SELECTED FINANCIAL INFORMATION

The following tables present selected financial information of our Group for the years/periods indicated. The selected audited combined statements of comprehensive income and combined cash flow statements of our Group for each of the three years ended 31 December 2008 and for the eight months ended 31 August 2009, and the selected audited combined statements of financial position of our Group as at 31 December 2006, 2007 and 2008 and 31 August 2009, have been extracted from the accountants' report on our Group, prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board throughout the Track Record Period, the text of which is set forth in Appendix I to this prospectus. For the basis of presentation of our Group's selected financial information, please refer to the accountants' report in Appendix I to this prospectus.

TRADING RECORD DURING THE TRACK RECORD PERIOD

The following table summarises our audited combined results for the Track Record Period which are extracted from the accountants' report, the text of which is set forth in Appendix I to this prospectus, and also illustrates certain items in our audited combined statement of comprehensive income expressed as a percentage of revenue for the Track Record Period:

	Year ended 31 December						Eight months ended 31 August			
	2006		2007		2008		2008		2009	
	RMB'000	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000* (Unaudited)	*% of revenue*	*RMB'000*	*% of revenue*
Revenue	1,099,741	100.0	1,458,028	100.0	2,624,639	100.0	1,683,314	100.0	2,021,303	100.0
Cost of sales	(919,865)	83.6	(1,191,977)	81.8	(2,087,689)	79.5	(1,292,521)	76.8	(1,573,330)	77.8
Gross profit	179,876	16.4	266,051	18.2	536,950	20.5	390,793	23.2	447,973	22.2
Other income and gains	2,496	0.2	3,253	0.2	6,430	0.2	2,923	0.2	31,287	1.5
Selling and distribution costs	(47,408)	4.3	(63,106)	4.3	(57,172)	2.2	(37,809)	2.2	(51,675)	2.6
Administrative expenses	(36,976)	3.4	(48,616)	3.3	(90,033)	3.4	(45,004)	2.7	(48,836)	2.4
Other expenses	(1,635)	0.1	(2,876)	0.2	(4,000)	0.2	(2,717)	0.2	(600)	0.0
Finance costs	(43,185)	3.9	(45,439)	3.1	(65,186)	2.5	(39,418)	2.3	(28,778)	1.4
Exchange loss, net	(1,544)	0.1	(10,692)	0.7	(9,021)	0.3	(10,528)	0.6	(661)	0.0
Share of profit of a jointly-controlled entity	2,475	0.2	–	0.0	–	0.0	–	0.0	–	0.0
Profit before tax	54,099	4.9	98,575	6.8	317,968	12.1	258,240	15.4	348,710	17.3
Tax	(16,102)	1.5	(28,224)	1.9	(42,504)	1.6	(43,911)	2.6	(47,547)	2.4
Profit for the year/period	37,997	3.5	70,351	4.8	275,464	10.5	214,329	12.8	301,163	14.9
Other comprehensive income:										
Exchange differences on translating foreign operations	1,424		2,897		1,925		742		(19)	
Other comprehensive income for the year/period, net of tax	1,424		2,897		1,925		742		(19)	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	39,421		73,248		277,389		215,071		301,144	

	Year ended 31 December						Eight months ended 31 August			
	2006		2007		2008		2008		2009	
	RMB'000	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000* (Unaudited)	*% of revenue*	*RMB'000*	*% of revenue*
Profit attributable to:										
Equity holders of the Company	37,997		70,351		275,464		214,329		301,163	
Total comprehensive income attributable to:										
Equity holders of the Company	39,421		73,248		277,389		215,071		301,144	

EXEMPTION FROM STRICT COMPLIANCE WITH SECTION 342(1) OF THE COMPANIES ORDINANCE AND WAIVER FROM RULE 4.04(1) OF THE LISTING RULES

Rule 4.04(1) of the Listing Rules requires that the accountants' report of our Company should include the combined results of our Group for each of the three financial years immediately preceding the issue of this prospectus, or such shorter period as may be acceptable to the Stock Exchange.

Similarly, section 342(1) of the Companies Ordinance stipulates that our Company should state the matters specified in Part I of the Third Schedule to the Companies Ordinance, and set out the reports specified in Part II of that Schedule. Paragraph 27 under Part I of the Third Schedule to the Companies Ordinance requires our Company to set out in this prospectus a statement as to the gross trading income or sales turnover (as may be appropriate) of our Company for the three financial years immediately preceding the issue of this prospectus. Paragraph 31 under Part II of the Third Schedule to the Companies Ordinances requires an inclusion of an accountants' report in respect of our Group's profits, losses, assets and liabilities for each of the three financial years, also immediately preceding the issue of this prospectus.

Pursuant to section 342A(1) of the Companies Ordinance, the SFC may issue, subject to such conditions (if any) as the SFC thinks fit, a certificate of exemption from compliance with any or all of the requirements of section 342(1) of the Companies Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interest of the investing public and compliance with any or all of those requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

An application has been made to the SFC for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full financial year ended 31 December 2009 in this prospectus because it would be unduly burdensome and would inevitably delay the timetable of the Listing significantly as the financial statements would then be required to be audited up to 31 December 2009. The reporting accountants of our Company would then have to undertake a considerable amount of work to prepare, update and finalise the accountants' report to cover such additional four-month period, which would not only involve additional costs but also require substantial work to be carried out for audit purposes. Our Company and its reporting accountants would not have sufficient time to complete the audited financial statements for the full financial year ended 31 December 2009 which would not be possible to be finalised within a short period of time. Our Directors consider that the benefits of such work to the existing and prospective Shareholders may not justify the additional work and expenses involved and the delay of the timetable for the Listing.

Our Company made the above application with the SFC accordingly. In this connection, a certificate of exemption has been granted by the SFC on the ground that strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance would be unduly burdensome. Such exemption is granted on the conditions that (i) particulars of the exemption be set forth in this prospectus; and (ii) this prospectus is issued on or before 28 January 2010.

An application has also been made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules and such waiver has been granted by the Stock Exchange on the conditions that (i) the Listing Date shall not be later than three months after the latest financial year-end of our Company, i.e. on or before 31 March 2010; (ii) Rule 8.06 of the Listing Rules is to be complied with, in that the latest financial period reported on by the reporting accountants of our Company as set out in the accountants' report in Appendix I to this prospectus shall not end more than six months before the date of this prospectus; and (iii) the grant of a certificate of exemption from similar requirements under paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance by the SFC (which certificate has already been granted as set out in the immediately preceding paragraph).

Our Directors are of the view that all information that is necessary for the public to make an informed assessment of the financial position of our Group has been included in this prospectus and that an exemption from compliance with the above accounting period requirement would not prejudice the interests of the investing public. Our Directors confirm that, based on the discussion among the management and due diligence work conducted so far which our Directors consider appropriate to ensure that up to the date of this prospectus, there have been no material adverse changes in the financial or trading position and operations of our Group since 31 August 2009 and that there is no event which may materially affect the information as contained in the accountants' report of our Group, as set out in Appendix I to this prospectus, and all financial information contained in other parts of this prospectus.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial conditions and results of operations should be read in conjunction with our audited combined financial information as at and for each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, including the accompanying notes thereto, the text of which is set forth in the accountants' report in Appendix I to this prospectus. The following discussion contains forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those stated in any forward-looking statements and information contained in this section and this prospectus. Factors that could cause or contribute to such differences include those discussed in the section headed "Risk factors" in this prospectus.

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" in the section headed "Business" in this prospectus.

Moreover, our 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 welded steel 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 operation 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 are 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 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.

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.

Basis of preparation and presentation of financial information

The combined statements of comprehensive income, combined cash flow statements and combined statements of changes in equity of our Group for the Track Record Period have been prepared on a combined basis and include the financial information of the companies now comprising our Group as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation/establishment, whichever is the shorter period. The combined statements of financial position of our Group as at 31 December 2006, 2007 and 2008 and 31 August 2009 have been prepared to present the assets and liabilities of our Group as at those dates as if the current group structure had been in existence at those dates or since their respective dates of incorporation/establishment or acquisition where they did not exist at those dates.

Our Group has acquired an additional equity interest in Hualong Anti-Corrosion during the Track Record Period. The acquisition of the additional equity interest in Hualong Anti-Corrosion was accounted for using the purchase method.

Please refer to section 2 of the accountants' report in Appendix I to this prospectus for further details.

Critical accounting policies and estimates

Critical accounting policies and estimates are those accounting policies and estimates that involve significant judgements and uncertainties and potentially yield materially different results under different assumptions and conditions. Our accounting policies have a significant impact on our operating results. Estimates and judgements are based on historical experience, prevailing market conditions and rules and regulations, and are reviewed on a continual basis taking into account the changing environment and circumstances. The critical accounting policies adopted and estimates made in preparation of our financial statements are set out as follows:

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably. The following specific recognition criteria must also be met before the revenue is recognised. For sales of goods, revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, provided that our Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. For rendering of manufacturing services, revenue is recognised when the underlying services have been rendered. For interest income, revenue is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Depreciation, amortisation and valuation of property, plant and equipment

The recorded values of property, plant and equipment are affected by a number of management estimates, including estimated useful lives, residual values and impairment losses. Our Directors assess the need for any impairment write-down on a regular basis and consider if there is any information indicating the impairment loss. Such information may include a significant decrease in the market value or a significant deterioration of market conditions such that the carrying value of property, plant and equipment is lower than the present value of the estimated future cash flows which are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

Inventories

Inventories are recorded at the lower of cost and net realisable value at the balance sheet date. Cost of finished goods and work in progress comprise direct materials and, where applicable, direct labour costs and appropriate proportion of overheads that have been incurred in bringing the inventories to their present location and condition. Cost of raw materials is calculated using the weighted average basis. Net realisable value is determined based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

In terms of provision for inventory, we will review any damaged, slow moving and obsolete inventory on a semi-annual basis. Any provision for impairment loss on inventory represents the differences between the costs and the net realisable values of the inventories, which would be recognised as expenses in the combined statements of comprehensive income during the respective financial year/period. We assessed the quality and provision for impairment loss on inventory on a discretionary basis. Inventory would be regarded as obsolete when they are considered not saleable or no longer suitable for production. Such provision policy for inventory was consistently applied during the Track Record Period and no provision for impairment loss on inventory has been provided as no obsolete inventory with material value was identified during the Track Record Period.

Trade receivables and impairment of trade receivables

Trade receivables are measured at initial recognition at fair value, and subsequently measured at amortised cost using effective interest method, less any allowance for impairment of these receivables. An impairment of trade receivables is provided when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that our Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced either directly or through the use of an allowance account.

Provision for warranty

Provision for warranty costs is based on historical trends of product defect rates and the expected material and labour costs for the provision of warranty services. In case of new products, expert opinions and industry data are also taken into consideration in estimating the product warranty accruals. Provision is only made where a warranty claim is probable. During the Track Record Period, no provision for warranty cost with material value was identified.

Major factors affecting our results of operations and financial conditions

We recorded satisfactory results during the Track Record Period and our Directors believe that we will continue to be one of the leading manufacturer of high quality longitudinal welded steel pipe products in the PRC. However, potential investors should be aware of the following factors which we consider may affect our results of operations and financial conditions:

Global demand for oil and natural gas

Our steel pipe products are mainly used for, amongst others, conveyance and distribution of oil and natural gas. The demand for our steel pipe products are largely driven by the pipeline construction activities in relation to the onshore and offshore transportation infrastructure of oil and gas worldwide which in turn boost by the increasing global demand for and consumption of oil and natural gas. In 2008, daily global consumption of oil amounted to approximately 84.5 million barrels, representing a slight decrease of approximately 0.6% from that of 2007, and global nature gas consumption amounted to approximately 3,018.7 billion cubic metres, representing an increase of approximately 2.5% from that of 2007. Compared to the global energy consumption market, the growth rate of oil and natural gas consumption in China in 2008 was significantly higher. In 2008, daily oil consumption in China amounted to approximately 8.0 million barrels and natural gas consumption amounted to approximately 80.7 billion cubic metres respectively, representing a growth rate of approximately 3.3% and 15.8% respectively from that for 2007, which were higher than the average growth rate of developed countries. Moreover, according to the forecast of EIA, oil demand in China will reach approximately 10.0 million barrels per day in 2015 and 15.3 million barrels per day in 2030, with an annual average growth rate of approximately 3.2% from 2006 to 2030 and natural gas demand in China will reach approximately 106.4 billion cubic metres in 2015 and 190.4 billion cubic metres in 2030, representing an average annual growth rate of approximately 5.2% from 2006 to 2030, both significantly higher than the forecasted global annual growth rate during the same period.

However, after the outbreak of the financial crisis in the third quarter of 2008, we observed a number of our customers cancelled or delayed the delivery of certain sales orders, which were originally scheduled to be delivered in 2008. Accordingly, the respective sales revenue associated with such cancelled or delayed orders could not be recognised in the books of our Group for the year ended 31 December 2008. Our Directors believe that the cancellation or delay of the delivery of these sales orders was due to the then procrastination of the oil and gas pipeline construction projects worldwide as a result of the global financial turmoil. Moreover, bad debt provision of our Group increased from approximately RMB82,000 for the year ended 31 December 2008 to approximately RMB4.1 million for the eight months ended 31 August 2009 due to the deterioration of the global economy and credit crunches at the end of 2008. Nevertheless, our Directors consider that the outbreak of financial turmoil in the third quarter of 2008 did not impose material impact on our Group's business operation and financial position as a whole given our Group continues to remain profitable in 2008 and 2009 with healthy growth and our Group did not record any substantial decrease in the market value of raw materials or of our Group's products which would result in a provision of inventories.

With a view to capturing the global market potential of LSAW steel pipes and ERW steel pipes driven by the increasing demand for and consumption of oil and gas worldwide, we have been expanding our production capacity over the years. Please see the paragraph headed "Expansion of our production capacity" below for details of the expansion of our production capacity.

Expansion of our production capacity

In response to the rapid industry development and growing market demand, we have been increasing our production capacity by constructing new production lines and modifying our existing production facilities in recent years. As at the Latest Practicable Date, we had a total of four production lines for the manufacturing of steel pipes with a total annual production capacity of 1,150,000 tonnes per annum. The following table sets out the details of our production facilities for the manufacturing of steel pipes during the Track Record Period and up to the Latest Practicable Date:

Production lines	Commencement of commercial operation	Annual production capacities *(tonne)*
LSAW steel pipes		
UOE production line (Panyu)	September 2002	400,000
JCOE production line (Panyu)	November 1998	300,000
JCOE production line (Zhangjiagang)[(1)]	March 2008	200,000
JCOE production line (Jiangyin)[(2)]	January 2010	300,000
ERW steel pipes		
ERW steel pipes production line (Panyu)	July 1995	150,000

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.

3 In addition to the above existing production facilities, our Directors currently plan to expand our Group's production capacity by establishing a new production base in Lianyuangang, Jiangsu Province, the PRC and two additional LSAW steel pipes production lines using proceeds from the New Issue. Please refer to the section headed "Future plans and use of proceeds" in this prospectus for details of our production capacity expansion plans.

We believe that the increase in our production capacities in recent years has strengthened our market position and enhance our competitiveness, which has a positive effect on our profitability and business prospects. In September 2009, we established one LSAW steel pipes production line in Jiangyin, Jiangsu Province, the PRC which did not cause material changes in our Group's operational, trading and financial positions 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; and

(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 substantial extra costs for the four months ended 31 December 2009.

With a view to capturing the anticipated market opportunity from the development of the petroleum and natural gas industry as well as the prospective infrastructure market in the coming years, we plan to further expand our production capacity and enhance our efficiency by constructing new steel pipes production lines, complementary production facilities and modifying the existing production facilities. Please refer to the section headed "Future plans and use of proceeds" in this prospectus for the details of our production capacity expansion plans.

Product and sales mix of our Group

Our revenue is principally generated from the manufacture and sale of steel pipes and the provision of steel pipes manufacturing services. Steel pipes manufactured by us can be broadly categorised into LSAW steel pipes, ERW steel pipes and steel fittings, and our manufacturing services can also be broadly categorised into LSAW steel pipes manufacturing and ERW steel pipes manufacturing. The major difference between the pricing for the manufacture and sale of steel pipes and that for the provision of steel pipes manufacturing service lies in the cost of principal raw materials, which are steel plates and steel coils. Pricing for the manufacture and sale of steel pipes comprises, among other things, cost of principal raw materials, whereas pricing for steel pipes manufacturing services only includes manufacturing costs, such as labor and utilities. Therefore, the provision of steel pipes manufacturing services has a considerably lower cost of sales and a higher gross profit margin when compared to those of the manufacture and sale of steel pipes.

