The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants, Ernst &Young, Certified Public Accountants, Hong Kong. As described in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VII to this prospectus, a copy of the following Accountants' Report is available for inspection.

ERNST & YOUNG

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

28 January 2010

The Board of Directors
Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited

ICBC International Capital Limited
Access Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009 (the "Relevant Periods") and the eight months ended 31 August 2008 (the "31 August 2008 Financial Information"), prepared on the basis of presentation set forth in Section 2 below, for inclusion in the prospectus of the Company dated 28 January 2010 (the "Prospectus") in connection with the proposed listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands on 9 January 2008 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation as more fully explained in the paragraph headed "Corporate reorganisation" in "Appendix VI – Statutory and general information" to the Prospectus (the "Reorganisation"), which was completed on 23 January 2010, the Company became the holding company of the subsidiaries now comprising the Group.

The Group is principally engaged in the manufacture and sale of longitudinal seam welded steel pipes and the provision of related manufacturing services. The Company and its subsidiaries have adopted 31 December as their financial year end date. The particulars of the Company and its subsidiaries are set out in Section 2 below.

The financial statements of the companies now comprising the Group were prepared in accordance with the accounting principles and relevant financial regulations applicable to these companies and audited by certified public accountants as detailed in Section 2 below.

The combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements of the Group for the Relevant Periods and the combined statements of financial position of the Group as at 31 December 2006, 2007, 2008 and 31 August 2009, together with the notes thereto set out in this report (the "Financial Information") have been prepared based on the audited financial statements and, where appropriate, unaudited management accounts of the companies now comprising the Group, after making such adjustments as appropriate to comply with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), and have been prepared on the basis set out in Section 2 below. No statement of adjustments as defined under Rule 4.15 of the Rules Governing the Listing of Securities on the Stock Exchange is considered necessary.

The directors of the Company (the "Directors") are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with IFRSs. The directors of the respective companies of the Group are responsible for the preparation and the true and fair presentation of the respective financial statements and, where appropriate, management accounts in accordance with the relevant accounting principles and financial regulations applicable to these companies. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information, financial statements and management accounts that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances. It is our responsibility to form an independent opinion on the Financial Information in respect of the Relevant Periods and to report our opinion to you.

Procedures performed in respect of the Financial Information

For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Procedures performed in respect of the 31 August 2008 Financial Information

For the purpose of this report, we have also performed a review of the 31 August 2008 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 31 August 2008 Financial Information.

Opinion in respect of the Financial Information for the Relevant Periods

In our opinion, the Financial Information for the Relevant Periods prepared on the basis of presentation set out in Section 2 below gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2006, 2007, 2008 and 31 August 2009, and that of the Company as at 31 December 2008 and 31 August 2009, and of the combined results and cash flows of the Group for each of the Relevant Periods in accordance with IFRSs.

Review conclusion in respect of the 31 August 2008 Financial Information

On the basis of our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the 31 August 2008 Financial Information is not prepared, in all material respects, in accordance with IFRSs.

1. FINANCIAL INFORMATION

Combined statements of comprehensive income

	Sections	Year ended 31 December 2006	2007	2008	Eight months ended 31 August 2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
REVENUE	7	1,099,741	1,458,028	2,624,639	1,683,314	2,021,303
Cost of sales		(919,865)	(1,191,977)	(2,087,689)	(1,292,521)	(1,573,330)
Gross profit		179,876	266,051	536,950	390,793	447,973
Other income and gains	7	2,496	3,253	6,430	2,923	31,287
Selling and distribution costs		(47,408)	(63,106)	(57,172)	(37,809)	(51,675)
Administrative expenses		(36,976)	(48,616)	(90,033)	(45,004)	(48,836)
Other expenses		(1,635)	(2,876)	(4,000)	(2,717)	(600)
Finance costs	8	(43,185)	(45,439)	(65,186)	(39,418)	(28,778)
Exchange loss, net		(1,544)	(10,692)	(9,021)	(10,528)	(661)
Share of profit of a jointly-controlled entity		2,475	–	–	–	–
PROFIT BEFORE TAX	9	54,099	98,575	317,968	258,240	348,710
Tax	12	(16,102)	(28,224)	(42,504)	(43,911)	(47,547)
PROFIT FOR THE YEAR/ PERIOD		37,997	70,351	275,464	214,329	301,163
Other comprehensive income:						
Exchange differences on translating foreign operations		1,424	2,897	1,925	742	(19)
Income tax relating to component of other comprehensive income		–	–	–	–	–
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
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

Combined statements of financial position

	Sections	31 December 2006 RMB'000	31 December 2007 RMB'000	31 December 2008 RMB'000	31 August 2009 RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	*15*	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	*16*	91,118	88,965	86,812	85,376
Goodwill	*17*	–	4,075	4,075	4,075
Interest in a jointly-controlled entity	*18*	10,054	–	–	–
Deferred tax assets	*19*	1,452	1,856	1,066	1,652
Pledged deposits	*23*	14,675	7,082	37,537	15,149
Total non-current assets		473,206	574,744	634,136	650,245
CURRENT ASSETS					
Inventories	*20*	224,818	428,538	710,694	500,895
Trade receivables	*21*	165,704	279,261	240,183	577,540
Prepayments, deposits and other receivables	*22*	171,858	332,479	168,225	175,425
Pledged deposits	*23*	40,601	45,058	183,772	149,221
Cash and bank balances	*23*	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	*24*	109,916	83,445	198,326	268,640
Interest-bearing bank loans and government loans	*25*	404,890	1,084,519	637,706	637,655
Other payables and accruals	*26*	65,313	233,874	385,491	252,723
Tax payable		6,405	20,182	26,652	27,061
Due to the ultimate shareholder	*34*	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

	Sections	31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	31 August 2009 RMB'000
NON-CURRENT LIABILITIES					
Interest-bearing bank loans and government loans	25	285,581	–	111,000	90,000
Due to the ultimate shareholder	34	26,000	26,000	–	–
Government grants	27	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	28	–	–	–	–
Reserves	29	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

Combined statements of changes in equity

	Attributable to equity holders of the Company						
	Issued capital	**Contributed surplus**	**Capital reserve**	**Statutory Reserve funds**	**Retained profits/ (accumulated losses)**	**Exchange fluctuation reserve**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		Note (a)	*Note (b)*	*Note (c)*			
At 1 January 2006	–	217,096	57,607	–	(81,427)	1,027	194,303
Capital contribution	–	12,771	–	–	–	–	12,771
Total comprehensive income for the year	–	–	–	–	37,997	1,424	39,421
At 31 December 2006 and 1 January 2007	–	229,867*	57,607*	–	(43,430)*	2,451*	246,495
Capital contribution	–	3,505	–	–	–	–	3,505
Total comprehensive income for the year	–	–	–	–	70,351	2,897	73,248
Profit appropriation to reserves	–	–	–	6,422	(6,422)	–	–
At 31 December 2007 and 1 January 2008	–	233,372*	57,607*	6,422*	20,499*	5,348*	323,248
Total comprehensive income for the year	–	–	–	–	275,464	1,925	277,389
Profit appropriation to reserves	–	–	–	26,594	(26,594)	–	–
At 31 December 2008 and 1 January 2009	–	233,372*	57,607*	33,016*	269,369*	7,273*	600,637
Total comprehensive income for the period	–	–	–	–	301,163	(19)	301,144
Dividends	–	–	–	–	(49,715)	–	(49,715)
At 31 August 2009	–	233,372*	57,607*	33,016*	520,817*	7,254*	852,066

	Attributable to equity holders of the Company						
	Issued capital *RMB'000*	**Contributed surplus** *RMB'000* *Note (a)*	**Capital reserve** *RMB'000* *Note (b)*	**Statutory reserve funds** *RMB'000* *Note (c)*	**Retained profits** *RMB'000*	**Exchange fluctuation reserve** *RMB'000*	**Total** *RMB'000*
(Unaudited)							
At 1 January 2008	–	233,372	57,607	6,422	20,499	5,348	323,248
Total comprehensive income for the period	–	–	–	–	214,329	742	215,071
At 31 August 2008	–	233,372	57,607	6,422	234,828	6,090	538,319

* These reserve accounts comprise the combined reserves of RMB246,495,000, RMB323,248,000, RMB600,637,000 and RMB852,066,000 in the combined statements of financial position as at 31 December 2006, 2007, 2008 and 31 August 2009, respectively.

