domestic steel pipe manufacturers who are capable to produce LSAW steel pipes in the PRC. According to CISA, production of welded steel pipes for transportation uses, such as transportation of oil, gas and water, amounted to approximately 759,000 tonnes and 1,195,000 tonnes, respectively, for each of the two years ended 31 December 2006. During the same period, our production of steel pipe products for such uses amounted to approximately 211,967 tonnes and 194,376 tonnes, respectively, which accounted for approximately 27.9% and 16.3%, respectively, of total production in China. Moreover, for each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, we exported approximately 59,840 tonnes, 66,050 tonnes, 140,830 tonnes and 62,790 tonnes, respectively, of LSAW steel pipes, with diameter larger than 406.4 mm, for the transportation of oil and gas, which accounted for approximately 52.7%, 23.4%, 38.0% and 33.3%, respectively, of the total export of same kind of steel pipes from China.

In overseas markets, we face competition from steel pipe manufacturers in various countries, such as Japan, Russia, USA, South Korea and Germany. In addition, due to the imposition of anti-dumping and countervailing measures in various countries, including the United States and the EU, it may be anticipated that some of our competitors (be they in the PRC or otherwise) may attempt to avoid or minimise their risk exposure to these measures by, among other means, shifting their sales to those markets which do not have anti-dumping and countervailing measures from the original targeted United States or EU markets and/or dumping their steel pipe inventories with substantial price cut and/or switching their productions to those LSAW steel pipes with specifications not falling under the scope of the relevant anti-dumping measures, leading to more intense competition in steel pipe market. In addition, any duties imposed pursuant to such anti-dumping and countervailing measures will result in the increase of our sales cost, in which case we may increase the price of our exported products. As a result, our competitiveness against such other foreign pipe manufacturers in terms of pricing may be adversely affected which may lead to decrease in our exports sales. However, our Directors believe that our high quality steel products will enable us to maintain our competitiveness in the overseas markets.

Furthermore, as confirmed by CSPA, we are a manufacturer capable to produce LSAW steel pipes with the largest outside diameter in the PRC and we are also the largest LSAW steel pipes manufacturer in the PRC in terms of the production volume of our LSAW steel pipes in each of the two years ended 31 December 2008. Our Directors consider that our ability to produce a wide range of products with different specifications gives us a competitive advantage as we can accommodate the diversified needs of our customers. Moreover, according to CSPA, amongst all CSPA's members, our JCOE production line located in Panyu, Guangdong Province, the PRC was the first LSAW steel pipes production line in the PRC and our UOE production line was also the first LSAW steel pipes production line using UOE production method in the PRC. Our Directors believe that our profound experience and our well established reputation in the industry enhance our competitiveness in both domestic and overseas market. For further details of our competitive strengths, please refer to the paragraph headed "Our competitive strengths" above in this section.