The following paragraphs set out a brief discussion on the revenue breakdown of our products and services, revenue breakdown by geographical areas, gross profit and gross profit margin breakdowns of our products and services, during the Track Record Period:

Revenue

	Year ended 31 December						Eight months ended 31 August			
	2006		2007		2008		2008		2009	
	RMB'000	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000*	*% of revenue*	*RMB'000* (Unaudited)	*% 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	1,426,750	84.8	1,270,428	62.9
– ERW steel pipes	211,947	19.3	174,290	12.0	201,180	7.7	78,636	4.7	633,111	31.3
Steel pipes manufacturing services										
– LSAW steel pipes	40,054	3.6	44,134	3.0	162,773	6.2	149,251	8.9	29,721	1.5
– ERW steel pipes	20,633	1.9	4,992	0.4	3,738	0.1	3,567	0.2	2,568	0.1
Others *(Note)*	26,873	2.4	44,320	3.0	43,822	1.7	25,110	1.4	85,475	4.2
Total revenue	1,099,741	100.0	1,458,028	100.0	2,624,639	100.0	1,683,314	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.

The revenue generated from our manufacture 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.

During the Track Record Period, a significant portion of our steel pipes was sold in the PRC and the remaining was sold to 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. The following table shows the breakdown of our revenue by geographical area for each of the three years ended 31 December 2008 and the eight months ended 31 August 2009:

Geographical revenue segment

	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.

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.

The following tables set out the breakdown of the gross profit and gross profit margin of our products and services during the Track Record Period:

Gross profit

	Year ended 31 December						Eight months ended 31 August			
	2006		2007		2008		2008		2009	
	RMB'000	*% of total gross profit*	*RMB'000*	*% of total gross profit*	*RMB'000*	*% of total gross profit*	*RMB'000* (Unaudited)	*% of total gross profit*	*RMB'000*	*% of total gross profit*
Manufacture and sale of steel pipes										
– LSAW steel pipes	134,504	74.8	198,958	74.8	412,574	76.8	268,947	68.8	203,313	45.4
– ERW steel pipes	19,478	10.8	28,796	10.8	20,375	3.8	1,257	0.3	203,448	45.4
Steel pipes manufacturing services										
– LSAW steel pipes	23,516	13.1	29,120	10.9	103,010	19.2	114,630	29.4	19,523	4.4
– ERW steel pipes	522	0.3	509	0.2	(469)	0.0	(209)	(0.1)	987	0.2
Others *(Note)*	1,856	1.0	8,668	3.3	1,460	0.2	6,168	1.6	20,702	4.6
Total gross profit	179,876	100.0	266,051	100.0	536,950	100.0	390,793	100.0	447,973	100.0

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

Gross profit margin

	Year ended 31 December			Eight months ended 31 August	
	2006	2007	2008	2008	2009
	%	%	%	%	%
Manufacture and sale of steel pipes					
– LSAW steel pipes	16.8	16.7	18.6	18.9	16.0
– ERW steel pipes	9.2	16.5	10.1	1.6	32.1
Steel pipes manufacturing services					
– LSAW steel pipes	58.7	66.0	63.4	76.8	65.7
– ERW steel pipes	2.5	10.2	(12.5)	(5.9)	38.4
Others *(Note)*	6.9	19.6	3.3	24.6	24.2
Overall gross profit margin	16.4	18.2	20.5	23.2	22.2

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

During the three years ended 31 December 2008, the gross profit margin for the manufacture and sale and manufacturing services of LSAW steel pipes are generally higher than that for the ERW steel pipes due to the higher requirements in production technology and equipment of LSAW steel pipes. However, the gross profit margin for the manufacture and sale of our ERW steel pipe products for the eight months ended 31 August 2009 was incidentally higher than that for our manufacture and sale of ERW steel pipes for each of the three years ended 31 December 2008 and for our LSAW steel pipe products during each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, and this is mainly attributable to the fact that (i) we were able to charge a comparatively higher selling price since the major customer in the Sultanate of Oman mentioned under the paragraph headed "Revenue" above demanded a special technical requirement for anti-corrosive ERW steel pipes to be produced; and (ii) we were able to benefit from the drop in per unit fixed costs as a result of the significant increase in sales volume of ERW steel pipes during the eight months ended 31 August 2009. The gross profit and gross profit margin for the manufacture and sale of our ERW steel pipes sales order from that major customer in Sultanate of Oman was approximately RMB187.2 million and 34.0%, respectively, for the eight months ended 31 August 2009.

Moreover, provision of LSAW steel pipes manufacturing services has higher gross profit margin due to its sales and pricing nature as previously discussed. Given the above, any change in our product mix or sales mix from time to time will affect our overall gross profit margin. During the Track Record Period, our changes in sales mix and product mix were basically driven by the specifications of steel pipes required by our customers on a case-by-case basis. Nevertheless, our production facilities equipped with comprehensive production equipment that enable us to provide a wide range of steel pipe products and to cope with the ever-changing demand of our customers.

Cost of raw materials

The raw materials that we use for the manufacturing of our steel pipes include steel plates, steel coils and welding materials. For each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, cost of such raw materials accounted for approximately 91.3%, 92.2%, 92.5% and 90.9%, respectively, of our total cost of sales. All of our customers have entered into purchase contracts with us on a project by project basis and the delivery period of such contracts usually lasts from several weeks to several months, and some contracts may last as long as over one year. As both product price and quantity are, in general, specified in the purchase contract, we need to set the product price with reference to the prevailing market prices of the raw materials at the time of entering into the purchase contract. As such, fluctuations in raw material prices have an effect on our profit margin. Nevertheless, in order to mitigate the impact of increase in raw material prices, since the first quarter of 2006, we have adopted the policy of entering into back-to-back purchase contract with our suppliers once sales contracts were entered into with our customers in order to fix the cost of raw materials with our suppliers in relation to specific sales contracts.

Level of income tax and preferential tax treatment

Prior to the Fifth Plenary Session of the Tenth National People's Congress on 16 March 2007 passing the new PRC EIT Law which became effective on 1 January 2008, the PRC subsidiaries of our Group, which were situated in a coastal economic open zone, were entitled to a preferential EIT rate of 27%.

However, after the implementation of the new PRC EIT Tax Law with effect from 1 January 2008, the standard rate of EIT on most domestic enterprises and foreign invested enterprises has been prescribed at 25% and enterprises which were established before 16 March 2007 and which had enjoyed a lower EIT rate according to the provisions of the tax laws and administrative regulations previously in force may continue to enjoy such preferential tax treatment for a period of five years following the effective date of the new PRC EIT Law (i.e. 1 January 2008), but the rate of EIT will progressively increase to 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012, respectively. Nonetheless, pursuant to《國務院關於實施企業所得稅過渡優惠政策的通知》(Notice of the State Council on the implementation of transitional preferential policies in respect of the EIT*) promulgated on 26 December 2007 and took effect on 1 January 2008, each of the GPR Companies will continue to enjoy its preferential treatment of tax exemption and tax benefit up to the expiry of its preferential treatment term in 2012.

Anti-dumping and countervailing measures

We export an increasing volume of steel pipes 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 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 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.

On 30 December 2009, the ITC determined in Investigation No.701-TA-463 that a US industry is materially injured or threatened with material injury by reason of imports of certain oil country tubular goods from China that the DOC determined are subsidised in the DOC Notice Number C-570-944. As a result of the ITC's affirmative determination, the DOC issued a countervailing duty order on imports of these products from China on 20 January 2010. Countervailing duty rates determined by the DOC range from 10.36% to 15.78%, while the applicable rate for companies not investigated by the DOC is 13.20%. A parallel anti-dumping proceeding is still pending at the DOC and the ITC with final disposition expected in May 2010. That proceeding may result in additional duties. For details, please refer to the paragraph headed "Anti-dumping and countervailing duties in the United States" 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.

Our Directors confirm that the unaudited closing inventory as at 31 December 2009 was mainly composed of (i) raw materials comprising mainly steel plates and steel coils, which were purchased under a back-to-back arrangement such that we would enter into purchase contract for our raw materials with the suppliers once the sales contracts of respective projects have been entered into by our Group with our customers; (ii) work-in-progress; and (iii) finished goods comprising steel pipes manufactured by our Group which have yet to be delivered to the respective customers as covered by the respective sales contracts. All the finished goods manufactured by our Group are "made-to-order" according to the specifications as stipulated in the respective sales contract entered into by our Group with the respective customers. For most of the domestic sales, our Group requests for prepayments from the customers, which are usually equivalent to approximately 30% of the total contract sum, upon entering into the sales contracts, with the remaining balance to be settled within the credit terms that our Group grant to the relevant customers. For most of the exports sales, letters of credit from our overseas customers will be issued to our Group pursuant to the settlement and credit terms prescribed in the sales contracts after the execution of the sales contracts. Only after the respective customer has paid the prepayment sum, or issued the letter of credit, to our Group will we commence to schedule the production of the respective steel pipes. Moreover, our Group did not experience any subsequent cancellation of the sales contracts nor significant selling-price adjustment to the sales contracts after the respective customer had paid the prepayment sum or issued the letter of credit to our Group during the Track Record Period and up to the Latest Practicable Date. Accordingly, our Directors are of the view that it is very unlikely that the net realisable value of the unaudited stock value of the inventory as at 31 December 2009 will drop substantially below the costs of the inventory, and hence it is unlikely that a material provision for impairment loss on the inventory is necessary to be recognised by our Group, even if the oil and gas steel pipe industry will indeed be adversely affected by the recent anti-dumping and countervailing measures imposed by the United States, the EU and certain other countries.

PCKSP, as a foreign investment enterprise of a production nature established in a coastal economic open zone, is entitled to a preferential income tax rate of 27% before 1 January 2008. PCKSP, as an advanced and new technology enterprise eligible for key support from the PRC qualified on 16 December 2008, shall be entitled to a reduced rate of 15% from 1 January 2008 to 31 December 2010. If it cannot be verified to be "an advanced and new technology enterprise eligible for key support from the PRC", it will be subject to the rate of 25% from 1 January 2011 onwards.

GPR Petrol-Fittings, GPR Casing Pipe, GPR Coating, and GPR Steel Pipe, which were established in 2006, are entitled to a preferential income tax rate of 27%. In accordance with the relevant income tax laws and regulations of the PRC for manufacturing enterprises, the above companies are exempted from corporate income tax for two years commencing from 2008, and are entitled to a 50% tax exemption for the next three years. After the implementation of the New EIT Law from 1 January 2008, the above companies will continue to enjoy the preferential income tax rate up to the end of the transitional period, after which, the 25% standard rate applies.

Hualong Anti-Corrosion, as a Sino-foreign joint venture enterprise of a production nature established in a coastal economic open zone, is entitled to a preferential income tax rate of 24%; and its local income tax rate is 3%. In accordance with the relevant income tax laws and regulations of the PRC for manufacturing enterprises, Hualong Anti-Corrosion was exempted from corporate income tax for two years commencing from its first year with assessable profits after deducting the tax losses brought forward, and was entitled to a 50% tax exemption for the next three years. The year ended 31 December 2001 was Hualong Anti-Corrosion's first profit-making year and was the first year of its tax holiday. Accordingly, Hualong Anti-Corrosion was subject to corporate income tax at a rate of 12% for the year ended 31 December 2005 and 27% for the two years ended 31 December 2006 and 2007. From 1 January 2008 onwards, Hualong Anti-Corrosion is subject to the income tax rate of 25%.

If the PRC authorities further amend or promulgate new laws or regulations which prescribe a higher standard EIT rate or introduce any change to the tax preferential treatment which our subsidiaries in the PRC currently enjoy, our profit after taxation and financial position may be materially and adversely affected.

Interest-bearing loans and finance costs

During the Track Record Period, we financed our daily operations, purchase of raw materials and acquisition of property, plant and equipment mainly by internally generated cash as well as interest-bearing loans. As at 31 December 2006, 2007 and 2008 and 31 August 2009, our outstanding balance of interest-bearing bank loans and government loans amounted to approximately RMB690.5 million, RMB1,084.5 million, RMB748.7 million and RMB727.7 million, respectively. As commercial banks in the PRC determine the interest rates on their loans which are dominated in RMB with reference to the benchmark lending rates published by PBOC, we also have interest-bearing bank loans denominated in US dollar during the Track Record Period with interest rates benchmarked to the London interbank offered rates for US dollar loans. For each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, our finance costs were approximately RMB43.2 million, RMB45.4 million, RMB65.2 million and RMB28.8 million, respectively, which represented approximately 3.9%, 3.1%, 2.5% and 2.3%, respectively, of our Group's revenue for the respective year/period. As at the Latest Practicable Date, we had approximately RMB1,595.7 million unutilised banking facilities available to us. If we decide to borrow additional interest-bearing bank loans in the future or should there be any increase in the above-mentioned benchmark lending rates, our finance costs will increase and it would negatively affect our Group's profitability.

Period-to-period analysis of our Group's trading record

Eight months ended 31 August 2009 compared to eight months ended 31 August 2008

Revenue

Our revenue mainly represents the net invoiced value derived from the manufacturing and sales of LSAW steel pipes and ERW steel pipes, and from the rendering of LSAW steel pipes and ERW steel pipes manufacturing services. Our Group also generates revenue from the sale of scrap materials and trading of steel pipes.

Our revenue increased by approximately 20.1% from approximately RMB1,683.3 million for the eight months ended 31 August 2008 to approximately RMB2,021.3 million for the eight months ended 31 August 2009. The increase is mainly attributable to the net effect of (i) the increase in the sales volume and the average selling price of our manufacturing and sales of ERW steel pipes; (ii) the increase in the sales of other items; (iii) the decrease in revenue from the manufacture and sales of LSAW steel pipes; and (iv) the decrease in the sales volume of our manufacturing services of LSAW steel pipes.

The sales volume of our manufacturing and sales of ERW steel pipes increased by approximately 351.5% from approximately 12,808 tonnes for the eight months ended 31 August 2008 to approximately 57,824 tonnes for the eight month ended 31 August 2009. In addition, the average selling price of our ERW steel pipes increased by approximately 78.3% from approximately RMB6,140 per tonne for the eight months ended 31 August 2008 to approximately RMB10,949 per tonne for the eight months ended 31 August 2009. Such increases are mainly attributable to our success in our bid to secure big orders for over 44,000 tonnes of ERW steel pipes from a major customer in the Sultanate of Oman in July 2008, and the high selling price charged on these orders as a result of the customer's special technical requirement for anti-corrosive ERW steel pipes. The ERW steel pipes were delivered in several shipments to that customer throughout 2009, with the largest delivery made in April and May 2009. Sales orders from this major customer in the Sultanate of Oman were completed during the eight months ended 31 August 2009. Following the completion of this sales order and up to the Latest Practicable Date, 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. There was no sale to this customer in the Sultanate of Oman in 2008, while such sales amount and volumes amounted to approximately RMB550.5 million and over 44,000 tonnes, respectively, for the eight months ended 31 August 2009. This customer had not made any purchases from our Group during the Track Record Period apart from the above-mentioned orders, which were concluded in 2008 and were the first batch from it. As at the Latest Practicable Date, there was no other order from this customer. To the best knowledge of our Directors, the end customer of such kind of ERW steel pipes is currently undergoing a pipeline projects which may require ERW steel pipes of this kind. As such, our Group will proactively participate in the other potential future biddings launched by this end customer and our Directors believe that, given the successful record of securing the bid in 2008, our Group has advantages in securing more bids from this end customer in the future.

The sales of other items, which include scrap materials and trading of steel pipes, increased by approximately 240.6% from approximately RMB25.1 million for the eight months ended 31 August 2008 to approximately RMB85.5 million for the eight months ended 31 August 2009. Such increase is principally driven by the increase in trading of steel pipe of over RMB60.0 million to a customer in Saudi Arabia during the eight months ended 31 August 2009.

The decrease in revenue from the manufacture and sales of LSAW steel pipes from approximately RMB1,426.8 million for the eight months ended 31 August 2008 to approximately RMB1,270.4 million for the eight months ended 31 August 2009 is mainly attributable to the completion of the manufacture and sale of LSAW steel pipes orders from our overseas customers, such as a customer from Malaysia, during the year 2008.

The sales volume of our manufacturing services of LSAW steel pipes decreased by approximately 87.3% from approximately 112,560 tonnes for the eight months ended 31 August 2008 to approximately 16,300 tonnes for the eight months ended 31 August 2009. Such decrease is primarily attributable to the completion of LSAW steel pipes manufacturing services orders from one of our major domestic customers in 2008 in relation to a gas pipeline project near Sichuan Province, the PRC.