Notes:

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

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

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

Combined cash flow statements

	Sections	Year ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	Eight months ended 31 August 2008 RMB'000 (Unaudited)	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		54,099	98,575	317,968	258,240	348,710
Adjustments for:						
Finance costs	8	43,185	45,439	65,186	39,418	28,778
Bank interest income	7	(1,304)	(2,096)	(4,546)	(1,629)	(3,294)
Gain on collection of a held-to-maturity investment	7	(14)	–	–	–	–
Loss/(gain) on disposal of items of property, plant and equipment, net	15	175	1,648	–	–	(26,450)
Depreciation	15	24,832	27,119	35,259	23,461	23,569
Amortisation of prepaid land lease payments	16	2,153	2,153	2,153	1,436	1,436
Impairment of trade receivables	21	4,055	1,071	82	413	4,154
Impairment/(reversal of impairment) of deposits and other receivables	22	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	7	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

	Sections	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 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	30	–	(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	23	89,434	113,694	41,765	73,022	104,728
Pledged bank deposits with original maturity of less than three months when acquired	23	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

2. CORPORATE INFORMATION AND BASIS OF PRESENTATION

The Company is a limited company incorporated in the Cayman Islands. The Company's registered office is located at the office of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. It became the holding company of the Group as a result of the Reorganisation as described in the paragraph headed "Corporate reorganisation" in "Appendix VI – Statutory and general information" to the Prospectus.

For the purpose of this report, the Financial Information has been prepared to reflect the reorganisation of the entities under common control, in which the Company, Lessonstart, Lucknow Consultants Limited ("Lucknow"), Crown Central Holdings Ltd. ("Crown Central"), Chu Kong Steel Pipe Group Co., Ltd. ("CKSPG"), PCKSP, Guangzhou Pearl River Petrol-Fittings Co., Ltd. ("GPR Petrol-Fittings"), Guangzhou Pearl River OCTG Co., Ltd. ("GPR Casing Pipe"), Guangzhou Pearl River Petroleum Steel Pipe Coating Co., Ltd. ("GPR Coating"), Guangzhou Pearl River Petroleum Steel Pipe Co., Ltd. ("GPR Steel Pipe"), and Panyu Chu Kong Steel Pipe (Lianyungang) Co., Ltd. ("PCKSP (Lianyungang)") are ultimately controlled by Mr. Chen Chang before and after the completion of the Reorganisation.

The Reorganisation is accounted for using the merger accounting upon completion. The Financial Information as set out in this report is prepared on a combined basis as prescribed by Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

For the purpose of this report, the combined statements of comprehensive income, combined cash flow statements and combined statements of changes in equity of the Group for the Relevant Periods, have been prepared on a combined basis and include the financial information of the companies now comprising the Group as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/establishment, whichever is the shorter period.

The combined statements of financial position of the Group as at 31 December 2006, 2007, 2008 and 31 August 2009 have been prepared to present the assets and liabilities of the 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.

As set out in more details in the paragraph headed "Hualong Anti-Corrosion" in the section of "Corporate history, development and Reorganisation" to the Prospectus, the Group has acquired an additional equity interest in Guangzhou Panyu Chu Kong Hualong Petroleum Steel Pipe Anti-Corrosion Co., Ltd. ("Hualong Anti-Corrosion") during the Relevant Periods. The acquisition of the additional equity interest in Hualong Anti-Corrosion was accounted for using the purchase method.

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

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

Company name	Place and date of incorporation/ establishment	Nominal value of issued shares/ registered capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Lessonstart[(1)]	British Virgin Islands 18 May 1993	US$300	100	–	Investment holding
Lucknow[(1)]	British Virgin Islands 22 November 1994	US$10	–	100	Investment holding
Crown Central[(2)]	Hong Kong 21 March 1995	HK$1,000	–	100	Trading of steel pipes

Company name	Place and date of incorporation/ establishment	Nominal value of issued shares/ registered capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
CKSPG[3]	Hong Kong 13 December 2007	HK$100,000	–	100	Investment holding
PCKSP (番禺珠江鋼管有限公司)[4]	The PRC 7 June 1993	HK$200,000,000	–	100	Manufacture and sale of seam welded steel pipes
GPR Petrol-Fittings (廣州珍珠河石化管件有限公司)[5]	The PRC 16 October 2006	HK$5,000,000	–	100	Manufacture and sale of pipe parts
GPR Casing Pipe (廣州珍珠河石油套管有限公司)[5]	The PRC 16 October 2006	HK$21,000,000	–	100	Manufacture and sale of casting pipes
GPR Coating (廣州珍珠河石油鋼管防腐有限公司)[5]	The PRC 16 October 2006	HK$10,000,000	–	100	Steel pipe casting and lining services
GPR Steel Pipe (廣州珍珠河石油鋼管有限公司)[5]	The PRC 16 October 2006	HK$50,000,000	–	100	Manufacture and sale of seam welded steel pipes
PCKSP (Lianyungang)[6] (番禺珠江鋼管(連雲港)有限公司)	The PRC 8 July 2009	RMB700,000,000	–	100	Manufacture and sale of seam welded steel pipes
Hualong Anti-Corrosion (廣州市番禺珠江華龍石油鋼管防腐有限公司)[7]	The PRC 19 October 1999	RMB2,060,000	–	100	Steel pipe casting and lining services

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

As at the date of this report, no statutory audited financial statements have been prepared for the Company since the date of its incorporation as the Company has not been involved in any significant business transactions other than the Reorganisation and other events described in the paragraph headed "Corporate reorganisation" in "Appendix VI – Statutory and general information" to the Prospectus. We have, however, performed our own independent audit of all relevant transactions of the Company since the date of its incorporation.

Notes:

(1) No statutory audited financial statements have been prepared for Lessonstart and Lucknow as they are not subject to any statutory audit requirements under its jurisdiction of incorporation.

(2) The statutory financial statements for the year ended 2006 were audited by K.M. Chan & Company, Certified Public Accountants. The statutory financial statements for the years ended 31 December 2007 and 2008 were audited by Ernst & Young, certified public accountants registered in Hong Kong.

(3) No statutory audited financial statements have been issued for CKSPG since the date of its establishment as CKSPG has not carried out any business.

(4) The statutory financial statements for the years ended 31 December 2006, 2007 and 2008 were audited by Guangzhou Pei Feng Certified Public Accountants Co., Ltd. (廣州沛豐會計師事務所有限公司), certified public accountants registered in the PRC.

(5) No statutory audited financial statements have been issued for these companies for the year ended 31 December 2006 as they had not carried out any business since the date of their establishment . The statutory financial statements for the years ended 31 December 2007 and 2008 were audited by Guangzhou Jian Hong Certified Public Accountants Co., Ltd. (廣州建弘會計師事務所有限公司), certified public accountants registered in the PRC.

(6) No statutory audited financial statements have been issued for PCKSP (Lianyungang) since the date of its establishment as PCKSP (Lianyugang) has not carried out any business.

(7) The statutory financial statements for the year ended 31 December 2006 were audited by Guangzhou Shu Cheng Certified Public Accountants Co., Ltd. (廣州數誠會計師事務所有限公司), certified public accountants registered in the PRC. The statutory financial statements for the years ended 31 December 2007 and 2008 were audited by Guangzhou Jian Hong Certified Public Accountants Co., Ltd. (廣州建弘會計師事務所有限公司), certified public accountants registered in the PRC.

3. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs, which comprise standards and interpretations approved by the IASB and the International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect.