Cost of sales

Our cost of sales mainly represents the cost of direct materials, fuel, utilities depreciation and maintenance, research and development, staff costs and repair charges. Among all these costs, the cost of direct materials account for over 90% of the total cost of sales of our Group.

Our cost of sales increased by approximately 21.7% from approximately RMB1,292.5 million for the eight months ended 31 August 2008 to approximately RMB1,573.3 million for the eight months ended 31 August 2009. The increase is in line with the increase in the sales volume of our manufacturing and sales of ERW steel pipes and scrap materials as discussed under the paragraph headed “Revenue” above.

Gross profit and gross profit margin

Our gross profit increased by approximately 14.6% from approximately RMB390.8 million for the eight months ended 31 August 2008 to approximately RMB448.0 million for the eight months ended 31 August 2009, while our gross profit margin decreased slightly from approximately 23.2% for the eight months ended 31 August 2008 to approximately 22.2% for the eight months ended 31 August 2009. The increase in our gross profit is mainly attributable to the significant increase in revenue brought about by our success in our bid to secure significant orders with quantities of over 44,000 tonnes for the manufacture and sales of ERW steel pipes from a major customer in the Sultanate of Oman, and which sales accounted for approximately 27.2% of our total sales for the eight months ended 31 August 2009.

Our gross profit margin for our manufacture and sales of LSAW steel pipes decreased from approximately 18.2% for the eight months ended 31 August 2008 to approximately 16.0% for the eight months ended 31 August 2009. The decrease is primarily attributable to the increase in the per unit direct material costs of LSAW steel pipes by approximately 12.7% from approximately RMB6,393.0 per tonne for the eight months ended 31 August 2008 to approximately RMB7,202.2 per tonne for the eight months ended 31 August 2009 as a result of the special requirement by one of our major domestic customers, sales to whom amounted to approximately 28.3% of our total manufacture and sales of LSAW steel pipes for the eight months ended 31 August 2009, on using high quality raw materials for the manufacture and sales of LSAW steel pipes, whereas raw materials of varying quality were used for the manufacturing and sales of LSAW steel pipes for the eight months ended 31 August 2008. As such, the direct material cost per unit of LSAW steel pipes increased during the eight months ended 31 August 2009.

Our gross profit margin for manufacturing services of LSAW steel pipes decreased from approximately 74.9% for the eight months ended 31 August 2008 to approximately 63.5% for the eight months ended 31 August 2009. Such decrease is mainly due to the drop in sales quantities of our LSAW steel pipes by 85.6% from approximately 112,421 tonnes for the eight months ended 31 August 2008 to approximately 16,256 tonnes for the eight months ended 31 August 2009, owing to the worldwide financial crisis. The decrease in sales led to the increase in per unit overheads required for the provision of manufacturing services of LSAW steel pipes.

Our gross profit margin for the manufacture and sale of ERW steel pipes significantly increased from approximately 1.6% for the eight months ended 31 August 2008 to approximately 32.1% for the eight months ended 31 August 2009. The increase is mainly attributable to our success in our bid to secure significant orders with quantities of over 44,000 tonnes of ERW steel pipes from a major customer in the Sultanate of Oman in July 2008, with which the relevant revenue was recognised in 2009 when those steel pipes were actually delivered to that customer and which we were able to (i) charge a comparatively higher selling price since the customer placed a special technical requirement for anti-corrosive ERW steel pipes to be produced; and (ii) benefit from the drop in per unit fixed costs as a result of the significant increase in sales volume of ERW steel pipes during the eight months ended 31 August 2009.

For the manufacturing services of ERW steel pipes, we improve from the gross loss of approximately 5.9% for the eight months ended 31 August 2008 to the gross profit of approximately 38.4% for the eight months ended 31 August 2009. Such improvement is mainly attributable to the decrease in the per overhead cost of our manufacturing services of ERW steel pipes due to the increase in the total amount of the manufacturing and sales of ERW steel pipes and manufacturing services of ERW steel pipes from approximately 22,511 tonnes for the eight months ended 31 August 2008 to approximately 635,679 tonnes for the eight months ended 31 August 2009 as a result of the significant increase in our sales orders from a major customer in the Sultanate of Oman as discussed under the paragraph headed "Revenue" above. As such, our service fee for manufacturing services increased by approximately 50.0% from approximately RMB0.4 million per tonne for the eight months ended 31 August 2008 to approximately RMB0.6 million per tonne for the eight months ended 31 August 2009.

Other income and gains

	Eight months ended 31 August	
	2008	**2009**
	RMB'000	*RMB'000*
Bank interest income	1,629	3,294
Subsidy income from the PRC government	1,104	759
Gain on disposal of items of property, plant and equipment	–	26,563
Compensation	162	663
Others	28	8
	2,923	31,287

Our other income and gains mainly consist of bank interest income, subsidy income from the PRC government, gain on disposal of items of property, plant and equipment and compensation. Subsidy income from the PRC government mainly represents non-recurring subsidies granted by the PRC provincial and local government authorities to our Group as an encouragement to our technological innovation, corporate achievements and economic contribution to the Panyu district. Compensation represents compensation income from insurance companies and fines charged on our suppliers for flaws in materials supplied during the Track Record Period.

Our other income and gains increased by approximately 979.3% from approximately RMB2.9 million for the eight months ended 31 August 2008 to approximately RMB31.3 million for the eight months ended 31 August 2009. Such increase is mainly attributable to (i) the increase in bank interest income from approximately RMB1.6 million for the eight months ended 31 August 2008 to approximately RMB3.3 million for the eight months ended 31 August 2009, which was attributable to the increase in the average bank balances for the eight months ended 31 August 2009; and (ii) the gain on disposal of items of property, plant and equipment of approximately RMB26.6 million during the eight months ended 31 August 2009 which mainly represents the gain on the disposal of a production line in Zhangjiagang, Jiangsu Province, the PRC which forms part of our Group's development and expansion plan. The production line was disposed of to an Independent Third Party at the consideration of approximately RMB119.2 million which is determined after arm's length negotiation. For details of the disposal of the production line in Zhanjiagang, Jiangsu Province, the PRC, please refer to the section headed "Corporate history, development and Reorganisation" and the paragraph headed "Production" in the section headed "Business" in this prospectus.

Selling and distribution costs

Our selling and distribution costs principally consist of expenses on transportation, commissions, advertising, salary and staff welfare, entertainment, custom clearance, consumables and travelling.

Our selling and distribution costs increased by approximately 36.8% from approximately RMB37.8 million for the eight months ended 31 August 2008 to approximately RMB51.7 million for the eight months ended 31 August 2009. Such increase is mainly attributable to the net effect of (i) the increase in commissions paid to the sales agents by 171.3% from approximately RMB12.2 million for the eight months ended 31 August 2008 to approximately RMB33.1 million for the eight months ended 31 August 2009, which increase was resulted from the commission paid to a bidding agent, an Independent Third Party, who assisted us in our successful bidding of a contract of over 44,000 tonnes of ERW steel pipes from a customer in the Sultanate of Oman as discussed in the sub-paragraph headed “Revenue” in this paragraph above, and such commission amounted to 5% of the total contract value of that project and such 5% commission was determined after arm’s length negotiation between our Group and the bidding agent. Such commission falls within the normal range of sales commission offered by our Group, which is 3% to 5% of the contract value for the relevant projects secured. Our Directors consider it reasonable to offer that bidding agent a commission which falls on the high end of the range since the bidding agent had been working closely with our Group in such projects for more than two years before we eventually secured the bid, and it has facilitated our Group in being recognised as one of the approved vendors of the major customer in the Sultanate of Oman; (ii) the drop in transportation costs by approximately 55.1% from approximately RMB16.7 million for the eight months ended 31 August 2008 to approximately RMB7.5 million for the eight months ended 31 August 2009 since a number of PRC customers who required us to bear the transportation costs on their part during the eight months ended 31 August 2008 did not enter into transaction with us during the eight months ended 31 August 2009, and some PRC customers also agreed to take up the transportation costs as a result of our successful negotiation; and (iii) the decrease in the amount of consumables by 53.3% from approximately RMB1.5 million for the eight months ended 31 August 2008 to approximately RMB0.7 million for the eight months ended 31 August 2009 as a result of our Group’s cost control on office consumables since the beginning of 2009. In addition, as a percentage of revenue, our selling and distribution costs increased from approximately 2.2% for the eight months ended 31 August 2008 to approximately 2.6% for the eight months ended 31 August 2009. The increase was mainly attributable to the increased commission paid to our sales agents as discussed above.

Administrative expenses

Administrative expenses mainly represent administrative staff salaries, office expenses, travelling expenses, entertainment, staff social insurance, staff welfare, bank charges, certain PRC tax payments, amortisation of prepaid land lease payments, professional fees and provision for bad debts.

Our administrative expenses increased by approximately 8.4% from approximately RMB45.0 million for the eight months ended 31 August 2008 to approximately RMB48.8 million for the eight months ended 31 August 2009. The increase was mainly due to (i) the increase in salaries paid to our administrative staff by 23.7% from approximately RMB9.7 million for the eight months ended 31 August 2008 to approximately RMB12.0 million for the eight months ended 31 August 2009 as a result of the increase in the average monthly headcount of administrative staff from approximately 169 for the eight months ended 31 August 2008 to approximately 212 for the eight months ended 31 August 2009 due to the operation of our Group’s new subsidiary in Lianyungang, Jiangsu Province, the PRC; (ii) the increase in bad debt provision by 540.0% from approximately RMB0.5 million for the eight months ended 31 August 2008 to approximately RMB3.2 million for the eight months ended 31 August 2009. During the eight months ended 31 August 2009, our management was notified that certain of our overseas customers have cash flow problem and could not settle their debts on time as a result of the global economic crisis and thus, bad debt provision was made accordingly; and (iii) the drop of travelling expenses by approximately 16.2% from approximately RMB3.6 million for the eight months ended 31 August 2008 to approximately RMB3.1 million for the eight months ended 31 August 2009 due to our Group’s stringent cost control policy.

Finance costs

During the Track Record Period, finance costs represented interest expenses arising from interest-bearing bank loans borrowed for the facilitation of the daily operation of our Group. The finance costs were determined by the average loan balance and effective interest rate during the respective year/period.

Our finance costs decreased by approximately 26.9% from approximately RMB39.4 million for the eight months ended 31 August 2008 to approximately RMB28.8 million for the eight months ended 31 August 2009. The decrease is mainly attributable to the drop in the effective interest rate charged by banks for our short-term interest-bearing bank loans by approximately 2.9% from approximately 6.9% for the eight months ended 31 August 2008 to approximately 4.0% for the eight months ended 31 August 2009, since a number of the banks in the PRC lowered their interest rates on bank loans in view of the global economic turmoil in 2009.

Exchange loss, net

Our exchange gain/loss mainly represents the exchange difference derived from the settlement of our trade receivables dominated in foreign currency during the Track Record Period.

We had a small amount of exchange loss of approximately RMB0.7 million for the eight months ended 31 August 2009, as compared to that of approximately RMB10.5 million for the eight months ended 31 August 2008. Such drop in the exchange loss is noted since the Renminbi exchange rate against the US dollars remained relatively stable during 2009 when compared with that for the year 2008, and therefore the effect of change in exchange rates on our overseas sales revenue was not significant.

Income tax expenses

Income tax expenses mainly represent the income tax charged on our Group's PRC subsidiaries and the related deferred tax expenses.

Our income tax expenses increased by approximately 8.2% from approximately RMB43.9 million for the eight months ended 31 August 2008 to approximately RMB47.5 million for the eight months ended 31 August 2009. The increase is primarily attributable to the increase in our profit before tax for the same period. Our effective tax rate for the eight months ended 31 August 2009 was approximately 13.6%, as compared to approximately 17.0% for the eight months ended 31 August 2008. The decrease in our effective tax rate is mainly resulted from the exemption from EIT of the GPR Companies for the two years commencing from 2008 and since there was an increase in profits of the GRP Companies, which profits contributed to around 11.5% of our Group's profit before tax, for the eight months ended 31 August 2009, therefore our Group's effective tax rate for the same period dropped accordingly.

Profit for the period and net profit margin

As a combined result of the factors discussed above, our net profit for the eight months ended 31 August 2009 increased by approximately 40.6% from approximately RMB214.3 million for the eight months ended 31 August 2008 to approximately RMB301.2 million for the eight months ended 31 August 2009. In addition, our net profit margin increased from approximately 12.7% for the eight months ended 31 August 2008 to approximately 14.9% for the eight months ended 31 August 2009.

Year-to-year analysis of our Group's trading record

Year ended 31 December 2008 compared to year ended 31 December 2007

Revenue

Our revenue increased by approximately 80.0% from approximately RMB1,458.0 million for the year ended 31 December 2007 to approximately RMB2,624.6 million for the year ended 31 December 2008. The increase was mainly attributable to the combined effect of (i) the increase in the overall sales volume of our steel pipes; and (ii) the increase in the average selling price for the manufacture and sale of our LSAW steel pipes as driven by the increase in raw material prices.

The sales volume of our manufacture and sale of steel pipes for the year ended 31 December 2008 was approximately 283,200 tonnes, representing an increase of approximately 44.2% as compared to approximately 196,400 tonnes for the year ended 31 December 2007. Such growth was primarily attributable to (i) the sale of LSAW steel pipes to a new domestic customer in relation to a natural gas project and the revenue generated from which during the year ended 31 December 2008 amounted to approximately RMB344.7 million or 13.1% to our total revenue; (ii) the increase in our overseas sales which included a sales order for our LSAW steel pipes from a new customer in Chile during the first half of 2008 and a number of sales orders from our customers in Malaysia and Saudi Arabia for our LSAW steel pipes in the second half of 2008 and the total sales to the above-mentioned overseas customers for the year ended 31 December 2008 amounted to approximately RMB683.4 million, or 26.0% to our total revenue; and (iii) the increase in sales of our LSAW steel pipes and ERW steel pipes to one of our American customers by approximately 110.6% from approximately RMB83.4 million for the year ended 31 December 2007 to approximately RMB155.7 million for the year ended 31 December 2008. Furthermore, the sales volume of our steel pipes manufacturing services increased by 195.1% from approximately 44,600 tonnes for the year ended 31 December 2007 to approximately 131,600 tonnes for the year ended 31 December 2008 which was driven by a LSAW steel pipes manufacturing service order from one of our major domestic customers in relation to a gas pipeline project near Sichuan Province, the PRC and the sales revenue from which accounted for approximately 82.6% of our total revenue generated from our steel pipes manufacturing services for the year ended 31 December 2008.

Moreover, the average selling price for the manufacture and sale of our LSAW steel pipes increased, which is primarily attributable to the increase in the unit costs of steel plates and steel coils, which were the major components in the pricing of our steel pipes, by approximately 35.2% and 28.4%, respectively, for the year ended 31 December 2008 when compared with that in the year ended 31 December 2007. We have adopted a cost plus pricing model whereby the selling price of our steel pipe products was determined with a mark-up over cost of major raw materials with reference to the prevailing market prices of such raw materials at the time of entering into the contracts with our customers and the range of such mark-up varies on a case-by-case basis taken into account, among other things, our business relationship with the respective customers, delivery schedule required, transportation cost, additional anti-corrosive services required, the technical specifications required and, in the case of bidding, the potential competition for such bid.

Cost of sales

Our cost of sales increased by approximately 75.1% from approximately RMB1,192.0 million for the year ended 31 December 2007 to approximately RMB2,087.7 million for the year ended 31 December 2008 which was in line with the increase in our overall sales and volumes as discussed under the paragraph headed "Revenue" under the topic "Year ended 31 December 2008 compared to year ended 31 December 2007" above.

Gross profit and gross profit margin

Our gross profit increased by approximately 101.8% from approximately RMB266.1 million for the year ended 31 December 2007 to approximately RMB537.0 million for the year ended 31 December 2008. Our gross profit margin also increased from approximately 18.2% for the year ended 31 December 2007 to approximately 20.5% for the year ended 31 December 2008. The increases in our gross profit and gross profit margin were mainly attributable to (i) the economies of scale resulted from the significant increases in the overall sales volume by approximately 72.2% from approximately 240,900 tonnes for the year ended 31 December 2007 to approximately 414,790 tonnes for the year ended 31 December 2008; and (ii) the change in our sales and product mix in the year ended 31 December 2008 as compared to 2007. The percentage of our revenue generated from the provision of steel pipes manufacturing services, which, in general, have higher profit margin relative to manufacture and sale of steel pipes, to our total revenue increased from approximately 3.4% for the year ended 31 December 2007 to approximately 6.3% for the year ended 31 December 2008. Moreover, the percentage of revenue generated from LSAW steel pipes, which in general have higher profit margin relative to ERW steel pipes, increased from approximately 84.6% for the year ended 31 December 2007 to approximately 90.5% for the year ended 31 December 2008.