The IASB issued a number of new or revised IFRSs which are generally effective for annual periods beginning on or after 1 January 2006, 1 January 2007, 1 January 2008 and 1 January 2009.

For the purpose of preparing and presenting the Financial Information, the Group has early adopted all these new and revised IFRSs that are relevant to the Group's operations as at the beginning of the Relevant Periods. These are the first IFRS consolidated financial statements of the Group. IFRS 1 "First-time Adoption of International Financial Reporting Standards" has been applied in preparing the Financial Information. As the Company was incorporated on 9 January 2008, the Group did not present financial statements for previous periods. Accordingly, no reconciliation of the effect of the transition from the relevant accounting principles and financial regulations applicable to the previous Generally Accepted Accounting Principles ("GAAP") to IFRSs is presented.

The accounting policies set out in section 4 below have been applied consistently to all periods in this Financial Information and in preparing an opening IFRS statement of financial position as of 1 January 2006 for the purpose of the transition to IFRS. The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The Financial Information has been prepared under the historical cost convention. The Financial Information is prepared in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

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

IFRS 1 (Revised)	*First-time Adoption of IFRSs* [1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs – Additional Exemptions for First-time Adopters* [3]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [3]
IFRS 3 (Revised)	*Business Combinations* [1]
IFRS 9	*Financial Instruments*[7]
IAS 24 (Revised)	*Related party disclosures*[5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [4]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives* [2]
IFRIC 14 Amendment	*Prepayment of a Minimum Funding Requirement*[5]
IFRIC 17	*Distribution of Non-cash Assets to Owners* [1]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[6]

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

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods ending on or after 30 June 2009
[3] Effective for annual periods beginning on or after 1 January 2010
[4] Effective for annual periods beginning on or after 1 February 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 July 2010
[7] Effective for annual periods beginning on or after 1 January 2013

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the Financial Information set out in this report, which conform to IFRSs, are set out below:

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the combined statements of comprehensive income and combined reserves, respectively. The Group's interest in a jointly-controlled entity is stated in the combined statements of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

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

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

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

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

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Related parties

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

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

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each date of the statement of financial position.

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

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

Operating leases

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

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

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and held-to-maturity investment, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the date of the statement of financial position.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the combined statements of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the date of the statement of financial position. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

Impairment of financial assets

The Group assesses at each date of the statement of financial position whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the combined statements of comprehensive income. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the 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 through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

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

Derecognition of financial assets

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

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

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

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

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

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

Financial liabilities at amortised cost (including interest-bearing bank loans and government loans)

Financial liabilities including trade and other payables, an amount due to the ultimate shareholder, and interest-bearing bank loans and government loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the statement of comprehensive income.

Gains and losses are recognised in the combined statements of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of IAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the statement of financial position date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.

Derecognition of financial liabilities

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

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

Inventories

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

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

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

Cash and cash equivalents

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

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

Employee benefits

Pension schemes

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

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

Other benefits

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

Revenue recognition

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

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

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

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

Government grants

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

Borrowing costs

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

Dividends

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

Provisions

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

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

Income tax

Income tax comprises current and deferred income tax. Income tax is recognised in the combined statements of comprehensive income, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each date of the statement of financial position and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

Foreign currencies

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

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the date of the statement of financial position, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the date of the statement of financial position and their statements of comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the statement of comprehensive income.

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Income tax provisions

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

Estimation uncertainty

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

Impairment of non-financial assets

The Group determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

Useful lives and residual values of property, plant and equipment

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

Deferred tax assets

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

Write-down of inventories to net realisable value

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

6. SEGMENT INFORMATION

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

Information about products

The revenue of the major products is analysed as follows:

	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*
Manufacture and sales of steel pipes:					
LSAW steel pipes	800,234	1,190,292	2,213,126	1,426,750	1,270,428
ERW steel pipes	211,947	174,290	201,180	78,636	633,111
Steel pipe manufacturing services:					
LSAW steel pipes	40,054	44,134	162,773	149,251	29,721
ERW steel pipes	20,633	4,992	3,738	3,567	2,568
Others*	26,873	44,320	43,822	25,110	85,475
	1,099,741	1,458,028	2,624,639	1,683,314	2,021,303

* Others mainly included the manufacture and sale of steel fittings, trading of steel pipes and sale of scrap materials.

Information about geographical areas

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

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

	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*
Sales to external customers:					
Mainland China	599,523	663,590	1,252,643	902,077	752,700
America	145,507	291,498	613,451	228,634	164,105
European Union	217,104	11,803	61,742	26,566	97,466
Middle East	13,699	225,085	325,639	228,610	718,947
Other Asian countries	80,351	155,485	290,856	229,202	185,033
Others	43,557	110,567	80,308	68,225	103,052
	1,099,741	1,458,028	2,624,639	1,683,314	2,021,303

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

Information about major customers

For the year ended 31 December 2006, revenue from one of the Group's customers amounting to RMB206,647,000 accounted for over 10% of the Group's total revenue. For the year ended 31 December 2007, none of the Group's sales to a single customer amounted to 10% or more of the Group's total revenue. For the year ended 31 December 2008, revenue from two customers of the Group amounting to RMB366,366,000 and RMB344,742,000 had individually accounted for over 10% of the Group's total revenue. For the eight months ended 31 August 2008, revenue from two customers of the Group amounting to RMB327,717,000 and RMB173,695,000 had individually accounted for over 10% of the Group's total revenue. For the eight months ended 31 August 2009, revenue from two customers of the Group amounting to RMB550,453,000 and RMB358,462,000 had individually accounted for over 10% of the Group's total revenue.

7. REVENUE, OTHER INCOME AND GAINS

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

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

	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*
Revenue					
Manufacture and sale of seam welded steel pipes and the provision of related manufacturing services	1,099,741	1,458,028	2,624,639	1,683,314	2,021,303
Other income and gains					
Bank interest income	1,304	2,096	4,546	1,629	3,294
Gain on collection of a held-to-maturity investment	14	–	–	–	–
Gain on disposal of items of property, plant and equipment	–	–	–	–	26,563
Subsidy income from the PRC government	1,160	896	1,415	1,104	759
Compensation	18	–	458	162	663
Others	–	261	11	28	8
	2,496	3,253	6,430	2,923	31,287

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

8. FINANCE COSTS

	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)	
Interest on bank loans and government loans	43,185	45,439	65,186	39,418	28,778

9. PROFIT BEFORE TAX

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

		Year ended 31 December			Eight months ended 31 August	
		2006	2007	2008	2008	2009
	Sections	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Cost of inventories sold		839,686	1,098,465	1,931,112	1,196,143	1,430,741
Depreciation	*15*	24,832	27,119	35,259	23,461	23,569
Amortisation of prepaid land lease payments	*16*	2,153	2,153	2,153	1,436	1,436
Minimum lease payments under operating leases in respect of buildings		303	2,819	9,535	7,644	920
Auditors' remuneration		91	549	4,725	590	713
Exchange loss, net		1,544	10,692	9,021	10,528	661
Finance costs	*8*	43,185	45,439	65,186	39,418	28,778
Employee benefit expenses (including Directors' remuneration (Section 10)):						
Wages and salaries		20,050	29,048	66,956	44,075	43,490
Retirement benefit scheme contributions		1,207	1,433	5,594	3,401	3,461
Impairment of trade receivables	*21*	4,055	1,071	82	413	4,154
Impairment/(reversal of impairment) of deposits and other receivables	*22*	15	(71)	(586)	99	(555)
Bank interest income	*7*	(1,304)	(2,096)	(4,546)	(1,629)	(3,294)
Gain on collection of a held-to-maturity investment	*7*	(14)	–	–	–	–
Loss/(gain) on disposal of items of property, plant and equipment, net		175	1,648	–	–	(26,450)
Research and development costs		864	1,329	2,505	1,847	3,026

10. DIRECTORS' REMUNERATION

Details of Directors' remuneration are as follows:

	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*
Fees	–	–	–	–	–
Other emoluments:					
Salaries, bonuses, allowances and benefits in kind	587	942	1,224	816	816
Retirement benefit scheme contributions	45	39	32	20	20
	632	981	1,256	836	836

(a) Independent non-executive directors

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

(b) Executive directors

	Fees	**Salaries, allowances and benefits in kind**	**Retirement benefit scheme contributions**	**Total remuneration**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2006				
Executive directors:				
Mr. Chen Chang	–	291	17	308
Ms. Chen Zhao Nian	–	146	14	160
Ms. Chen Zhao Hua	–	150	14	164
	–	587	45	632

	Fees	Salaries, allowances and benefits in kind	Retirement benefit contribution	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2007				
Executive directors:				
Mr. Chen Chang	–	418	11	429
Ms. Chen Zhao Nian	–	260	14	274
Ms. Chen Zhao Hua	–	264	14	278
	–	942	39	981
Year ended 31 December 2008				
Executive directors:				
Mr. Chen Chang	–	456	6	462
Ms. Chen Zhao Nian	–	384	13	397
Ms. Chen Zhao Hua	–	384	13	397
	–	1,224	32	1,256
Eight months ended 31 August 2008				
Executive directors:				
Mr. Chen Chang	–	304	4	308
Ms. Chen Zhao Nian	–	256	8	264
Ms. Chen Zhao Hua	–	256	8	264
	–	816	20	836
Eight months ended 31 August 2009				
Executive directors:				
Mr. Chen Chang	–	304	4	308
Ms. Chen Zhao Nian	–	256	8	264
Ms. Chen Zhao Hua	–	256	8	264
	–	816	20	836

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

11. FIVE HIGHEST PAID EMPLOYEES

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

	Year ended 31 December			Eight months ended 31 August	
	2006	2007	2008	2008	2009
				(Unaudited)	
Directors	1	3	3	3	3
Non-director, highest paid employees	4	2	2	2	2
	5	5	5	5	5

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

	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)	
Salaries, allowances and benefits in kind	768	1,083	1,887	1,344	1,274
Retirement benefit scheme contributions	46	33	30	20	15
	814	1,116	1,917	1,364	1,289

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

	Year ended 31 December			Eight months ended 31 August	
	2006	2007	2008	2008	2009
				(Unaudited)	
Nil to RMB1,000,000	4	2	2	2	2

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

12. TAX

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

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

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

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

Crown Central and CKSPG, which were incorporated in Hong Kong, are subject to profits tax at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the Relevant Periods. On 27 February 2008, the Financial Secretary of the Hong Kong SAR Government had announced the Annual Budget which proposes a cut in the Hong Kong profits tax rate from 17.5% to 16.5% with effect from the fiscal year 2008-09 and a one-off reduction of 75% of the tax payable for the 2007-08 assessment subject to a ceiling of HK$25,000.

In accordance with the relevant PRC income tax rules and regulations, the PRC subsidiaries, which are situated in a coastal economic open zone, are entitled to a preferential enterprise income tax ("EIT") rate of 27%. During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Enterprise Income Tax Law (the "New Enterprise Income Tax Law") was approved and became effective on 1 January 2008. The New Enterprise Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Foreign investment enterprises of a production nature which have not fully utilised their five-year tax holiday will be allowed to continue to receive the benefits of tax exemption during the five-year transition period. The State Council of the PRC passed the implementation guidance (the "Implementation Guidance") on 6 December 2007, which sets out the details of how the existing preferential income tax rate will be adjusted to the standard rate of 25%. According to the Implementation Guidance, the PRC subsidiaries of the Group, which are eligible for a 100% or 50% relief from EIT of the PRC, will continue to enjoy the preferential income tax rate up to the end of the transition period, after which, the 25% standard rate applies. The PRC subsidiaries of the Group that enjoyed the preferential rate of 27% prior to 1 January 2008 are subject to the rate of 25% from 1 January 2008 onwards.

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

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 State 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 "advanced and new technology enterprises eligible for key support from the State", it will be subject to the rate of 25% from 1 January 2011 onwards.

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%.

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 the year 2008, and are entitled to a 50% tax exemption for the next three years. After the implementation of the New Enterprise Income Tax 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.

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

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

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

	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*
Group:					
Current – Mainland China charged for the year/period	5,853	28,474	41,714	44,039	48,133
Deferred (Section 19)	10,249	(250)	790	(128)	(586)
Total tax charge for the year/period	16,102	28,224	42,504	43,911	47,547

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

	Year ended 31 December 2006					
	Mainland China		**Hong Kong and others**		**Total**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit before tax	53,785		314		54,099	
Tax at the statutory tax rate	17,749	33.0	55	17.5	17,804	33.0
Tax effect of:						
Lower tax rates for specific districts	(2,559)	(4.8)	–	–	(3,227)	(6.0)
Income not subject to tax	(334)	(0.6)	(217)	(69.1)	(551)	(1.0)
Profit attributable to a jointly-controlled entity	(668)	(1.2)	–	–	–	–
Expenses not deductible for tax*	1,914	3.5	–	–	1,914	3.5
Tax losses not recognised	–	–	162	51.6	162	0.3
Income tax expense reported in the combined statements of comprehensive income at the Group's effective tax rate	16,102	29.9	–	–	16,102	29.8

	Year ended 31 December 2007					
	Mainland China		Hong Kong and others		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit before tax	97,035		1,540		98,575	
Tax at the statutory tax rate	32,022	33.0	270	17.5	32,292	32.7
Tax effect of:						
Lower tax rates for specific districts	(5,822)	(6.0)	–	–	(5,822)	(5.9)
Expenses not deductible for tax*	2,024	2.1	–	–	2,024	2.1
Effect of utilisation of tax losses not recognised in prior years	–	–	(270)	(17.5)	(270)	(0.3)
Income tax expense reported in the combined statements of comprehensive income at the Group's effective tax rate	28,224	29.1	–	–	28,224	28.6

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

	Eight months ended 31 August 2008					
	Mainland China		Hong Kong and others		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit before tax	247,278		10,962		258,240	
Tax at the statutory tax rate	61,805	25.0	1,918	17.5	63,723	24.7
Tax effect of:						
Tax holiday for PRC subsidiaries	(18,175)	(7.4)	–	–	(18,175)	(7.0)
Expenses not deductible for tax*	281	0.1	–	–	281	0.1
Effect of utilisation of tax losses not recognised in prior years	–	–	(1,918)	(17.5)	(1,918)	(0.7)
Income tax expense reported in the combined statements of comprehensive income at the Group's effective tax rate	43,911	17.7	–	–	43,911	17.1

	Eight months ended 31 August 2009					
	Mainland China		Hong Kong and others		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit/(loss) before tax	351,402		(2,692)		348,710	
Tax at the statutory tax rate	87,851	25.0	(444)	16.5	87,407	25.1
Tax effect of:						
Tax holiday for PRC subsidiaries	(11,770)	(3.3)	–	–	(11,770)	(3.4)
Lower tax rate for high-tech enterprises	(29,185)	(8.3)	–	–	(29,185)	(8.4)
Expenses not deductible for tax*	1,011	0.3	–	–	1,011	0.3
Tax losses not recognised	–	–	444	(16.5)	444	0.1
Income not subject to tax	(360)	(0.1)	–	–	(360)	(0.1)
Income tax expense reported in the combined statements of comprehensive income at the Group's effective tax rate	47,547	13.6	–	–	47,547	13.6