Gross profit margin for our manufacture and sales of LSAW steel pipes improved from approximately 16.7% for the year ended 31 December 2007 to approximately 18.6% for the year ended 31 December 2008. The increase was mainly attributable to the economies of scale enjoyed by us as a result of the substantial increase in the sales volume of LSAW steel pipes manufacture and sales from approximately 163,000 tonnes for the year ended 31 December 2007 to approximately 255,200 tonnes for the year ended 31 December 2008.

Gross profit margin for manufacturing services of LSAW steel pipes decreased from approximately 66.0% for the year ended 31 December 2007 to approximately 63.4% for the year ended 31 December 2008. The decrease was mainly attributable to the increase in the cost of sales attributable to manufacturing services of LSAW steel pipes as a result of the increase in the number of production staff for our production line in Zhangjiagang, Jiangsu Province, the PRC since February 2009.

Gross profit margin for the manufacture and sales of ERW steel pipes substantially decreased from 16.5% for the year ended 31 December 2007 to 10.1% for the year ended 31 December 2008. The gross profit margin of manufacturing services of ERW steel pipes also deteriorated from a gross profit margin of approximately 10.2% for the year ended 31 December 2007 to a gross loss margin of approximately 12.5% for the year ended 31 December 2008. The deterioration of the gross profit margin of our ERW steel pipes was mainly attributable to the high production cost per unit of ERW steel pipes due to the fact that the revenue derived from our ERW steel pipes was not sufficient to cover the fixed overhead costs of the ERW steel pipes production line during the year ended 31 December 2008 as a result of the significant decrease in quantity of our sales orders for ERW steel pipes by 14.4% from approximately 44,400 tonnes for the year ended 31 December 2007 to approximately 38,000 tonnes for the year ended 31 December 2008.

The decrease in the gross profit margin of "Others" was mainly attributable to the fact that we sold our scrap materials at diminishing selling prices during the year ended 31 December 2008 as compared to the year ended 31 December 2007 due to the rapid decrease in steel price since the second half of the year 2008.

Other income and gains

	Year ended 31 December	
	2007	**2008**
	RMB'000	*RMB'000*
Bank interest income	2,096	4,546
Subsidy income from the PRC government	896	1,415
Compensation	–	458
Others	261	11
	3,253	6,430

Our other income and gains increased by approximately 93.9% from approximately RMB3.3 million for the year ended 31 December 2007 to approximately RMB6.4 million for the year ended 31 December 2008. The increase was primarily attributable to (i) the increase in bank interest income from approximately RMB2.1 million for the year ended 31 December 2007 to approximately RMB4.5 million for the year ended 31 December 2008 which is in line with the increase in the total of pledge deposits and cash and bank balances by approximately 58.7% from approximately RMB165.8 million as at 31 December 2007 to approximately RMB263.1 million as at 31 December 2008; and (ii) the entitlement of an aggregate subsidy income of approximately RMB1.1 million from the PRC which was mainly attributable to the accreditation of 中國馳名商標 (China Well-known Trademark*) in October 2006 with the related subsidy income subsequently granted by 廣州市番禺區財政局 (Panyu Finance Bureau of Guangzhou City*) in April 2008.

Selling and distribution costs

Our selling and distribution costs slightly decreased by approximately 9.4% from approximately RMB63.1 million for the year ended 31 December 2007 to approximately RMB57.2 million for the year ended 31 December 2008. The slight decrease in our selling and distribution expenses was primarily due to the composite effect of (i) the increase in commissions paid to sales agents who assisted to obtain successful sales orders by approximately 50.1% from approximately RMB13.0 million for the year ended 31 December 2007 to approximately RMB19.6 million for the year ended 31 December 2008; and (ii) the decrease in transportation costs by approximately 38.8% from approximately RMB38.4 million for the year ended 31 December 2007 to approximately RMB23.5 million for the year ended 31 December 2008 as a number of our domestic customers agreed to bear the transportation cost as a result of our successful negotiation. As a percentage of revenue, our selling and distribution costs decreased from approximately 4.3% for the year ended 31 December 2007 to approximately 2.2% for the year ended 31 December 2008. The decrease was mainly attributable to the adoption of more stringent cost control on our expenses in relation to our sales and marketing activities and the absorption of transportation cost by a number of our domestic customers.

Administrative expenses

Our administrative expenses increased by approximately 85.2% from approximately RMB48.6 million for the year ended 31 December 2007 to approximately RMB90.0 million for the year ended 31 December 2008. The increase in our administrative expenses was mainly attributable to (i) the increase in the salaries of our administrative and management staff by approximately 63.6% from approximately RMB8.8 million for the year ended 31 December 2007 to approximately RMB14.4 million for the year ended 31 December 2008, the increase in the staff social insurance by approximately 85.3% from approximately RMB3.4 million for the year ended 31 December 2007 to approximately RMB6.3 million for the year ended 31 December 2008 and the increase in staff welfare by approximately 104.3% from approximately RMB2.3 million for the year ended 31 December 2007 to approximately RMB4.7 million for the year ended 31 December 2008, all of which were resulted from the increase in the monthly average headcount from approximately 172 for the year ended 31 December 2007 to approximately 196 for the year ended 31 December 2008 for the commencement of the operation of the GPR Companies and the average salary increment of approximately 35% during the year ended 31 December 2008 compared to the previous year; (ii) the increase in the bank charges, which mainly represented the charges for the issuance of bank acceptance notes to our suppliers, letters of guarantees to our customers relating to the quality assurance fund and administrative fee charged by the banks in relation to certain new bank loans obtained in 2008, by approximately 156.7% from approximately RMB3.0 million for the year ended 31 December 2007 to approximately RMB7.7 million for the year ended 31 December 2008, which was in line with the increase in our sales and purchases; (iii) the increase in travelling expenses by approximately 30.0% from approximately RMB5.0 million for the year ended 31 December 2007 to approximately RMB6.5 million for the year ended 31 December 2008 was mainly related to the increase in travelling frequency in preparation for the commencement of the new production line in Zhangjiagang, Jiangsu Province, the PRC in March 2008; and (iv) the increase in professional fees from approximately RMB1.9 million for the year ended 31 December 2007 to approximately RMB21.8 million for the year ended 31 December 2008 as a result of the recognition of the legal and professional fees in relation to the Listing incurred during the year 2008.

Finance costs

Our finance costs increased by approximately 43.6% from approximately RMB45.4 million for the year ended 31 December 2007 to approximately RMB65.2 million for the year ended 31 December 2008. The increase in our finance costs was mainly attributable to the increase in the monthly average balance of our interest-bearing bank loans by approximately 16.8% from approximately RMB811.4 million for the year ended 31 December 2007 to approximately RMB947.5 million for the year ended 31 December 2008. Such increased short-term bank borrowings were mainly utilised for the purchase of raw materials.

Exchange loss, net

We encountered an exchange loss of approximately RMB9.0 million for the year ended 31 December 2008 as compared to that of approximately RMB10.7 million for the year ended 31 December 2007. The decrease in the exchange loss was mainly attributable to the appreciation of RMB and the increase in our overseas sales, which were mainly denominated in US dollar, by approximately 114.1% from approximately RMB794.4 million for the year ended 31 December 2007 to approximately RMB1,335.6 million for the year ended 31 December 2008.

Share of profit of a jointly-controlled entity

Share of profit of our jointly-controlled entity represented our share of profit of Hualong Anti-Corrosion, which was owned as to 50% by our Group prior to July 2007. Hualong Anti-Corrosion became a wholly-owned subsidiary of our Group upon completion of the acquisition of the remaining 50% equity interest in Hualong Anti-Corrosion in July 2007. As a result, there was no share of profit of jointly-controlled entity for each of the financial years ended 31 December 2007 and 2008.

Income tax expenses

Our income tax expenses increased by approximately 50.7% from approximately RMB28.2 million for the year ended 31 December 2007 to approximately RMB42.5 million for the year ended 31 December 2008. Such increase was mainly due to the increase in our profit before tax during the year ended 31 December 2008. Our effective tax rate for the year ended 31 December 2008 was approximately 13.4%, as compared to approximately 28.6% for the year ended 31 December 2007. The decrease in our effective tax rate is primarily attributable to the decrease in the rate of PRC EIT applicable to PCKSP, which was a foreign investment enterprise of a production nature established in a coastal economic open zone, from 27% before 1 January 2008 to a reduced rate of 15% from 1 January 2008 to 31 December 2010 as PCKSP was qualified as an advanced and new technology enterprise eligible for key support from the PRC government on 16 December 2008.

Profit for the year and net profit margin

As a combined result of the factors described above, our net profit for the year ended 31 December 2008 significantly increased by approximately 291.3% from approximately RMB70.4 million for the year ended 31 December 2007 to approximately RMB275.5 million for the year ended 31 December 2008. Net profit margin for the year ended 31 December 2008 improved significantly from approximately 4.8% for the year ended 31 December 2007 to approximately 10.5% for the year ended 31 December 2008.

Year ended 31 December 2007 compared to year ended 31 December 2006

Revenue

Our revenue increased by approximately 32.6% from approximately RMB1,099.7 million for the year ended 31 December 2006 to approximately RMB1,458.0 million for the year ended 31 December 2007. The increase was mainly attributable to the combined effects of (i) the increase in the overall sales volume of our steel pipes; and (ii) the increase in the average selling price of our steel pipes as driven by the increase in raw material prices and change in our product mix.

The overall sales volume of our steel pipes for the year ended 31 December 2007 was approximately 240,900 tonnes, representing an increase of approximately 13.4% as compared to approximately 212,500 tonnes for the year ended 31 December 2006. Such growth was primarily attributable to the increase in the overall demand for our steel pipe products. During the year ended 31 December 2007, we successfully explored new overseas markets for our steel pipe products, such as Nigeria and Chile.

Moreover, the average selling price of our steel pipes increased by approximately 16.9% from approximately RMB5,175 per tonne for the year ended 31 December 2006 to approximately RMB6,052 per tonne for the year ended 31 December 2007. Such increase was primarily attributable to (i) the change in our product mix and (ii) the increase in the cost of our principal raw materials, being steel plates and steel coils, which were the major components in the pricing of our steel pipes. For the year ended 31 December 2007, our revenue derived from manufacture and sales of LSAW steel pipes, which have a higher unit selling price than ERW steel pipes, accounted for approximately 81.6% of our revenue, compared to that of approximately 72.8% for the year ended 31 December 2006. In addition, due to our cost plus pricing model discussed above, the average selling prices of steel pipes for the year ended 31 December 2007 increased as compared to that for the year ended 31 December 2006 as a result of the increase in the unit cost of raw materials for the year ended 31 December 2007 by an average of approximately 2.4% as compared to that for the year ended 31 December 2006.

Cost of sales

Our cost of sales increased by approximately 29.6% from approximately RMB919.9 million for the year ended 31 December 2006 to approximately RMB1,192.0 million for the year ended 31 December 2007. The increase in our cost of sales was principally driven by the increase in our overall sales volume and the increase in prices of our principal raw materials as discussed under the paragraph headed “Revenue” under the topic “Year ended 31 December 2007 compared to year ended 31 December 2006” above.

Gross profit and gross profit margin

Our gross profit increased by approximately 47.9% from approximately RMB179.9 million for the year ended 31 December 2006 to approximately RMB266.1 million for the year ended 31 December 2007. Our gross profit margin also increased from approximately 16.4% for the year ended 31 December 2006 to approximately 18.2% for the year ended 31 December 2007. The increases in our gross profit and gross profit margin were primarily attributable to the increases in the overall sales volume and the average selling price of our steel pipes as discussed under the paragraph headed “Revenue” under the topic “Year ended 31 December 2007 compared to year ended 31 December 2006” above. Moreover, we sold more LSAW steel pipes which, in general, have higher profit margin relative to ERW steel pipes during the year ended 31 December 2007. The percentage of the total sales of LSAW steel pipes and LSAW steel pipes manufacturing services to our total revenue increased from approximately 76.5% for the year ended 31 December 2006 to approximately 84.7% for the year ended 31 December 2007. Such change in product mix also contributed to the increases in the overall gross profit and gross profit margin.

In addition, the sharp increase in the gross profit margin of manufacturing and sale of ERW steel pipes from approximately 9.2% for the year ended 31 December 2006 to approximately 16.5% for the year ended 31 December 2007 is mainly attributable to two contracts with special technical specifications for the ERW steel pipes for which our Group recorded a relatively higher gross profit margin. Whilst these two contracts accounted for approximately 46.6% of our Group's revenue for the manufacture and sale of ERW steel pipes for the year ended 31 December 2007, our Group's gross profit margin for the manufacturing and sale of ERW steel pipes was driven up by these two contracts in that year.

Other income and gains

	Year ended 31 December	
	2006	**2007**
	RMB'000	*RMB'000*
Bank interest income	1,304	2,096
Gain on collection of a held-to-maturity investment	14	–
Subsidy income from the PRC government	1,160	896
Compensation	18	–
Others	–	261
	2,496	3,253

Our other income and gains increased by approximately 30.3% from approximately RMB2.5 million for the year ended 31 December 2006 to approximately RMB3.3 million for the year ended 31 December 2007. The increase was primarily attributable to the increase in bank interest income, which was in line with the increase in our cash and bank balances during the year from approximately RMB89.4 million as at 31 December 2006 to approximately RMB113.7 million as at 31 December 2007. Such increase is partially offset by the decrease in subsidy income by approximately 29.5% from approximately RMB1.2 million for the year ended 31 December 2006 to approximately RMB0.9 million for the year ended 31 December 2007. Subsidy income which amounted to approximately RMB1.2 million for the year ended 31 December 2006 mainly represents monetary prize awarded by 中華人民共和國廣東省人民政府 (the People's Government of Guangdong Province*) and the 中華人民共和國廣州市人民政府 (the Guangzhou Municipality*) during the year 2006. Furthermore, the subsidy income in the amount of approximately RMB0.9 million for the year ended 31 December 2007 mainly represents the monetary prize awarded by 中華人民共和國廣州市番禺區人民政府 (the Panyu Guangzhou Municipality*). The entitlement of the above subsidy income for the year 2006 and 2007 is mainly due to the accreditation of 中國名牌產品 (China Top Brand Products*) in 2006. Our Directors have confirmed that such subsidy income is non-recurring and available to other eligible entities that are able to fulfill the requisite requirements.

Selling and distribution costs

Our selling and distribution costs increased by approximately 33.1% from approximately RMB47.4 million for the year ended 31 December 2006 to approximately RMB63.1 million for the year ended 31 December 2007. As a percentage of revenue, our selling and distribution costs were maintained at approximately 4.3% for each of the two years ended 31 December 2007. The increase in our selling and distribution costs was mainly attributable to (i) the increase in the transportation costs by approximately 32.4% from approximately RMB29.0 million to approximately RMB38.4 million as a result of the increases in our overseas sales and overall transportation charges; and (ii) the increase in the commissions paid to sales agents and bidding agents who introduced or assisted us in obtaining successful sales orders by approximately 85.7% from approximately RMB7.0 million to approximately RMB13.0 million due to the increase in both our domestic and exports sales.

Administrative expenses

Our administrative expenses increased by approximately 31.4% from approximately RMB37.0 million for the year ended 31 December 2006 to approximately RMB48.6 million for the year ended 31 December 2007. As a percentage of revenue, our administrative expenses were approximately 3.4% and 3.3% for each of the two years ended 31 December 2007 respectively. The increase in our administrative expenses was mainly attributable to (i) the increase in the salaries of our administrative and management staff by approximately 57.1% from approximately RMB5.6 million for the year ended 31 December 2006 to approximately RMB8.8 million for the year ended 31 December 2007 as a result of additional employees hired for the expansion of our production line and an increase of average salary level for the management staff; (ii) the increase in the traveling and entertainment expenses by approximately 45.0% from approximately RMB6.0 million for the year ended 31 December 2006 to approximately RMB8.7 million for the year ended 31 December 2007 in relation to the establishment of our new production line in Zhangjiagang, the PRC and the expansion of our overseas sales; (iii) the increase in the bank charges by approximately 50.0% from approximately RMB2.0 million for the year ended 31 December 2006 to approximately RMB3.0 million for the year ended 31 December 2007 due to the increase in our uses of various bank services for our increased exports sales; and (iv) the increase in the professional fees incurred for the preparation of our listing application.

Other expenses

Our other expenses increased by approximately 75.9% from approximately RMB1.6 million for the year ended 31 December 2006 to approximately RMB2.9 million for the year ended 31 December 2007. The increase in our other expenses was primarily attributable to a write-off of certain items of property, plant and equipment which amounted to approximately RMB1.6 million in the year ended 31 December 2007.

Finance costs

Our finance costs increased by approximately 5.2% from approximately RMB43.2 million to approximately RMB45.4 million for the year ended 31 December 2007. The increase in our finance costs was primarily attributable to the increase in our short-term bank borrowings by approximately 112.7% from approximately RMB381.0 million for the year ended 31 December 2006 to approximately RMB810.4 million for the year ended 31 December 2007. Such increased short-term bank borrowings were mainly utilised for the purchase of raw materials.

Exchange loss, net

We encountered a significant exchange loss of approximately RMB10.7 million for the year ended 31 December 2007 as compared to an exchange loss of approximately RMB1.5 million for the year ended 31 December 2006. The exchange loss was attributable to the appreciation of RMB against US dollar during the year ended 31 December 2007 and the increase in our overseas sales, which were denominated in US dollar, by approximately 58.8% from approximately RMB500.2 million for the year ended 31 December 2006 to approximately RMB794.4 million for the year ended 31 December 2007.

Share of profit of a jointly-controlled entity

Share of profit of our jointly-controlled entity represented our share of profit of Hualong Anti-Corrosion, which was owned as to 50% by our Group prior to July 2007. Hualong Anti-Corrosion became a wholly-owned subsidiary of our Group upon the completion of the acquisition of the remaining 50% equity interest in Hualong Anti-Corrosion in July 2007. During the first half of 2007, since the shareholders of Hualong Anti-Corrosion were in the process of negotiating the equity transfer arrangement, only a few transactions were carried out and the operating result broke even. Accordingly, no profit was shared in the first half year of 2007.

Income tax expenses

Our income tax expenses increased by approximately 75.2% from approximately RMB16.1 million for the year ended 31 December 2006 to approximately RMB28.2 million for the year ended 31 December 2007. Such increase was in line with the increase in our profit before tax during the year. Our effective tax rate for the year ended 31 December 2007 was approximately 28.6%, which was decreased by approximately 1.2% from approximately 29.8% for the year ended 31 December 2006. The decrease in our effective tax rate was mainly attributable to the lower ratio of expenses not deductible for tax to profit for the year ended 31 December 2007. Expenses not deductible for tax purposes for the year ended 31 December 2007 mainly included provision for bad debt, account payables with ageing over two years, loss on disposal of certain items of property, plant and equipment and various non-deductible business entertainment expenses while the expenses not deductible for tax purposes for the year ended 31 December 2006 mainly included bad debt provision, promotion expenses of our PRC subsidiary that incurred in Hong Kong and not deductible in the PRC and staff welfare that exceeded the deduction limit in the PRC.

Profit for the year and net profit margin

As a combined result of the factors described above, our net profit for the year ended 31 December 2007 significantly increased by approximately 85.3% from approximately RMB38.0 million for the year ended 31 December 2006 to approximately RMB70.4 million for the year ended 31 December 2007. Net profit margin for the year ended 31 December 2007 improved from approximately 3.5% for the year ended 31 December 2006 to approximately 4.8% for the year ended 31 December 2007.

ANALYSIS OF MAJOR STATEMENTS OF FINANCIAL POSITION ITEMS AND FINANCIAL RATIOS

The following tables illustrate major statements of financial position items and key financial ratios of our Group as at the end of each financial year/period during the Track Record Period:

Combined statements of financial position

	As at 31 December			As at 31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	348,795	458,063	479,637	472,439
Deposit paid for purchases of items of property, plant and equipment	7,112	14,703	25,009	71,554
Prepaid land lease payments	91,118	88,965	86,812	85,376
Goodwill	–	4,075	4,075	4,075
Interest in a jointly-controlled entity	10,054	–	–	–
Deferred tax assets	1,452	1,856	1,066	1,652
Pledged deposits	14,675	7,082	37,537	15,149
Total non-current assets	473,206	574,744	634,136	650,245
CURRENT ASSETS				
Inventories	224,818	428,538	710,694	500,895
Trade receivables	165,704	279,261	240,183	577,540
Prepayments, deposits and other receivables	171,858	332,479	168,225	175,425
Pledged deposits	40,601	45,058	183,772	149,221
Cash and bank balances	89,434	113,694	41,765	104,728
Total current assets	692,415	1,199,030	1,344,639	1,507,809
TOTAL ASSETS	1,165,621	1,773,774	1,978,775	2,158,054
CURRENT LIABILITIES				
Trade and bills payables	109,916	83,445	198,326	268,640
Interest-bearing bank loans and government loans	404,890	1,084,519	637,706	637,655
Other payables and accruals	65,313	233,874	385,491	252,723
Tax payable	6,405	20,182	26,652	27,061
Due to the ultimate shareholder	19,171	338	15,282	25,698
Total current liabilities	605,695	1,422,358	1,263,457	1,211,777
NET CURRENT ASSETS/(LIABILITIES)	86,720	(223,328)	81,182	296,032
TOTAL ASSETS LESS CURRENT LIABILITIES	559,926	351,416	715,318	946,277

	As at 31 December			As at 31 August
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT LIABILITIES				
Interest-bearing bank loans and government loans	285,581	–	111,000	90,000
Due to the ultimate shareholder	26,000	26,000	–	–
Government grants	1,850	2,168	3,681	4,211
Total non-current liabilities	313,431	28,168	114,681	94,211
Net assets	246,495	323,248	600,637	852,066
EQUITY				
Equity attributable to equity holders of the Company				
Issued capital	–	–	–	–
Reserves	246,495	323,248	600,637	852,066
Total equity	246,495	323,248	600,637	852,066
TOTAL EQUITY AND LIABILITIES	1,165,621	1,773,774	1,978,775	2,158,054

Key financial ratios

		As at and for the year ended 31 December			As at and for the eight months ended 31 August
	Notes	2006	2007	2008	2009
Current ratio	*1*	1.1	0.8	1.1	1.2
Quick ratio	*2*	0.8	0.5	0.5	0.8
Gearing ratio	*3*	63.3%	62.7%	38.8%	35.1%
Inventory turnover days	*4*	95 days	100 days	100 days	94 days
Debtors' turnover days	*5*	42 days	56 days	36 days	49 days
Creditors' turnover days	*6*	54 days	30 days	25 days	36 days

Notes:

1. Current ratio is calculated based on the total current assets divided by total current liabilities at the end of the respective years/period.

2. Quick ratio is calculated based on the difference between the total current assets and inventories divided by total current liabilities at the end of the respective years/period.

3. Gearing ratio is calculated based on the summation of bank borrowings, government loans and due to the ultimate shareholder divided by total assets and multiplied by 100%.

4. Inventory turnover days is calculated based on the average inventory (sum of opening and closing balances of inventory of respective years/period and then divided by two) divided by cost of sales of the respective years/period and multiplied by 365 days/243 days.

5. Debtors' turnover days is calculated based on the average trade receivables (sum of opening and closing balances of trade receivables of respective years/period and then divided by two) divided by revenue of the respective years/period and multiplied by 365 days/243 days.

6. Creditors' turnover days is calculated based on the average trade and bills payables (sum of opening and closing balances of trade and bills payables of respective years/period and then divided by two) as at the end of the respective years/period divided by cost of sales of the respective years/period and multiplied by 365 days/243 days.

Property, plant and equipment

Our Group's property, plant and equipment increased by approximately 31.3% from approximately RMB348.8 million as at 31 December 2006 to approximately RMB458.1 million as at 31 December 2007. The increase was primarily due to the addition of approximately RMB131.4 million worth of property and equipment, which was offset by the depreciation charge of approximately RMB27.1 million. The addition of property, plant and equipment was attributable to the installation of our new steel pipes production line in Zhangjiagang, Jiangsu Province, the PRC for the expansion of our production capacity.

Our Group's property, plant and equipment has increased by approximately 4.7% from approximately RMB458.1 million as at 31 December 2007 to approximately RMB479.6 million as at 31 December 2008. The increase was primarily due to the combined effect of (i) the addition of equipment and machinery in amount of approximately RMB57.1 million which mainly represented the installation of the new production facilities in Zhangjiagang, Jiangsu Province, the PRC; and (ii) the depreciation charge of approximately RMB35.3 million for the year ended 31 December 2008.

Our Group's property, plant and equipment decreased by approximately 1.5% from approximately RMB479.6 million as at 31 December 2008 to approximately RMB472.4 million as at 31 August 2009. The slight decrease was mainly attributable to the combined effect of (i) the addition of plant and equipment in an amount of approximately RMB4.7 million for our factory in Panyu district in order to cope with the increasing demand of our steel pipe products; (ii) the recognition of approximately RMB99.6 million construction in progress which is mainly related to a new production line in Jiangyin, Jiangsu Province, the PRC in 2009 for the replacement of the production line in Zhangjiagang, Jiangsu Province, the PRC; (iii) the disposal of approximately RMB88.3 million production facilities in Zhangjiagang, Jiangsu Province, the PRC to an Independent Third Party after arm's length negotiation under our Group's new development and expansion plan; and (iv) the depreciation charge of approximately RMB23.6 million for the eight months ended 31 August 2009. As at 31 August 2009, construction in progress of the Group in amount of approximately RMB111.7 million out of which approximately RMB99.3 million represents the property, plant and equipment in relation to the new production line in Jiangyin. From 1 September 2009 to 31 December 2009, according to the unaudited financial information of our Group, additions to property, plant and equipment in relation to the new production line in Jiangyin, Jiangsu Province, the PRC amounted to approximately RMB11.5 million which only represented approximately 2.3% of the Group's unaudited property, plant and equipment and 1.2% of the Group's unaudited net asset as at 31 December 2009. As such, the Directors consider that the capital expenditure in relation to the new production line in Jiangyin, Jiangsu Province, the PRC for the four months ended 31 December 2009 was insignificant to the overall financial position of our Group during the relevant period.

Inventories and inventory turnover days

Inventories balance as at the respective year/period end during the Track Record Period represented the stock balance of raw materials, finished goods and work-in-progress.

Our inventories level significantly increased by approximately 90.6% from approximately RMB224.8 million as at 31 December 2006 to approximately RMB428.5 million as at 31 December 2007. The increase was primarily attributable to the increase in the stock balance of our principal raw materials as a result of the increase of sales orders received in the fourth quarter of 2007. As we entered into back-to-back purchase contracts with our suppliers to secure the supply and fix the price of raw materials for sales orders received from our customers, raw materials stocked up in the fourth quarter of 2007 to cope with the increased sales orders received during the fourth quarter of 2007. In addition, the balance of our finished goods was increased by approximately 43.1% from approximately RMB151.4 million as at 31 December 2006 to approximately RMB216.6 million as at 31 December 2007 as a result of the completion of the production of certain exports sales orders and yet to be shipped out as of the end of 2007. In this connection, our inventory turnover days slightly increased from approximately 95 days for the year ended 31 December 2006 to approximately 100 days for the year ended 31 December 2007.

Our inventories level increased by approximately 65.9% from approximately RMB428.5 million as at 31 December 2007 to approximately RMB710.7 million as at 31 December 2008. Such increase was primarily attributable to (i) the increase in raw materials by approximately 39.3% from approximately RMB141.2 million as at 31 December 2007 to approximately RMB196.7 million as at 31 December 2008 attributable to the commencement in the commercial operation of our Zhangjiagang production line in March 2008; and (ii) the increase in finished goods by approximately 106.1% from approximately RMB216.6 million as at 31 December 2007 to approximately RMB446.5 million as at 31 December 2008 as a result of completion of several production orders and the re-arrangement of the delivery schedules of our steel pipes to one of our largest customers in the Sultanate of Oman from the end of 2008 to mid-2009 under that customer's instruction following its decision to change the working schedule of its construction project. The steel pipes were delivered to that customer in around January to August 2009. The inventory turnover days maintained at approximately 100 days for both of the years ended 31 December 2007 and 2008 were mainly attributable to the simultaneous increase in the level of cost of sales and the average balance of inventory as a result of the increase in sales orders obtained in the year 2008.

Our inventory level dropped by approximately 29.5% from approximately RMB710.7 million as at 31 December 2008 to approximately RMB500.9 million as at 31 August 2009. The decrease is mainly resulted from (i) the decrease in finished goods from approximately RMB446.5 million as at 31 December 2008 to approximately RMB271.3 million as at 31 August 2009, which is mainly attributable to the delivery of the steel pipes to the customer in the Sultanate of Oman during the period from January to August 2009 as a result of the re-arrangement of the delivery schedules as discussed in the above paragraph and (ii) the decrease in the average purchase costs of our raw materials, which mainly represented steel plate and steel coil, from approximately RMB8,600 per tonne and RMB7,300 per tonne, respectively, for the year ended 31 December 2008 to approximately RMB5,300 per tonne and RMB5,400 per tonne for the eight months ended 31 August 2009 as a result of the general decrease in market prices of steel plate and steel coil during the eight months ended 31 August 2009. In this connection, the inventory turnover days decreased from approximately 100 days for the year ended 31 December 2008 to approximately 94 days for the eight months ended 31 August 2009.

Trade receivables and debtors' turnover days

Trade receivables balance as at the respective year/period end during the Track Record Period mainly represented the outstanding amounts receivable by us from our customers less any provision for doubtful debts. The granting of credit terms to our customers is assessed on a case-by-case basis and depends on various factors, such as their business relationships with us, creditworthiness, settlement history and size of business.

Our trade receivables balance increased by approximately 68.6% from approximately RMB165.7 million as at 31 December 2006 to approximately RMB279.3 million as at 31 December 2007. The increase was mainly attributable to the increase in our Group's overseas sales by approximately 58.8% from approximately RMB500.2 million for the year ended 31 December 2006 to approximately RMB794.4 million for the year ended 31 December 2007. In this connection, our debtors' turnover days increased from approximately 42 days for the year ended 31 December 2006 to approximately 56 days for the year ended 31 December 2007.

Our trade receivables balance also included the retention money withholding by our customers during the Track Record Period. Before the completion of each project, retention money, which represents generally 2% to 10% of the total sales value of respective project, would be withheld by our customers and payable until the end of the project warranty period, which ranges from a few months to two years after the delivery of finished products.

Our trade receivables balance decreased by approximately 14.0% from approximately RMB279.3 million as at 31 December 2007 to approximately RMB240.2 million as at 31 December 2008. The decrease was mainly attributable to the tighter credit control implemented by our management such as our successful bargaining with one of our major domestic customers requiring it pay a higher rate of prepayment for its sales orders during the year ended 31 December 2008. In this connection, our debtors' turnover days decreased from approximately 56 days for the year ended 31 December 2007 to approximately 36 days for the year ended 31 December 2008.

Our trade receivables balance increased by approximately 140.4% from approximately RMB240.2 million as at 31 December 2008 to approximately RMB577.5 million as at 31 August 2009. The significant increase was mainly attributable to the delivery of our steel pipes to our customer in the Sultanate of Oman throughout the year 2009, for which such trade receivable was not yet settled as at 31 August 2009 as this overseas customer was granted a credit period of around 60 days. In this regard, our debtors' turnover days increased from approximately 36 days for the year ended 31 December 2008 to approximately 49 days for the eight months ended 31 August 2009. Up to 31 December 2009, the subsequent settlement of our trade receivables as at 31 August 2009 amounted to approximately RMB514.1 million, representing approximately 89.0% of our trade receivables balance as at 31 August 2009.

Prepayments, deposits and other receivables

	As at 31 December			As at 31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	146,374	312,629	130,025	66,962
Deposits and other receivables	15,314	14,859	11,643	92,294
Tax recoverable	9,772	4,522	25,502	14,559
Current portion of land lease payments	2,153	2,153	2,153	2,153
	173,613	334,163	169,323	175,968
Less: Impairment of deposits and other receivables	(1,755)	(1,684)	(1,098)	(543)
	171,858	332,479	168,225	175,425

Prepayments mainly represent the balances of prepaid purchase amounts to our suppliers at the end of each financial year/period during the Track Record Period. As a usual practice, our Group is required to prepay approximately 10% to 30% of the total purchase amounts in order to secure the adequate supply of raw materials for the future productions.

Tax recoverable mainly represents the net balances of input value-added tax ("**VAT**") and output VAT at the end of each financial year/period.

Deposits and other receivables mainly represent the balances of (i) transportation expenses receivables and (ii) deposits as at the balance sheet date of each financial year/period. Transportation expenses receivables represent the balances of transportation expenses paid by our Group on the behalf of the customers. Depending on the different shipping arrangements agreed between our customers and us, occasionally, the transportation expenses might be born by our customers. In such event, our Group would normally settle the freight costs charged by the logistic agents on behalf of our customers and then requested for reimbursements from our customers. Deposits represent the balances of bidding deposits placed to our prospective customers in order to tender for the potential contracts. The deposits would be repaid immediately after the completion of each tender.