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

13. DIVIDENDS

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

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

	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)	
Dividends	–	–	–	–	49,715

14. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Relevant Period on the combined basis as disclosed in Section 2 above.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *RMB'000*	Plant and machinery *RMB'000*	Office and other equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2006						
At 31 December 2005 and 1 January 2006:						
Cost	85,614	389,378	8,492	12,569	12,892	508,945
Accumulated depreciation and impairment	(16,627)	(124,312)	(6,192)	(10,112)	–	(157,243)
Net carrying amount	68,987	265,066	2,300	2,457	12,892	351,702
At 1 January 2006, net of accumulated depreciation and impairment	68,987	265,066	2,300	2,457	12,892	351,702
Additions	–	12,581	79	–	9,490	22,150
Disposals	–	–	–	(175)	–	(175)
Depreciation provided during the year	(1,640)	(22,634)	(414)	(144)	–	(24,832)
Transfers	–	10,268	–	–	(10,268)	–
Exchange realignment	(50)	–	–	–	–	(50)
At 31 December 2006, net of accumulated depreciation and impairment	67,297	265,281	1,965	2,138	12,114	348,795
At 31 December 2006:						
Cost	85,489	412,227	8,571	12,394	12,114	530,795
Accumulated depreciation and impairment	(18,192)	(146,946)	(6,606)	(10,256)	–	(182,000)
Net carrying amount	67,297	265,281	1,965	2,138	12,114	348,795

	Land and buildings RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2007						
At 31 December 2006 and 1 January 2007:						
Cost	85,489	412,227	8,571	12,394	12,114	530,795
Accumulated depreciation and impairment	(18,192)	(146,946)	(6,606)	(10,256)	–	(182,000)
Net carrying amount	67,297	265,281	1,965	2,138	12,114	348,795
At 1 January 2007, net of accumulated depreciation and impairment	67,297	265,281	1,965	2,138	12,114	348,795
Additions	9,111	10,423	2,743	1,595	107,557	131,429
Disposals	–	(945)	(302)	(401)	–	(1,648)
Attributable to acquisition of a subsidiary (Section 30)	715	5,386	669	(41)	–	6,729
Depreciation provided during the year	(1,749)	(24,468)	(792)	(110)	–	(27,119)
Transfers	104	115,939	622	–	(116,665)	–
Exchange realignment	(122)	–	(1)	–	–	(123)
At 31 December 2007, net of accumulated depreciation and impairment	75,356	371,616	4,904	3,181	3,006	458,063
At 31 December 2007:						
Cost	95,338	548,868	12,406	11,928	3,006	671,546
Accumulated depreciation and impairment	(19,982)	(177,252)	(7,502)	(8,747)	–	(213,483)
Net carrying amount	75,356	371,616	4,904	3,181	3,006	458,063

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

	Land and buildings *RMB'000*	Plant and machinery *RMB'000*	Office and other equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 August 2009						
At 31 December 2008 and 1 January 2009:						
Cost	110,122	575,517	13,471	16,668	12,601	728,379
Accumulated depreciation and impairment	(21,884)	(209,284)	(7,985)	(9,589)	–	(248,742)
Net carrying amount	88,238	366,233	5,486	7,079	12,601	479,637
At 1 January 2009, net of accumulated depreciation and impairment	88,238	366,233	5,486	7,079	12,601	479,637
Additions	–	4,739	928	819	99,607	106,093
Disposals	–	(88,313)	(102)	(1,302)	–	(89,717)
Depreciation provided during the period	(1,535)	(20,913)	(697)	(424)	–	(23,569)
Transfers	–	528	–	–	(528)	–
Exchange realignment	(1)	–	–	(4)	–	(5)
At 31 August 2009, net of accumulated depreciation and impairment	86,702	262,274	5,615	6,168	111,680	472,439
At 31 August 2009:						
Cost	110,120	482,884	14,271	16,158	111,680	735,113
Accumulated depreciation and impairment	(23,418)	(220,610)	(8,656)	(9,990)	–	(262,674)
Net carrying amount	86,702	262,274	5,615	6,168	111,680	472,439

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

Included in the total costs of plant and machinery at 31 December 2006, 2007, 2008 and 31 August 2009 are certain assets acquired during the Relevant Periods for which government grants of RMB4,450,000, RMB5,950,000, RMB5,950,000 and RMB5,950,000 were received and deducted from their costs in arriving at their carrying amounts. The original costs of those assets before the deduction of the grants amounted to RMB115,683,000, RMB117,183,000, RMB117,183,000 and RMB117,183,000 as at 31 December 2006, 2007, 2008 and 31 August 2009, respectively.

Details of the Group's property, plant and machinery pledged to secure the Group's bank loans are set out in Section 25.

Certain of the Group's property, plant and machinery were pledged to a bank in connection with banking facilities granted to a related party, which had aggregate carrying amounts of approximately RMB423,000, nil, nil and nil as at 31 December 2006, 2007, 2008 and 31 August 2009, respectively.

Certificates of ownership in respect of certain buildings of the Group located in Guangzhou with net carrying amounts of approximately RMB723,000, RMB8,684,000, RMB21,061,000 and RMB20,328,000 as at 31 December 2006, 2007, 2008 and 31 August 2009, respectively, have not yet been issued by the relevant PRC authorities. The Directors are in the process of obtaining these certificates.

16. PREPAID LAND LEASE PAYMENTS

	31 December			31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at beginning of the year/period	95,424	93,271	91,118	88,965
Amortisation provided during the year/period	(2,153)	(2,153)	(2,153)	(1,436)
Carrying amount at end of the year/period	93,271	91,118	88,965	87,529
Current portion included in prepayments, deposits and other receivables	(2,153)	(2,153)	(2,153)	(2,153)
Non-current portion	91,118	88,965	86,812	85,376

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

Details of the Group's leasehold land pledged to secure the Group's bank loans are set out in Section 25.

Certain of the Group's leasehold lands were pledged to a bank in connection with banking facilities granted to a related party, which had aggregate carrying amounts of approximately RMB3,334,000, RMB3,255,000, nil and nil as at 31 December 2006, 2007, 2008 and 31 August 2009, respectively.

17. GOODWILL

	31 December			31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	–	–	4,075	4,075
Acquisition of a subsidiary (Section 30)	–	4,075	–	–
At end of the year/period	–	4,075	4,075	4,075

Impairment testing of goodwill

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

The recoverable amount of the CGU is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections is 18.6% as at 31 December 2007, 2008 and 31 August 2009. Cash flows beyond the five-year period are extrapolated using the estimated growth rate of 6% as at 31 December 2007, 2008 and 31 August 2009. The growth rate does not exceed the projected long-term average growth rate for the anti-corrosive business of Hualong Anti-Corrosion in Mainland China.

Key assumptions were used in the value in use calculation of the CGU for each of the balance sheet dates. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

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

18. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	31 December			31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share of net assets	10,054	–	–	–

The Group's trade payable balances due to the jointly-controlled entity are disclosed in Section 24.

Particulars of the jointly-controlled entity are as follows:

			Percentage of			
Name	**Registered capital**	**Place of registration**	**Ownership interest** %	**Voting power** %	**Profit sharing** %	**Principal activity**
Hualong Anti-Corrosion	RMB2,060,000	The PRC	50	50	50	Sub-contracting of steel pipe anti-corrosion services

Pursuant to the acquisition of an additional equity interest by the Group, the jointly-controlled entity became a subsidiary of the Group since July 2007.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

Share of the jointly-controlled entity's assets and liabilities:

	31 December			31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current assets	7,010	–	–	–
Non-current assets	3,700	–	–	–
Current liabilities	(656)	–	–	–
Net assets	10,054	–	–	–

Share of the jointly-controlled entity's results:

	Year ended 31 December			Eight months ended 31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	8,103	852	–	–
Other income	32	5	–	–
	8,135	857	–	–
Total expenses	(4,732)	(857)	–	–
Tax	(928)	–	–	–
Profit after tax	2,475	–	–	–

19. DEFERRED TAX ASSETS

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

	Tax losses	Impairment of trade and other receivables	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2006	11,261	440	11,701
Credited/(charged) to the combined income statements for the year (Section 12)	(11,261)	1,012	(10,249)
At 31 December 2006 and 1 January 2007	–	1,452	1,452
Attributable to acquisition of an additional equity interest in a jointly-controlled entity (Section 30)	–	154	154
Credited to the combined income statements for the year (Section 12)	–	250	250
At 31 December 2007 and 1 January 2008	–	1,856	1,856
Charged to the combined income statements for the period (Section 12)	–	(790)	(790)
At 31 December 2008 and 1 January 2009	–	1,066	1,066
Credited to the combined income statements for the period (Section 12)	–	586	586
At 31 August 2009	–	1,652	1,652

	31 December			31 August
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net deferred tax assets recognised in the combined statements of financial position	1,452	1,856	1,066	1,652

As mentioned in Section 12, deferred taxes as at 31 December 2007 that are expected to be utilised in 2008 onwards have been provided at an enacted corporate tax rate of 25%.