Our balance of prepayments, deposits and other receivables increased by approximately 93.4% from approximately RMB171.9 million as at 31 December 2006 to approximately RMB332.5 million as at 31 December 2007. The significant increase was primarily attributable to the increase in the prepayment to suppliers by approximately 113.5% from approximately RMB146.4 million as at 31 December 2006 to approximately RMB312.6 million as at 31 December 2007, which was mainly resulted from (i) the stock up of raw materials in the fourth quarter of 2007 to cope with the increased sales orders received during the fourth quarter of 2007; and (ii) the increase in the required deposit paid to our suppliers because some of our suppliers requested for a higher prepayment rate as a result of, to the best knowledge and belief of our Directors, the implementation by the PRC government of the policy in tightening the credit granted by banking institutions to enterprises in the PRC in 2007.

Our Group's balance of prepayments, deposits and other receivables decreased by approximately 49.4% from approximately RMB332.5 million as at 31 December 2007 to approximately RMB168.2 million as at 31 December 2008. The decrease was primarily attributable to the combined effect of the decrease in the balance of prepayments by approximately 58.4% from approximately RMB312.6 million as at 31 December 2007 to approximately RMB130.0 million as at 31 December 2008 and the increase in tax recoverable, which mainly represents the value-added tax of the PRC, by approximately 466.7% from approximately RMB4.5 million as at 31 December 2007 to approximately RMB25.5 million as at 31 December 2008. The decrease in the balance of prepayment was mainly due to the decrease in the required deposit paid to our suppliers because, our suppliers eased the prepayment requirement for our purchase orders as a result of, to the best knowledge of our Directors, an increase in market supply of steel plate and steel coil during the second half of the year 2008.

Our balance of prepayments, deposits and other receivables increased by approximately 4.3% from approximately RMB168.2 million as at 31 December 2008 to approximately RMB175.4 million as at 31 August 2009. The slight increase is mainly attributable to the net effect of (i) the drop in the balance of prepayments by approximately 48.5% from approximately RMB130.0 million as at 31 December 2008 to approximately RMB67.0 million as at 31 August 2009, which was brought about by certain suppliers relaxing the 10% to 50% prepaid purchase amount requirement in view of the market shrinkage problem in early 2009 under the global financial turmoil, as well as the increased bargaining power of our Group in requiring the suppliers to accept bank acceptance notes with a credit term of around three to six months since our Group continued to purchase steel plates, steel coils and other raw materials in bulk; (ii) the increase in an item of other receivables of approximately RMB75.6 million, being the outstanding balance due from the buyer of our production line in Zhangjiagang, Jiangsu Province, which was disposed of by our Group in August 2009 following our relocation of our production base in Zhangjiagang, Jiangsu Province, the PRC to Jiangyin, Jiangsu Province, the PRC and the amount has been fully settled in September 2009; and (iii) the increase in the deposit receivable of approximately RMB4.4 million which amount was placed as deposits for bidding certain sales projects to be launched in late 2009 and 2010 but would be fully refunded to our Group after the biddings are completed.

Trade and bills payables and creditors' turnover days

Trade and bills payables balance as at the respective year/period end during the Track Record Period mainly represented the outstanding amounts payable by us to our suppliers of raw materials. In general, the payment term for the suppliers of steel plate and steel coil are cash on delivery and several sorts of credit terms were granted by some of our other suppliers. The effective credit period granted to us by our suppliers ranged from approximately 0 to 90 days during the Track Record Period.

Our trade and bills payables balance decreased by approximately 24.1% from approximately RMB109.9 million as at 31 December 2006 to approximately RMB83.4 million as at 31 December 2007. The decrease was mainly attributable to the fact that we were required to make more prepayments to suppliers before the delivery of raw materials. In this connection, our creditors' turnover days decreased from approximately 54 days in 2006 to approximately 30 days in 2007.

Our trade and bills payables balance increased significantly by approximately 137.8% from approximately RMB83.4 million as at 31 December 2007 to approximately RMB198.3 million as at 31 December 2008. The increase was primarily attributable to the utilisation of bank acceptance notes with a payment period of approximately three to six months to settle the trade payables to one of our major suppliers in the PRC since the fourth quarter of the year 2008 which resulted in an increase in the balance of bills payable by approximately 358.7% from approximately RMB30.0 million as at 31 December 2007 to approximately RMB137.6 million as at 31 December 2008. However, during the first three quarters of 2008, our major suppliers of the raw materials were still adopting the cash on delivery credit policy and there was a significant increase in our cost of sales from approximately RMB1,192.0 million for the year ended 31 December 2007 to approximately RMB2,087.7 million for the year ended 31 December 2008 that was in line with the increase in our sales for 2008, in this connection, our creditors' turnover days decreased from approximately 30 days for the year ended 31 December 2007 to approximately 25 days for the year ended 31 December 2008.

Our trade and bills payables balance increased by approximately 35.5% from approximately RMB198.3 million as at 31 December 2008 to approximately RMB268.6 million as at 31 August 2009. Such increase is mainly attributable to (i) the relaxation of purchase prepayment condition required by an increasing number of suppliers as a result of the market shrinkage problem encountered by those suppliers since the fourth quarter of the year 2008 under the global financial turmoil, whereas bank acceptance notes with a generally longer payment period were accepted by them since the fourth quarter of the year 2008; and (ii) the increased bargaining power of our Group in receiving a credit term of around three to six months from a larger number of suppliers since our Group continued to purchase raw materials from them in bulk even under the financial downturn in 2009. As a result of the lengthened credit terms granted by many of our suppliers, our creditors' turnover days increased from approximately 25 days for the year ended 31 December 2008 to approximately 36 days for the eight months ended 31 August 2009.

Other payables and accruals

	As at 31 December			As at 31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits received and receipts in advance	52,333	185,131	332,732	183,454
Other payables	4,204	28,859	12,813	25,197
Payroll payables	3,822	5,602	6,146	12,656
Accruals and other liabilities	3,132	7,064	25,480	26,076
Consideration remained payable for acquisition of a subsidiary	–	4,000	–	–
Other tax payables	1,822	3,218	8,320	5,340
	65,313	233,874	385,491	252,723

Deposit received and receipts in advance mainly represent the prepayments received from customers for purchase of our Group's products according to the sales contracts. In general, we usually receive from our customers before the production of sales orders an amount equivalent to approximately 30% of the total contracted sum.

Other payables mainly represented transportation fee payables for the forwarders and interest payables for the long term and short term bank loans borrowed by our Group.

Accruals and other liabilities mainly represented the accrual of water expenses, electricity expenses and other operating expenses of our Group.

Other tax payables mainly represented stamp duties, real estate taxes and flood prevention surcharge payable.

Our other payables and accruals balance increased by approximately 258.2% from approximately RMB65.3 million as at 31 December 2006 to approximately RMB233.9 million as at 31 December 2007. The increase was mainly attributable to (i) the increase in our deposits received and receipts in advance by approximately 253.9% from approximately RMB52.3 million as at 31 December 2006 to approximately RMB185.1 million as at 31 December 2007, which was mainly resulted from the increase in sales orders during the year ended 31 December 2007; (ii) the increase in our other payables balance by approximately 588.1% from approximately RMB4.2 million as at 31 December 2006 to approximately RMB28.9 million as at 31 December 2007, which was mainly attributable to the increase in transportation fee payables to forwarders as of 31 December 2007 which was resulted from the delivery of certain exports sales order, which had much higher freight costs, in December 2007; (iii) the increase in payroll payables by approximately 47.4% from approximately RMB3.8 million as at 31 December 2006 to approximately RMB5.6 million as at 31 December 2007, which was in line with the increase in our headcount and the average salary of approximately 25%

during the year 2007; (iv) the increase in accruals and other liabilities by approximately 129.1% from approximately RMB3.1 million to RMB7.1 million attributable to the increase in utilities charges result from the setting up of certain production lines for the GPR Companies and commenced their testing and fitting of new production line in late 2007; (v) the arises of RMB4.0 million of consideration payable resulted from the acquisition of Hualong Anti-Corrosion; and (vi) the increase in other tax payables by approximately 77.8% from approximately RMB1.8 million as at 31 December 2006 to approximately RMB3.2 million as at 31 December 2007 resulted from the increase in our Group's purchase volume in the last quarter of the year 2007 and led to the increase in our stamp duties charged for purchase contract accordingly.

Our other payables and accruals balance increased by approximately 64.8% from approximately RMB233.9 million as at 31 December 2007 to approximately RMB385.5 million as at 31 December 2008. The increase is primarily attributable to the combined effect of (i) the increase in our deposits received and receipts in advance by approximately 79.7% from approximately RMB185.1 million as at 31 December 2007 to approximately RMB332.7 million as at 31 December 2008, which was mainly resulted from the increase in domestic sales orders during the year ended 31 December 2008 and we successfully bargained with one of our major domestic customers for a higher rate of prepayment for its sales order during the year ended 31 December 2008; (ii) the decrease in other payables by approximately 55.7% from approximately RMB28.9 million as at 31 December 2007 to approximately RMB12.8 million as at 31 December 2008 which was mainly resulted from the decrease in transportation payable for our domestic sales as a number of our domestic customers have agreed to bear the transportation cost; (iii) the increase in accruals and other liabilities by approximately 259.2% from approximately RMB7.1 million as at 31 December 2007 to approximately RMB25.5 million as at 31 December 2008 as a result of increase in accruals in relation to our new production line in Zhangjiagang, Jiangsu Province, the PRC which commenced commercial production since March 2008 and the recognitions of legal and professional fees in relation to the Listing incurred during the year 2008; and (iv) the increase in other tax payables by approximately 159.4% from approximately RMB3.2 million as at 31 December 2007 to approximately RMB8.3 million as at 31 December 2008 and such increase is in line with the increase in sales and purchases of our Group during the year ended 31 December 2008.

Our other payables and accruals balance decreased by approximately 34.5% from approximately RMB385.5 million as at 31 December 2008 to approximately RMB252.7 million as at 31 August 2009. The decrease is mainly attributable to the net effect of (i) the drop in deposits received and receipts in advance by approximately 44.8% from approximately RMB332.7 million as at 31 December 2008 to approximately RMB183.5 million as at 31 August 2009, which is primarily resulted from the charging of a relatively higher prepayment rate on one of our major domestic customers for its sales order during the year ended 31 December 2008. The total sales orders of such project were completed during the eight months ended 31 August 2009 and whereas no such special prepayment rate was charged to other customers for the eight months ended 31 August 2009; and (ii) the increase in other payables by approximately 96.9% from approximately RMB12.8 million as at 31 December 2008 to approximately RMB25.2 million as at 31 August 2009, which is mainly attributable to the increase in payables for the purchase of certain plant and equipment for our new production line in Jiangyin, Jiangsu Province, the PRC and our factory in Panyu, Guangdong Province, the PRC for the eight months ended 31 August 2009.

Interest-bearing loans and government loans

Government loans represented the borrowings from local finance bureau for the purpose of the Group's working capital. The loans were secured, repayable on demand and carrying fixed interest rate of 5.58% per annum. The borrowing contracts were signed in 2000 and secured by a corporate guarantee of 廣州市番禺珠江實業集團有限公司 (Guangzhou City Panyu Pearl River Enterprises Holdings Co., Ltd.*) which is a related party of the Group.

During the Track Record Period, we financed the purchase of raw materials mainly by short term bank loans. After entering into sales contracts with our customers, we will present the relevant sales contract or letters of credit to the banks in the PRC to apply for a specific purpose loan for the purchase of raw materials. In the case of domestic sales, we will instruct our domestic customers to settle the amount payable to us by remitting the fund to a designated account with the above-mentioned banks and in the case of exports sales, such banks will also act as the notifying bank for clearing the letters of credits with the paying bank. Under the above-mentioned arrangement, the relevant bank will usually grant a loan amount up to approximately 70% to 80% of the contract sum of the respective sales contract. Upon such banks receiving the settlement from our customers, they will deduct the above-mentioned specific purpose loan amount from the amount received from our customers and release the remaining balance to us. As such, more bank loans have been borrowed to finance the purchase of raw materials in the fourth quarter of 2007 and led to an increase in our bank loan balances as at 31 December 2007. Our Directors consider that the PRC government policy in tightening the credit granted by banking institutions to enterprises in the PRC in 2007 as discussed under the paragraphs headed "Prepayment, deposit and other receivables" above has no significant impact on our Group's ability to borrow money from banks to finance our purchases of raw materials.

Our total interest-bearing loans and government loans balance decreased by approximately 31.0% from approximately RMB1,084.5 million as at 31 December 2007 to approximately RMB748.7 million as at 31 December 2008. The decreased bank loan was primarily due to the settlement of bank loans by using our internally generated fund for the year ended 31 December 2008.

Our total interest-bearing bank loans and government loans balance slightly decreased by approximately 2.8% from approximately RMB748.7 million as at 31 December 2008 to approximately RMB727.7 million as at 31 August 2009, which decrease is mainly attributable to the settlement of our long term bank loans by using our internally generated fund for the eight months ended 31 August 2009.

The nature of our interest bearing bank loans and government loans are shown as follows:

	Effective interest rate	Maturity	As at 31 December			As at 31 August	Nature
			2006	2007	2008	2009	
			RMB million	*RMB million*	*RMB million*	*RMB million*	
Current							
Bank loans – secured	4.860%~7.290%	2007~2010	255.3	685.5	296.6	75.2	Purchase of raw materials
Bank loans – secured	0.790%~10.670%	2007~2010	125.7	124.9	341.1	545.5	Working capital
Government loans	5.580%	On demand	6.4	3.4	–	–	Working capital
Other borrowings	5.850%	On demand	3.6	–	–	–	Working capital
Current portion of long term bank loans – secured	5.760%~6.353%	2007~2008	–	109.5	–	–	Purchase of plant and equipment
Current portion of long term bank loans – secured	5.670%~7.524%	2007~2010	13.9	161.2	–	17.0	Working capital
			404.9	1,084.5	637.7	637.7	
Non-current							
Bank loan – secured	3.680%	2008~2011	117.1	–	–	–	Purchase of plant and equipment
Bank loan – secured	5.580%~9.828%	2008~2011	168.5	–	111.0	90.0	Working capital
			690.5	1,084.5	748.7	727.7	

Our Directors expect that, other than the net proceeds from the New Issue, we will repay the above outstanding loans as and when they fall due by our internally generated resources as well as unutilised banking facilities. Moreover, out of the total interest-bearing loans and government loans of approximately RMB727.7 million as at 31 August 2009, approximately RMB449.2 million of which were guaranteed by certain of our related parties, please refer to note 34(c) in Appendix I to this prospectus for details of such guarantees. Save for those bank loans which were guaranteed by our related parties and we intend to settle before the Listing, we have already obtained the consents from the relevant banks that they principally agree to continue to provide borrowings to our Group even though the existing guarantees provided by related parties to be replaced by the guarantees from our Group upon Listing.

Government grants

As at 31 December 2006, 2007 and 2008 and 31 August 2009, government grants mainly represented funds received in advance from local finance bureau to encourage our Group's technological innovation and improvement for which related expenditure has not yet been undertaken. These government grants are conditional, non-recurring and considered and approved on project basis. In addition, these government grants are assets related and will be recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

Current and quick ratios

Our current ratio decreased from approximately 1.1 as at 31 December 2006 to approximately 0.8 as at 31 December 2007, and our quick ratio decreased from approximately 0.8 as at 31 December 2006 to approximately 0.5 as at 31 December 2007. The decrease in both ratios was mainly contributed by the increase in the current portion of bank loans by approximately RMB686.2 million as at 31 December 2007 as a result of (i) the reclassification of the non-current portion of long term bank loan of approximately RMB270.7 million from non-current liabilities as at 31 December 2006 to current liabilities as at 31 December 2007; and (ii) the increase in our short-term bank loans by approximately 112.7% from approximately RMB381.0 million as at 31 December 2006 to approximately RMB810.4 million as at 31 December 2007 for the purchases of raw materials.

The current ratio of our Group increased from approximately 0.8 as at 31 December 2007 to approximately 1.1 as at 31 December 2008, and the quick ratio of our Group maintained at approximately 0.5 as at 31 December 2007 and 2008. The slight increase in current ratio was primarily attributable to the decrease of our short-term interest-bearing bank loans from approximately RMB1,081.1 million as at 31 December 2007 to RMB637.7 million as at 31 December 2008. Out of the decreased amount of approximately RMB443.4 million, RMB232.4 million was repaid by our internally generated funds and the remaining RMB111.0 million was extended into long-term bank loans.

Our current ratio increased from approximately 1.1 as at 31 December 2008 to 1.2 as at 31 August 2009, and our quick ratio increased from approximately 0.5 as at 31 December 2008 to approximately 0.8 as at 31 August 2009. The increase in both ratios is primarily resulted from (i) our net operating cash inflow in an amount of approximately RMB151.3 million for the eight months ended 31 August 2009; and (ii) the decrease in our inventory balance by 29.5% from approximately RMB710.7 million as at 31 December 2008 to approximately RMB500.9 million as at 31 August 2009 as a result of the tightened inventory level control adopted by our Group during the eight months ended 31 August 2009.

Gearing ratio

Our gearing ratio decreased from approximately 63.3% as at 31 December 2006 to approximately 62.7% as at 31 December 2007. It further decreased to approximately 38.8% as at 31 December 2008 and approximately 35.1% as at 31 August 2009.

The slight decrease in our gearing ratio from 2006 to 2007 is mainly due to the combined effect of the increase in inventory from approximately RMB224.8 million as at 31 December 2006 to approximately RMB428.5 million as at 31 December 2007, the increase in trade receivable from approximately RMB165.7 million as at 31 December 2006 to approximately RMB279.3 million as at 31 December 2007 and such increases were partially offset by the increase in short-term bank loan from approximately RMB381.0 million as at 31 December 2006 to approximately RMB810.4 million as at 31 December 2007 which was mainly used to finance the purchase of raw materials for the year ended 31 December 2007.

The gearing ratio of our Group decreased from approximately 62.7% as at 31 December 2007 to approximately 38.8% as at 31 December 2008. The decrease was mainly attributable to the combined effect of (i) the settlement of bank and government loans which decreased from approximately RMB1,084.5 million as at 31 December 2007 to approximately RMB748.7 million as at 31 December 2008 due to the decrease in the number of short-term loans for the purchase of raw materials and the repayment of certain short-term bank loans as explained under the sub-paragraphs headed "Interest-bearing loans and government loans" and "Current and quick ratios" above; and (ii) increase in total assets by approximately 12.1% from approximately RMB1,773.8 million as at 31 December 2007 to approximately RMB1,987.8 million as at 31 December 2008 that was primarily resulted from our net operating cash inflow in amount of approximately RMB415.5 million for the year ended 31 December 2008 when compared with that of net operating cash outflow in amount of approximately RMB226.1 million for the year ended 31 December 2007, and which led to the balance of cash and cash equivalents increase from approximately RMB149.8 million as at 31 December 2007 to approximately RMB160.2 million as at 31 December 2008, accordingly.

Our gearing ratio decreased from approximately 38.8% as at 31 December 2008 to approximately 35.1% as at 31 August 2009. The decrease is mainly attributable to (i) the increase in total assets by approximately 9.1% from approximately RMB1,978.8 million as at 31 December 2008 to approximately RMB2,158.1 million as at 31 August 2009, which in turn is primarily due to increase in our deposit paid for the purchase of items of property, plant and equipment for our new production line in Lianyungang, Jiangsu Province, the PRC; and (ii) the increase in our cash and bank balances as at 31 August 2009 as a result of the net cash inflow from our operations and from the sales of our production line during the eight months ended 31 August 2009.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

The following table summarises our cash flows during the Track Record Period:

	Year ended 31 December			Eight months ended 31 August	
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax	54,099	98,575	317,968	258,240	348,710
Adjustments for:					
Finance costs	43,185	45,439	65,186	39,418	28,778
Bank interest income	(1,304)	(2,096)	(4,546)	(1,629)	(3,294)
Gain on collection of a held-to-maturity investment	(14)	–	–	–	–
Loss/(gain) on disposal of items of property, plant and equipment, net	175	1,648	–	–	(26,450)
Depreciation	24,832	27,119	35,259	23,461	23,569
Amortisation of prepaid land lease payments	2,153	2,153	2,153	1,436	1,436
Impairment of trade receivables	4,055	1,071	82	413	4,154
Impairment/(reversal of impairment) of deposits and other receivables	15	(71)	(586)	99	(555)
Share of profit of a jointly-controlled entity	(2,475)	–	–	–	–
	124,721	173,838	415,516	321,438	376,348
Decrease/(increase) in inventories	31,343	(202,323)	(282,156)	(216,746)	209,799
Decrease/(increase) in trade receivables	(81,608)	(108,172)	38,996	(9,618)	(341,511)
Decrease/(increase) in prepayments, deposits and other receivables	(14,144)	(158,978)	164,840	38,685	(6,645)
Decrease/(increase) in pledged deposits	31,322	13,447	(86,795)	(38,682)	50,995
Increase/(decrease) in trade and bills payables	(53,812)	(30,207)	114,881	252,240	70,314
Increase/(decrease) in other payables and accruals	(24,154)	163,612	150,126	40,556	(145,795)
Increase/(decrease) in an amount due to the ultimate shareholder	32,236	(18,833)	(11,056)	(24,663)	10,416
Increase in government grants	316	318	1,513	–	530
Cash generated from/(used in) operations	46,220	(167,298)	505,865	363,210	224,451
Interest received	1,304	2,096	4,546	1,629	3,294
Interest paid	(43,170)	(46,066)	(65,321)	(38,867)	(29,378)
Corporate income tax paid	–	(14,845)	(29,618)	(31,730)	(47,724)
Net cash inflow/(outflow) from operating activities	4,354	(226,113)	415,472	294,242	150,643

	Year ended 31 December			Eight months ended 31 August	
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES					
Dividends received from a jointly-controlled entity	3,450	1,879	–	–	–
Purchases of items of property, plant and equipment	(16,952)	(139,020)	(67,405)	(19,742)	(139,011)
Capital contribution received	12,771	3,505	–	–	–
Proceeds from collection of a held-to-maturity investment	418	–	–	–	–
Proceeds from disposal of items of property, plant and equipment	–	–	–	–	116,167
Acquisition of a subsidiary	–	(2,748)	(4,000)	(4,000)	–
Net cash outflow from investing activities	(313)	(136,384)	(71,405)	(23,742)	(22,844)
CASH FLOWS FROM FINANCING ACTIVITIES					
New bank loans and government loans	937,843	1,594,691	2,354,283	1,388,606	1,255,856
Repayment of bank loans and government loans	(908,599)	(1,193,078)	(2,683,046)	(1,514,628)	(1,276,889)
Dividends paid	–	–	–	–	(49,715)
Net cash inflow/(outflow) from financing activities	29,244	401,613	(328,763)	(126,022)	(70,748)
NET INCREASE IN CASH AND CASH EQUIVALENTS	33,285	39,116	15,304	144,478	57,051
Exchange realignment	(2,711)	(4,545)	(4,859)	(5,978)	(32)
Cash and cash equivalents at beginning of year/period	84,646	115,220	149,791	149,791	160,236
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	115,220	149,791	160,236	288,291	217,255
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	89,434	113,694	41,765	73,022	104,728
Pledged bank deposits with original maturity of less than three months when acquired	25,786	36,097	118,471	215,269	112,527
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	115,220	149,791	160,236	288,291	217,255

Financial resources and capital structure

Capital structure

We had net current assets of approximately RMB86.7 million, RMB81.2 million and RMB296.0 million as at 31 December 2006 and 2008 and 31 August 2009 respectively and a net current liabilities of approximately RMB223.3 million as at 31 December 2007. The net current liabilities as at 31 December 2007 was mainly ascribed to the reclassification of the current portion of long term bank loans of approximately RMB270.7 million from non-current liabilities as at 31 December 2006 to current liabilities as at 31 December 2007 and such loans were mainly used for financing our working capital. We restored to a net current asset of approximately RMB81.2 million as at 31 December 2008, which was mainly attributable to the substantial increase in our sales which generated a net operating cash inflow of approximately RMB415.5 million for the year ended 31 December 2008 and the renewal of certain long term bank loans when they fell due during the year ended 31 December 2008. We recorded a significant increase of RMB214.8 million in the net current asset of our Group from RMB81.2 million as at 31 December 2008 to approximately RMB296.0 million as at 31 August 2009, which increase is mainly attributable to the combined effect of (i) a decrease in inventories of approximately RMB209.8 million; (ii) an increase in trade receivables of approximately RMB341.5 million; and (iii) a decrease in other payables and accruals of approximately RMB145.8 million as discussed under the sub-paragraphs headed "Inventories and inventory turnover days", "Trade receivables and debtors' turnover days" and "Other payables and accruals" under the paragraph headed "Analysis of major statements of financial position items and financial ratios" in this section.

Cash flows

We generally finance our operations through a combination of shareholders' equity, internally generated cash flows and bank borrowings. Following completion of the Global Offering, we expect to finance our capital expenditure and operational requirements through internally generated cash flows, net proceeds from the New Issue, our cash reserve and bank borrowings.

As at 31 August 2009, we had cash and bank balances of approximately RMB104.7 million and undrawn banking facilities of approximately RMB1,235.9 million.

Net cash flows from operating activities

Our major operating cash flows during the Track Record Period were the sales and receipts of our steel pipes and payments for the purchase of raw materials for the manufacturing of our steel pipe products.

We had a net cash inflow from operating activities of approximately RMB4.4 million for the year ended 31 December 2006, while our operating profit before changes in working capital for the same period was approximately RMB124.7 million. The operating cash outflow of approximately RMB120.4 million was primarily due to the composite effect of (i) an increase in trade receivables of approximately RMB81.6 million; (ii) a decrease in trade and bills payables of approximately RMB53.8 million; and (iii) a decrease in other payables and accruals of approximately RMB24.2 million as discussed under the sub-paragraphs headed "Trade receivables and debtors' turnover days", "Trade payables and creditors' turnover days" and "Other payables and accruals" under the paragraph headed "Analysis of major statements of financial position items and financial ratios" in this section.

We had a net cash outflow from operating activities of approximately RMB226.1 million for the year ended 31 December 2007, while our operating profit before changes in working capital for the same period was approximately RMB173.8 million. The operating cash outflow of approximately RMB399.9 million was primarily due to (i) an increase in inventories of RMB202.3 million; (ii) an increase in trade receivables of RMB108.2 million; and (iii) an increase in prepayments, deposits and other receivables of RMB159.0 million as discussed under the sub-paragraphs headed "Inventories and inventory turnover days", "Trade receivables and debtors' turnover days" and "Prepayments, deposits and other receivables" under the paragraph headed "Analysis of major statements of financial position items and financial ratios" in this section.

We had a net cash inflow from operating activities of approximately RMB415.5 million for the year ended 31 December 2008, while our operating profit before changes in working capital for the same period was also approximately RMB415.5 million. The operating cash inflow remained relatively constant, which was resulted from (i) a decreased in trade receivables of RMB39.0 million; (ii) a decrease in prepayments, deposits and other receivables of RMB164.8 million; (iii) an increase in trade and bills payable of RMB114.9 million; and (iv) an increase in other payables and accruals of approximately RMB150.1 million as discussed under the sub-paragraphs headed "Trade receivables and debtors' turnover days", "Prepayments, deposits and other receivables", "Trade and bills payables and creditors' turnover days" and "Other payables and accruals" under the paragraph headed "Analysis of major statements of financial position items and financial ratios" in this section.

We had a net cash inflow from operating activities of approximately RMB150.6 million for the eight months ended 31 August 2009, while our operating profit before changes in working capital for the same period was approximately RMB376.3 million. The operating outflow of approximately RMB225.7 million is primarily due to the combined effect of (i) a decrease in inventories of approximately RMB209.8 million; (ii) an increase in trade receivables of approximately RMB341.5 million; and (iii) a decrease in other payables and accruals of approximately RMB145.8 million as discussed under the sub-paragraphs headed "Inventories and inventory turnover days", "Trade receivables and debtors' turnover days" and "Other payables and accruals" under the paragraph headed "Analysis of major statements of financial position items and financial ratios" in this section.

Net cash flows from investing activities

The major cash outflows of our investing activities during the Track Record Period were our capital expenditures for property, plant and equipment for the expansion of our production capacities.

Our net cash outflow from investing activities increased from approximately RMB0.3 million for the year ended 31 December 2006 to approximately RMB136.4 million for the year ended 31 December 2007. The substantial increase was mainly attributable to the investment of our new JCOE production line in Zhangjiagang, Jiangsu Province, the PRC. The construction of such production line commenced and completed in March and October 2007 respectively.

Our net cash used in investing activities decreased from approximately RMB136.4 million for the year ended 31 December 2007 to approximately RMB71.4 million for the year ended 31 December 2008. The substantial decrease was mainly attributable to the decrease in our investment in the capital expenditure of our new JCOE production line in Zhangjiagang, Jiangsu Province, the PRC since the major construction works of such production line has been completed in October 2007. For the year ended 31 December 2008, the cash outflow for the acquisition of a subsidiary of approximately RMB4.0 million represented the settlement of the remaining consideration payable under the acquisition of Haulong Anti-Corrosion.

Our net cash outflow from investing activities for the eight months ended 31 August 2009 amounted to approximately RMB22.8 million, which is comparable to the amount of net cash outflow from investing activities of approximately RMB23.7 million for the eight months ended 31 August 2008. The net cash outflow from investing activities for the eight months ended 31 August 2009 is mainly resulted from the combined effect of (i) the payment of RMB139.0 million which was mainly related to our Group's development of a new production line which was under construction in the Jiangyin branch of PCKSP in 2009; and (ii) the proceeds from our disposal of certain items of property, plant and equipment that were mainly attributable to the sale of our production facilities in Zhangjiagang, Jiangsu Province, the PRC under our Group's new development and expansion plan.

Net cash flows from financing activities

Our financing activities during the Track Record Period mainly included proceeds from and repayments of bank loans and government loans.

Our net cash inflow from financing activities increased from approximately RMB29.2 million for the year ended 31 December 2006 to approximately RMB401.6 million for the year ended 31 December 2007. The increase was mainly attributed to a composite effect of (i) the increase in the short-term bank borrowings of approximately RMB1,594.7 million to finance our purchase of raw materials in order to cope with the sales orders received in the fourth quarter of 2007, which was higher than that for the same period in 2006; and (ii) the total amount of bank loan that we repaid during the year ended 31 December 2007 was more than that for the year ended 31 December 2006.

For the year ended 31 December 2007, our net cash inflow from financing activities amounted to approximately RMB401.6 million, whereas, for the year ended 31 December 2008, we had a net cash outflow from financing activities of approximately RMB328.8 million. The change from cash inflow to cash outflow during the two periods of review was mainly due to the fact that we repaid a significant amount of bank loan by cash generated from our operating activities as explained under the sub-paragraphs headed "Current and quick ratios" above.

Our net cash outflow from financing activities decreased from approximately RMB126.0 million for the eight months ended 31 August 2008 to approximately RMB70.7 million for the eight months ended 31 August 2009. Such decrease is mainly attributable to the borrowing of new interest-bearing bank loans of approximately RMB1,255.9 million, the repayment of bank loans of RMB1,276.9 million and dividends payment of RMB49.7 million during the eight months ended 31 August 2009.

Capital expenditure management

Our capital expenditures during the Track Record Period mainly related to acquisition of plant and machinery and construction for the expansion of our production facilities. Our capital expenditures for each of the three financial years ended 31 December 2008 and for the eight months ended 31 August 2009 amounted approximately RMB22.2 million, RMB131.4 million, RMB57.1 million and RMB106.1 million, respectively. The increase in our capital expenditure for the year ended 31 December 2007 mainly represented the cost of the establishment of our new production line in Zhangjiagang, Jiangsu Province, the PRC amounted to approximately RMB91.0 million, of which, approximately RMB85.0 million was paid for the acquisition of machinery for such production line.

In order to meet the expected growth in demand for the steel pipes, our Directors believe that sufficient capital expenditure investment will be fundamental to our expansion plans, details of which are set out in the section headed "Future plans and use of proceeds" in this prospectus. Among others, we expect to spend (i) approximately RMB765.4 million (equivalent to approximately HK$872.6 million) out of the net proceeds from the New Issue for the establishment of a new production base in Lianyungang, Jiangsu Province, the PRC in addition to our existing production facilities as disclosed under the paragraph headed "Production facilities" in the section headed "Business" in this prospectus; and (ii) approximately RMB109.4 million (equivalent to approximately HK$124.7 million) out of the net proceeds from the New Issue for the establishment of one new production line for LSAW steel pipes in relation to the formation of a joint venture at a strategic overseas location (no specific conclusion or legally binding conclusion was made as at the Latest Practicable Date), and the modification and technical enhancement of an ancillary production line in Panyu, Guangdong Province, the PRC into a completed LSAW steel pipes production line, the planned annual production capacity of each production line being 300,000 tonnes; and the remaining proceeds for the potential partnership with and potential acquisition of other steel pipes manufacturers and/or other complementary production facilities (no target had yet been identified as at the Latest Practicable Date).