As at 31 December 2006, 2007, 2008 and 31 August 2009, the Group has tax losses arising in Hong Kong of RMB42,841,000, RMB38,460,000, RMB18,809,000 and RMB1,764,000, respectively that are available indefinitely for offsetting against future taxable profits of the company in which the losses arose. Deferred tax assets have not been recognised in respect of these losses and impairment as they have arisen in Crown Central that has been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

As at 31 December 2006 and 2007, there was no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or a jointly-controlled entity, as the Group has no liability to additional tax should such amounts be remitted.

As at 31 December 2008 and 31 August 2009, there was unrecognised deferred tax liability of RMB13 million and RMB28 million respectively for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries. Deferred tax liability has not been recognised in respect of these unremitted earnings as the Directors have no intention to remit those earnings arising since 1 January 2008 in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

20. INVENTORIES

		31 December		31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	67,484	141,223	196,711	184,702
Work in progress	5,938	70,684	67,510	44,920
Finished goods	151,396	216,631	446,473	271,273
	224,818	428,538	710,694	500,895

21. TRADE RECEIVABLES

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

At 31 December 2006, 2007, 2008 and 31 August 2009, an aged analysis of the trade receivables, based on the invoice date, is as follows:

		31 December		31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 60 days	128,990	268,325	158,981	443,386
61 to 90 days	4,699	1,313	24,220	23,459
91 to 180 days	24,104	2,806	34,575	46,282
181 to 365 days	6,916	5,623	24,102	51,664
1 to 2 years	4,669	4,408	1,503	19,622
2 to 3 years	381	2,525	2,623	3,102
	169,759	285,000	246,004	587,515
Less: Impairment of trade receivables	(4,055)	(5,739)	(5,821)	(9,975)
	165,704	279,261	240,183	577,540

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

Movements in the provision for impairment of trade receivables as at 31 December 2006, 2007, 2008 and 31 August 2009 are as follows:

	31 December			31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	–	4,055	5,739	5,821
Attributable to acquisition of a subsidiary	–	613	–	–
Impairment losses recognised	4,055	1,071	413	4,154
Impairment losses reversed	–	–	(331)	–
At end of the year/period	4,055	5,739	5,821	9,975

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

At 31 December 2006, 2007, 2008 and 31 August 2009, the analysis of trade receivables that were past due but not impaired is as follows:

		Neither past due	Past due but not impaired		
	Total	**nor impaired**	**1 to 180 days**	**181 to 365 days**	**Over 365 days**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2006	165,704	138,739	25,914	1,051	–
31 December 2007	279,261	272,516	5,403	1,342	–
31 December 2008	240,183	190,690	34,115	15,378	–
31 August 2009	577,540	518,288	31,948	21,713	5,591

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

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

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December			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

Movements in the provision for impairment of deposits and other receivables as at 31 December 2006, 2007, 2008 and 31 August 2009 are as follows:

	31 December			31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	1,740	1,755	1,684	1,098
Impairment losses recognised	15	–	–	–
Impairment losses reversed	–	(71)	(586)	(555)
At end of the year/period	1,755	1,684	1,098	543

At 31 December 2006, 2007, 2008 and 31 August 2009, the net balance of deposits and other receivables was neither past due nor impaired. Financial assets included in the above balance relate to receivables for which there was no recent history of default.

23. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

		31 December			31 August
		2006	**2007**	**2008**	**2009**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances		89,434	113,694	41,765	104,728
Pledged bank deposits	*(a)*	55,276	52,140	221,309	164,370
		144,710	165,834	263,074	269,098
Less:					
Pledged deposits with original maturity of over three months when acquired		(29,490)	(16,043)	(102,838)	(51,843)
Cash and cash equivalents	*(b)*	115,220	149,791	160,236	217,255

Notes:

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

(b) At 31 December 2006, 2007, 2008 and 31 August 2009, the Group's cash and cash equivalents denominated in RMB amounted to RMB101,252,000, RMB87,282,000, RMB154,890,000, and RMB198,402,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

24. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at 31 December 2006, 2007, 2008 and 31 August 2009, based on the invoice date, is as follows:

	31 December			31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	52,214	40,294	36,762	42,585
91 to 180 days	3,998	9,679	4,978	16,185
181 to 365 days	18,854	412	8,994	9,208
1 to 2 years	4,110	1,326	8,183	7,169
2 to 3 years	608	1,734	1,821	2,182
	79,784	53,445	60,738	77,329
Bills payable	30,132	30,000	137,588	191,311
	109,916	83,445	198,326	268,640

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

All the bills payable bear maturity dates within 180 days.

Included in the Group's trade payables are amounts due to the Group's jointly-controlled entity of RMB12,663,000 at 31 December 2006, which were repayable on similar credit terms to those offered by the major suppliers of the Group.

25. INTEREST-BEARING BANK LOANS AND GOVERNMENT LOANS

	Effective interest rate	Maturity	31 December 2006	2007	2008	31 August 2009
	%		RMB'000	RMB'000	RMB'000	RMB'000
Current						
Bank loans – secured	0.79~10.67	2007~2010	380,970	810,350	637,706	620,655
Government loans	5.580	On demand	6,420	3,420	–	–
Other borrowings	5.850	On demand	3,600	–	–	–
Current portion of long term bank loans – secured	5.760~7.524	2007~2010	13,900	270,749	–	17,000
			404,890	1,084,519	637,706	637,655
Non-current						
Bank loans – secured	3.680~9.828	2008~2011	285,581	–	111,000	90,000
			690,471	1,084,519	748,706	727,655

	31 December 2006	2007	2008	31 August 2009
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed into bank loans repayable:				
Within one year or on demand	394,870	1,081,099	637,706	637,655
In the second year	285,581	–	21,000	–
In the third to fifth years, inclusive	–	–	90,000	90,000
	680,451	1,081,099	748,706	727,655
Analysed into government loans repayable:				
Within one year or on demand	6,420	3,420	–	–
Analysed into other borrowings:				
Within one year or on demand	3,600	–	–	–
	690,471	1,084,519	748,706	727,655

The Group's bank loans are secured by:

(a) a charge over certain property, plant and equipment of the Group with net carrying amounts of approximately RMB331,019,000, RMB308,609,000, RMB39,363,000 and RMB46,939,000 as at 31 December 2006, 2007, 2008 and 31 August 2009, respectively; and

(b) a charge over certain leasehold lands of the Group with net carrying amounts of approximately RMB89,937,000, RMB87,863,000, RMB88,965,000 and RMB87,529,000 as at 31 December 2006, 2007, 2008 and 31 August 2009, respectively.

In addition, certain interest-bearing bank loans of the Group of RMB284,740,000, RMB327,750,000, RMB400,100,000 and RMB449,200,000 were guaranteed by related parties as at 31 December 2006, 2007, 2008 and 31 August 2009, respectively (Section 34(c)). The Directors confirmed that guarantees provided by related parties for the bank loans as set out in the above will be released and/or replaced by corporate guarantees of the Company, where relevant, before listing of the Company's shares on the Stock Exchange.

The Group has the following undrawn banking facilities:

		31 December		31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Floating rate				
– expiring within one year	237,622	402,091	756,650	1,235,869

Except for the secured bank loans of RMB117,130,500, RMB109,569,000, RMB34,856,000 and RMB104,755,000 as at 31 December 2006, 2007, 2008 and 31 August 2009, respectively, which are denominated in United States dollars, the remaining secured bank loans are denominated in RMB.