We expect to meet the future capital expenditure requirements through our available cash and cash equivalents, cash generated from our operating activities, available banking facilities and the expected net proceeds from the New Issue. The following table sets out the amount of our capital expenditures and capital commitments during the Track Record Period, the capital commitment existed as at the Latest Practicable Date and our estimate of future capital expenditures for the three years ending 31 December 2011:

	Year ended 31 December			Eight months ended 31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital expenditure	22,150	131,429	57,099	106,093
Capital commitment	120,659	91,002	105,718	441,390

	Year ended 31 December	Year ending 31 December	
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Estimated capital expenditure budget	120,354	867,000	266,000

Our Directors expected that the estimated capital expenditure budget will be financed by the net proceeds form the New Issue, our internal financial resources and banking facilities.

Working capital management

We finance our working capital requirements primarily through cash flow from our operating activities as well as bank borrowings. During the Track Record Period, our Group recorded a net cash inflow from our operating activities of approximately RMB4.4 million, RMB415.5 million and RMB150.6 million for the years ended 31 December 2006 and 2008, and for the eight months ended 31 August 2009, respectively, and a net cash outflow from our operating activities of approximately RMB226.1 million for the year ended 31 December 2007. During the Track Record Period, due to the payment terms requested by our major suppliers whereby we needed to make an upfront deposit representing approximately 10% to 30% of the total purchase amounts with the remaining balances to be settled by cash, telegraphic transfer or bank acceptance notes on or before delivery, our funding requirement for the purchase of raw materials would become more intense as more sales we make. Although we could use bank acceptance notes to settle some of the payments to our suppliers, only a few of our suppliers accepted such payment method and the payment made by such method only accounted for approximately 15.7% and 17.2% respectively of our total purchases for the two years ended 31 December 2007. However, since late 2008, an increasing number of our suppliers have eased payment terms of our purchases by not requiring us to pay any upfront deposit in view of the then adverse market conditions as a result of the global economic turmoil. Instead, the suppliers accept our bank acceptance notes which provide various payment periods. In addition, by placing bulk purchasing orders to them, we are able to bargain for an extended credit period ranging from 30 days to 60 days from more and more suppliers. In this regard, the increased liquidity enables our Group to deploy other trade financing arrangements for our purchases, daily operations and expansion. In order to further maintain our liquidity, we mainly utilised short-term bank loan, which in substance is a kind of trade financing, to finance the purchase of raw materials during the Track Record Period. As a result, our short-term bank loan increased substantially by approximately RMB429.4 million from approximately RMB381.0 million as at 31 December 2006 to approximately RMB810.4 million as at 31 December 2007. However, in view of the rising interest rate for short-term bank loans in the PRC, we have sought for alternative financing instrument to finance our working capital requirement. Since the end of 2007, we started to enter into certain forfeiting arrangement with local banks in the PRC whereby we sold certain letters of credits to the banks at a discount for immediate funds. For the eight months ended 31 August 2009, our Group did not enter into any forfeiting arrangement because our Group maintained sufficient operating cash flow for our daily operation during the period.

In order to improve our liquidity position, we have adopted a stringent working capital management policy, the principal strategies of which include, without limitation, closely reviewing the future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that our Group has a reasonable level of working capital to support our business operation. Our Directors believe that, with the net proceeds from New Issue, our liquidity position will be substantially improved after the Listing and we intend to maintain our current ratio at not less than 1.0 after the Listing.

Directors' opinion on the sufficiency of our working capital

Taking into account the financial resources available to our Group, including internally generated funds, the available banking facilities and the estimated net proceeds from the New Issue, our Directors are of the opinion that we have sufficient working capital for our present requirements, that is, for at least the next 12 months from the date of this prospectus.

INDEBTEDNESS

Borrowing and banking facilities

As at the close of business on 30 November 2009, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, we had total debts of approximately RMB769.0 million, details of which are set forth below:

	Secured	**Unsecured**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Short-term bank borrowings	373,434	–	373,434
Long-term bank borrowings	377,000	–	377,000
Amount due to the ultimate shareholder	–	18,516	18,516
Total	750,434	18,516	768,950

As at the close of business on 30 November 2009, we had aggregate banking facilities of approximately RMB2,339.0 million, of which RMB1,257.6 million were unutilised.

Our Directors confirm that the above balance due to the ultimate shareholder will be settled prior to the Listing.

Net current assets as at 30 November 2009

As at 30 November 2009, being the latest practicable date for the preparation of the indebtedness statement in this prospectus, we had net current assets of approximately RMB454.0 million, comprising current assets of approximately RMB1,438.6 million and current liabilities of approximately RMB984.6 million. The following table summarises the details of our unaudited current assets and liabilities as at 30 November 2009:

	RMB'000 (unaudited)
Current assets	
Inventories	527,939
Trade receivables	256,354
Prepayments, deposits and other receivables	207,077
Pledged deposits	362,715
Cash and bank balances	84,498
	1,438,583
Current liabilities	
Trade and bills payables	322,795
Interest-bearing bank loans	373,434
Other payables and accruals	250,618
Tax payable	19,233
Due to the ultimate shareholder	18,516
	984,596
Net current assets	453,987

Capital commitment

As at the close of business on 30 November 2009, we had capital commitments contracted but not provided for in respect of acquisition of property, plant and equipment of approximately RMB274 million.

Contingent liabilities

The following table sets out our contingent liabilities not provided for as at each of the dates indicated:

	As at 31 December			**As at 31 August**	**As at 30 November**
	2006	**2007**	**2008**	**2009**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Guarantees given to banks in connection with facilities granted to:					
Related parties	29,680	25,800	–	–	–

Off-balance sheet arrangements

As at 30 November 2009, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of this prospectus, we did not entered into any off-balance sheet arrangements.

Disclaimer

Save as disclosed herein, and apart from intra-group liabilities, we did not have any outstanding mortgages, charges, debentures, loan capital issued or agreed to be issued, bank overdrafts, loans and advances, debt securities borrowing or other similar indebtedness, finance lease commitments, hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at 30 November 2009, being the latest practicable date for the purpose of this indebtedness statement. Our Directors have confirmed that there has been no material adverse change in our indebtedness and contingent liabilities since 30 November 2009, being the latest practicable date for the purposes of this indebtedness statement prior to the printing of this prospectus.

MARKET RISKS

Interest rate risk

Our Group's exposure to the risk of changes in market interest rates relates primarily to our Group's bank loans and government loans with a floating interest rate. Our Group regularly reviews and monitors the mix of fixed and floating interest rate borrowings in order to manage our interest rate risks. We do not anticipate any significant impact resulting from the changes in interest rates because most of our borrowings as at the balance sheet date were at fixed interest rates which have no significant impact on cash flow interest rate risk.

If there would be a general increase/decrease in the interest rate of bank and other borrowings with floating interest rates by one percentage point, with all other variables held constant, the combined operating results would have been decreased/increased by approximately RMB5.8 million, RMB6.4 million, RMB6.5 million and RMB6.2 million for each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, respectively, and there is no impact on other components of our combined equity, except for retained earnings.

Foreign currency risk

Our Group have transactional currency exposures. Such exposures arise from our sales in currencies other than our functional currency. For each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, approximately 45.5%, 54.9%, 52.3% and 62.8%, respectively, of our sales were denominated in currencies other than our functional currency.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of our profit before tax (due to changes in the fair value of monetary assets and liabilities).

Effect on profit before tax

		Year ended 31 December			Eight months ended 31 August
		2006	**2007**	**2008**	**2009**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Increase in US dollar rate	+3%	15,003	24,807	42,654	36,225
Decrease in US dollar rate	-3%	(15,003)	(24,807)	(42,654)	(36,225)

Credit risk

Our Group has no concentration of credit risk. Our cash and cash equivalents are mainly deposits with state-owned banks in the PRC.

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

Liquidity risk

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

Our liquidity is primarily dependent on our ability to maintain adequate cash inflows from operations to meet our debt obligations as they fall due, and our ability to obtain external financing to meet our committed future capital expenditure. With regards to our future capital commitments and other financing requirements, we have already obtained banking facilities with several PRC banks of up to an amount of RMB1,977 million as at 31 August 2009, of which an amount of approximately RMB741 million has been utilised.

PROFIT ESTIMATE FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

The following unaudited pro forma estimated earnings per Share for the financial year ended 31 December 2009 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2009. This unaudited pro forma estimated earnings per Share has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial results of the Group following the Global Offering.

	For the year ended 31 December 2009
Estimated combined net profit attributable to the equity holders of our Company for the financial year ended 31 December 2009	not less than RMB400.0 million (about HK$456.0 million equivalent)
Unaudited pro forma estimated earnings per Share *(Note 2)*	not less than RMB0.400 (about HK$0.456 equivalent)

Notes:

1. Our Group's estimated profit of not less than approximately RMB400.0 million for the year ended 31 December 2009 was considerably contributed by a sales order for over 44,000 tonnes of ERW pipes to a customer in the Sultanate of Oman during the eight months ended 31 August 2009. The revenue and gross profit generated from this sales order during the eight months ended 31 August 2009 amounted to approximately RMB550.5 million and RMB187.2 million, respectively, according to the financial information prepared by the management of our Group, representing approximately 27.2% and 41.8%, respectively, of our total revenue and total gross profit during the relevant period. Following the completion of this sales order in August 2009 and up to the Latest Practicable Date, our Group had not secured any recurring sales order from this customer or other customers in relation to our ERW steel pipes with comparable profit margin.

2. The calculation of the unaudited estimated earnings per Share on a pro forma basis is based on the estimated combined net profit attributable to equity holders of our Company for the financial year ended 31 December 2009 assuming that our Company had been listed on the Main Board since 1 January 2009 and a total of 1,000,000,000 Shares (including the Shares in issue as at 1 January 2009, Shares under the Capitalisation Issue and the Global Offering) had been in issue during that financial year, but does not take into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of the Shares referred to under the paragraph headed "Resolutions in writing of the sole Shareholder passed on 23 January 2010" in Appendix VI to this prospectus.

3. Our Directors have made the following principal assumptions in the preparation of the profit estimate:

– There was no material changes in existing political, legal, fiscal, market or economic conditions in Hong Kong, the PRC or any other countries or territories in which we currently operate or which are otherwise material to our income.

– Our Group's estimated profit for the year ended 31 December 2009 was not affected by anti-dumping or countervailing measures imposed by the US, EU and other countries during the relevant period.

– Other than the anti-dumping or countervailing measures imposed by the US, EU and other countries, there was no changes in policies, legislation, regulations, or practices in Hong Kong, the PRC or any other countries or territories in which we operate or have arrangements or agreements (including, but not limited to, those in relation to land acquisition, sales of steel pipes and taxation of sales income derived therefrom), which may adversely affect our business or operations. Further, with respect to the steel pipe industry in particular, the respective jurisdictions of our overseas customers does not impose material changes, or impose additional austerity measures, to dampen the sales of our Group's products and prices of our Group's products.

– There was no material changes in interest rates from those currently prevailing as at the date of this prospectus.

– There had been no material changes in our Group's operational, trading and financial position since our latest JCOE production line in Jiangyin, Jiangsu Province, the PRC commenced production in September 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 the 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 in accordance with the accounting records 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 recognised as expenses for the four months ended 31 December 2009 was approximately RMB877,000 which only represents approximately 0.22% of our Group's 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.

– There was no material changes in the bases or rates of taxation or duties in the PRC or any of the countries in which we operate or in which we are incorporated or registered.

– There was no material changes in foreign currency exchanges rates, interest rates and inflation rates from those currently prevailing.

DIVIDEND POLICY

In February 2009 and April 2009, Lessonstart declared a special dividend of a total sum of HK$56.4 million to its then sole shareholder, namely, Bournam. There can be no assurance that in the future we will pay dividends at a similar level to the past or at all, and potential investors should be aware that the amount of dividends we paid in the past should not be used as a reference or basis upon which future dividends are determined. The payment and the amount of any dividends in future will depend on various factors, including but not limited to, the results of operations, cash flows, financial position, statutory and regulatory restrictions on the payment of dividends by us and future prospects. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to our Board's discretion.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

Subject to the foregoing, our Directors currently intend to recommend dividends which would amount in total to not less than 30% of the net profit attributable to our Shareholders for full financial years subsequent to the Global Offering. Such intention does not amount to any guarantee or representation or indication that we must or will declare and pay dividend in such manner or declare and pay any dividend at all. Cash dividends on the Shares, if any, will be paid in Hong Kong dollars.

DISTRIBUTABLE RESERVES

As at 31 August 2009, we had reserves amounting to approximately RMB520.8 million available for distribution to the Shareholders.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROPERTY INTERESTS

Particulars of the property interests of our Group are set out in Appendix IV to this prospectus. LCH (Asia-Pacific) Surveyors Limited, an independent property valuer, has valued our property interests as at 30 November 2009. A summary of values and valuation certificate issued by LCH (Asia-Pacific) Surveyors Limited are included in Appendix IV to this prospectus.

The table below sets forth the reconciliation of the net book value of our Group's property interests as at 31 August 2009 and the valuation of such property interests as at 30 November 2009:

	RMB'000
Net book value of the property interests as at 31 August 2009 (audited)	174,231
Less: Depreciation for the three months ended 30 November 2009	(1,090)
Net book value of the property interests as at 30 November 2009 (unaudited)	173,141
Add: Valuation surplus as of 30 November 2009	108,631
Valuation as of 30 November 2009 as per Appendix IV to this prospectus (HK$321,220,000)	281,772

UNAUDITED PRO FORMA STATEMENT OF NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out here to illustrate the effect of the Global Offering on the audited combined net tangible assets of our Group as at 31 August 2009, as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus and adjusted as follows.

The unaudited pro forma adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of our Group.

The following is an illustrative statement of unaudited pro forma adjusted combined net tangible assets of our Group, which has been prepared for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 August 2009. It is based on the audited combined net tangible assets attributable to equity holders of the parent as at 31 August 2009 as shown in the accountants' report of our Group, the text of which is set out in Appendix I to this prospectus, and is adjusted as follows:

	Audited combined net tangible assets attributable to equity holders of the parent as at 31 August 2009	Estimated net proceeds receivable by the Company from the Global Offering	Unaudited pro forma adjusted combined net tangible assets	Unaudited pro forma adjusted combined net tangible assets per Share	Unaudited pro forma adjusted combined net tangible assets per Share
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*(HK$ equivalent)*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on the maximum indicative Offer Price of HK$6.15 per Share	847,991	1,293,026	2,141,017	2.14	2.44
Based on the minimum indicative Offer Price of HK$4.50 per Share	847,991	941,855	1,789,846	1.79	2.04

Notes:

1. The combined net tangible assets attributable to equity holders of the parent as at 31 August 2009 is calculated as follows:

	RMB'000
Audited combined net assets of the Group as set out Appendix I	852,066
Less: Goodwill	(4,075)
Combined net tangible assets attributable to equity holders of the parent	847,991

2. The estimated net proceeds from the Global Offering are based on the Offer Shares and the Offer Price of HK$4.50 or HK$6.15 per Share, being the low or high end of the stated offer price range, after deduction of the underwriting fees and related expenses incurred by the Company since 1 September 2009 and takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of our Shares referred to under "Resolutions in writing of the sole Shareholder passed on 23 January 2010" in Appendix VI to this prospectus. The estimated net proceeds from the Global Offering are converted from HK dollars into Renminbi at an exchange rate of RMB1.00 to HK$1.14.

3. The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after making the adjustments set forth under the paragraph headed "Unaudited pro forma adjusted combined net tangible assets" in Appendix II in this prospectus and on the basis of a total of 1,000,000,000 Shares in issue immediately following the completion of the Global Offering without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of our Shares referred to under "Resolutions in writing of the sole Shareholder passed on 23 January 2010" in Appendix VI to this prospectus.

4. The unaudited pro forma adjusted combined net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of RMB1.00 to HK$1.14. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.

5. Details of the valuations of our Group's properties as at 30 November 2009 are set out in Appendix IV to this prospectus. The revaluation surplus or deficit of properties included in buildings held for own use, assets under construction, land use rights and properties under development will not be incorporated in our Group's financial statements for the year ended 31 December 2009. If the revaluation surplus was recorded in our Group's financial statements for the year ended 31 December 2009, the annual depreciation charges would increase by approximately RMB2,642,000.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that they are not aware of any material adverse change in our financial or trading position or prospects since 31 August 2009, being the date on which our latest audited combined financial statements were made up, the text of which is set out in Appendix I to this prospectus.