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

26. OTHER PAYABLES AND ACCRUALS

		31 December		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

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

27. GOVERNMENT GRANTS

As at 31 December 2006, 2007 , 2008 and 31 August 2009, government grants represented funds received in advance from the local finance bureau as encouragement of PCKSP's technological innovation and improvements for which related expenditure has not yet been undertaken.

28. ISSUED CAPITAL

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

Save for aforesaid, the Company has not carried on any other business since the date of its incorporation and up to 31 August 2009. As at 31 December 2008 and 31 August 2009, the total assets and liabilities of the Company were nil, respectively.

29. RESERVES

The amounts of the Group's reserves and the movements therein for the Relevant Periods and the eight months ended 31 August 2008 are presented in the combined statements of changes in equity of the Group.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

Acquisition of a subsidiary

On 30 May 2007, PCKSP entered into an equity transfer agreement to acquire an additional 50% equity interest in Hualong Anti-Corrosion from an independent third party, at a consideration of RMB12,250,000. Upon completion of the acquisition, Hualong Anti-Corrosion became a subsidiary of the Group, and the post-acquisition results, assets and liabilities of Hualong Anti-Corrosion were included in the Group's financial statements.

The fair values of the identifiable assets and liabilities of Hualong Anti-Corrosion as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Sections	**Fair value recognised on acquisition** *RMB'000*	**Carrying value** *RMB'000*
Property, plant and equipment	*15*	6,729	6,729
Deferred tax assets	*19*	154	154
Inventories		1,397	1,397
Trade receivables		6,456	6,456
Prepayments and other receivables		1,572	1,572
Cash and bank balances		5,502	5,502
Trade payables		(3,736)	(3,736)
Other payables and accruals		(1,576)	(1,576)
Tax payable		(148)	(148)
Net assets		16,350	16,350
Interest in a jointly-controlled entity		(8,175)	
Goodwill arising on acquisition	*17*	4,075	
Satisfied by:			
Cash		12,250	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of an additional equity interest in a jointly-controlled entity is as follows:

	Year ended 31 December 2007
	RMB'000
Cash consideration	(12,250)
Cash and bank balances acquired	5,502
Consideration remained payable at 31 December 2007	4,000
Net outflow of cash and cash equivalents in respect of the acquisition of an additional equity interest in a jointly-controlled entity	(2,748)

	Year ended 31 December 2008
	RMB'000
Consideration remained payable at 31 December 2007 and 1 January 2008	(4,000)
Consideration remained payable at 31 December 2008	–
Net outflow of cash and cash equivalents in respect of the acquisition of an additional equity interest in a jointly-controlled entity	(4,000)

Since its acquisition, Hualong Anti-Corrosion contributed RMB5,569,000 to the Group's turnover and RMB479,000 to the combined profit for the year ended 31 December 2007.

Had the acquisition taken place at the beginning of 2007, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB1,459,731,000 and RMB70,351,000, respectively.

The goodwill arising from the acquisition represented the residual value of the consideration over the fair values of the identifiable assets and liabilities of Hualong Anti-Corrosion. The goodwill of RMB4,075,000 has been recognised as a non-current asset on the Group's combined statements of financial position (Section 17) as at 31 December 2007, 2008 and 31 August 2009.

31. OPERATING LEASE ARRANGEMENTS

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

As at 31 December 2006, 2007, 2008 and 31 August 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December			31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	2,607	1,389	4,547	1,805
In the second to fifth years, inclusive	1,268	–	3,347	6,373
	3,875	1,389	7,894	8,178

32. COMMITMENTS

In addition to the operating lease commitments detailed in Section 31 above, the Group had the following capital commitments:

	31 December			31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
Plant and machinery	47,218	25,867	72,643	441,390
Capital contributions payable to subsidiaries	73,441	65,135	33,075	–
	120,659	91,002	105,718	441,390

33. CONTINGENT LIABILITIES

As at 31 December 2006, 2007, 2008 and 31 August 2009, contingent liabilities not provided for in the financial statements were as follows:

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

34. RELATED PARTY TRANSACTIONS

During the Relevant Periods, the Directors are of the view that the following companies are related parties of the Group:

Name of party	Relationship
Hualong Anti-Corrosion	Hualong Anti-Corrosion was a jointly-controlled entity of the Group from October 1999 to June 2007.
Guangzhou Fulingda Elevator Co., Ltd. ("GZFLD") 廣州富菱達電梯有限公司	GZFLD is a party of which Mr. Chen Chang is the ultimate shareholder.
Guangzhou City Pearl River Machine Tool Works Co., Ltd. ("GZMT") 廣州市珠江機床廠有限公司	GZMT is a party of which Mr. Chen Chang is the ultimate shareholder.
Guangzhou City Jiayin Trading Co., Ltd. ("Jiayin Trading") 廣州市嘉銀貿易有限公司 (formerly known as Guangzhou City Panyu Pearl River Import & Export Trading Co., Ltd. (廣州市番禺南方物資供應公司))	Jiayin Trading is a party of which the spouse of Mr. Chen Chang, the ultimate shareholder of the Group, is the shareholder.
Panyu Zhongnan Resources Supplies Co., Ltd. ("Zhongnan Resources") 廣州市番禺中南物資有限公司	Zhongnan Resources is a party of which the son of Mr. Chen Chang, the ultimate shareholder of the Group, is the shareholder.
Pearl River Enterprise Group Ltd. ("Pearl River Enterprise") 廣州市番禺珠江實業集團有限公司	Pearl River Enterprise is a party of which Mr. Chen Chang is the ultimate shareholder.

In addition to the related party information disclosed elsewhere in the Financial Information, the Group entered into the following material related party transactions:

(a) Recurring transactions

Name of party	Nature of transaction	Year ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	Eight months ended 31 August 2008 RMB'000 (Unaudited)	2009 RMB'000
Hualong Anti-Corrosion	Purchases of anti-corrosion services	12,236	22,267	–	–	–
	Sales of electricity	3,284	6,184	–	–	–
GZFLD	Purchases of spare parts	4,530	3,997	4,875	4,583	2,185
GZMT	Purchases of spare parts	878	9,120	10,180	4,789	7,536

These purchases were made at prices based on the mutual agreements between the parties. The above related party transactions will continue after the listing of the Company's shares on the Stock Exchange.

(b) Non-recurring transactions

Name of party	Nature of transaction	Year ended 31 December 2006	2007	2008	Eight months ended 31 August 2008	2009
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Jiayin Trading	Purchases of raw materials	5,441	5,276	–	–	–
GZMT	Sales of steel pipes	746	454	–	–	–
GZFLD	Sales of steel pipes	443	241	84	84	–

These purchases and sales were made at prices based on the mutual agreements between the parties. The above related party transactions will not continue after the listing of the Company's shares on the Stock Exchange.

(c) Guarantees provided by related parties of the Group

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

	31 December 2006	2007	2008	31 August 2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
GZFLD and Zhongnan Resources	18,450	11,180	–	–
GZFLD	58,270	48,500	59,300	132,800
GZMT	88,400	49,270	113,700	–
Pearl River Enterprise	10,020	3,420	–	–
GZFLD and Mr. Chen Chang	–	65,500	105,700	60,400
Mr. Chen Chang	92,000	149,880	121,400	256,000
Pearl River Enterprise, GZFLD and Mr. Chen Chang	17,600	–	–	–
	284,740	327,750	400,100	449,200

(d) Guarantees given in connection with bank loans to related parties

	31 December			31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Jiayin Trading	4,650	3,800	–	–
GZMT	25,030	22,000	–	–
Bournam	–	–	52,920	–
	29,680	25,800	52,920	–

On 21 April 2008, Bournam as borrower has taken out a term loan (the "Bournam Loan") with Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)") in the aggregate sum of HK$60,000,000 primarily for the purpose of the Reorganisation and/or the listing. Certain securities have been given by certain members of the Group in favour of ICBC (Asia). The Bournam Loan was repaid on 13 May 2009 and the collaterals given in connection with the Bournam Loan was released subsequently in August 2009.

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

	31 December			31 August
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due to Mr. Chen Chang	45,171	26,338	15,282	25,698

Except for an amount of RMB26,000,000 as at 31 December 2006 and 2007 which will not be repayable within twelve months from the date of the statement of financial position, the amount due to the ultimate shareholder was non-trade in nature, unsecured, interest-free and with terms of repayment of on the ultimate shareholder's demand. The carrying amount of the balance approximated to its fair value.

The Directors represent that the above balances due to the ultimate shareholder will be settled prior to the listing of the Company's shares on the Stock Exchange and all of the above guarantees provided to/from related parties will be released and/or replaced by corporate guarantees of the Company, where relevant, before the listing of the Company's shares on the Stock Exchange.

Other transactions with related parties:

(e) Hualong Anti-Corrosion was a jointly-controlled entity of the Group during the period from October 1999 to June 2007. Pursuant to the acquisition of an additional entity interest by the Group, Hualong Anti-Corrosion became a subsidiary of the Group since July 2007.

(f) GZFLD acquired a 16% equity interest in PCKSP from Lessonstart for a consideration of RMB44,480,000 in April 2007, which was subsequently repurchased by Lessonstart at the same consideration in October 2007, for the reasons as disclosed in the paragraph headed "Our corporate history" in the section of "Corporate history, development and reorganisation" to the Prospectus.

Compensation of key management personnel of the Group:

	Year ended 31 December			Eight months ended 31 August	
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Salaries, allowances and benefits in kind	1,460	2,243	3,783	2,608	2,538
Retirement benefit scheme contributions	103	85	85	56	53
Total compensation paid to key management personnel	1,563	2,328	3,868	2,664	2,591

Further details of Directors' emoluments are included in Section 10 to the Financial Information.

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at each of the dates of the statement of financial position are as follows:

As at 31 December 2006

Financial assets

	Loans and receivables
	RMB'000
Trade receivables (Section 21)	165,704
Financial assets included in prepayments, deposits and other receivables (Section 22)	15,314
Pledged deposits (Section 23)	55,276
Cash and bank balances (Section 23)	89,434
	325,728

Financial liabilities

	Financial liabilities at amortised cost
	RMB'000
Trade and bills payables (Section 24)	109,916
Financial liabilities included in other payables and accruals (Section 26)	4,204
Interest-bearing bank loans and government loans (Section 25)	690,471
Due to the ultimate shareholder (Section 34)	45,171
	849,762

As at 31 December 2007

Financial assets

	Loans and receivables
	RMB'000
Trade receivables (Section 21)	279,261
Financial assets included in prepayments, deposits and other receivables (Section 22)	14,859
Pledged deposits (Section 23)	52,140
Cash and bank balances (Section 23)	113,694
	459,954

Financial liabilities

	Financial liabilities at amortised cost
	RMB'000
Trade and bills payables (Section 24)	83,445
Financial liabilities included in other payables and accruals (Section 26)	32,859
Interest-bearing bank loans and government loans (Section 25)	1,084,519
Due to the ultimate shareholder (Section 34)	26,338
	1,227,161

As at 31 December 2008

Financial assets

	Loans and receivables *RMB'000*
Trade receivables (Section 21)	240,183
Financial assets included in prepayments, deposits and other receivables (Section 22)	11,643
Pledged deposits (Section 23)	221,309
Cash and bank balances (Section 23)	41,765
	514,900

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables (Section 24)	198,326
Financial liabilities included in other payables and accruals (Section 26)	12,813
Interest-bearing bank loans and government loans (Section 25)	748,706
Due to the ultimate shareholder (Section 34)	15,282
	975,127

As at 31 August 2009

Financial assets

	Loans and receivables *RMB'000*
Trade receivables (Section 21)	577,540
Financial assets included in prepayments, deposits and other receivables (Section 22)	92,294
Pledged deposits (Section 23)	164,370
Cash and bank balances (Section 23)	104,728
	938,932

Financial liabilities

	Financial liabilities at amortised cost
	RMB'000
Trade and bills payables (Section 24)	268,640
Financial liabilities included in other payables and accruals (Section 26)	25,197
Interest-bearing bank loans and government loans (Section 25)	727,655
Due to the ultimate shareholder (Section 34)	25,698
	1,047,190

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(a) Business risk

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

(b) Interest rate risk

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

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

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

If there would be a general increase/decrease in the interest rate of bank loans and government loans with floating interest rates by one percentage point, with all other variables held constant, the combined operating results would have been decreased/increased by approximately RMB5.8 million, RMB6.4 million, RMB6.5 million and RMB6.2 million for the years ended 31 December 2006, 2007, 2008 and the eight months ended 31 August 2009, respectively, and there is no impact on other components of the combined equity, except for retained earnings, of the Group. The estimated one percentage point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual date of the statement of financial position. The sensitivity analysis was performed on the same basis for the entire Relevant Periods.

(c) Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales by operating units in currencies other than the units' functional currency. For the years ended 31 December 2006, 2007, 2008 and the eight months ended 31 August 2009, approximately 45%, 55%, 52% and 63% of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale.

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

Effect on profit before tax

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

(d) Credit risk

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

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in Section 21.

(e) Liquidity risk

The Group's 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 the Group's outstanding borrowing obligation is not exposed to excessive repayment risk in any one year. Due to the capital intensive nature of the Group's businesses, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

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

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

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

The maturity profile of the Group's financial liabilities as at each of the dates of the statement of financial position based on the contractual undiscounted payments, was as follows:

	31 December 2006			
	On demand	**Less than 1 year**	**Over 1 year**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	–	109,916	–	109,916
Other payables	–	4,204	–	4,204
Interest-bearing bank loans and government loans	6,420	398,470	285,581	690,471
Due to the ultimate shareholder	19,171	–	26,000	45,171
Financial guarantee granted to related parties	–	29,680	–	–
	25,591	542,270	311,581	849,762

	31 December 2007			
	On demand	**Less than 1 year**	**Over 1 year**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	–	83,445	–	83,445
Other payables	–	32,859	–	32,859
Interest-bearing bank loans and government loans	3,420	1,081,099	–	1,084,519
Due to the ultimate shareholder	338	–	26,000	26,338
Financial guarantee granted to related parties	–	25,800	–	–
	3,758	1,223,203	26,000	1,227,161

	31 December 2008			
	On demand	Less than 1 year	Over 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	–	198,326	–	198,326
Other payables	–	12,813	–	12,813
Interest-bearing bank loans and government loans	–	637,706	111,000	748,706
Due to the ultimate shareholder	15,282	–	–	15,282
Financial guarantee granted to related parties	–	52,920	–	–
	15,282	901,765	111,000	975,127

	31 August 2009			
	On demand	Less than 1 year	Over 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	–	268,640	–	268,640
Other payables	–	26,371	–	26,371
Interest-bearing bank loans and government loans	–	637,655	90,000	727,655
Due to the ultimate shareholder	25,698	–	–	25,698
	25,698	932,666	90,000	1,048,364

(f) Capital management

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

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

	31 December			31 August
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank loans and government loans (Section 25)	690,471	1,084,519	748,706	727,655
Due to the ultimate shareholder (Section 34)	45,171	26,338	15,282	25,698
Government grants	1,850	2,168	3,681	4,211
Total debts	737,492	1,113,025	767,669	757,564
Total assets	1,165,621	1,773,774	1,978,775	2,158,054
Gearing ratio	63.3%	62.7%	38.8%	35.1%

(g) Fair value

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

The carrying amounts of the Group's long term borrowings approximate to their fair values based on prevailing borrowing rates available for loans with similar terms and maturities at each of the statement of financial position dates.

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

37. EVENTS AFTER THE REPORTING PERIOD

In addition to the subsequent events detailed elsewhere in this report, the Group had the following significant subsequent events:

(a) On 23 January 2010, the companies now comprising the Group completed the Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange. Further details of the Reorganisation are set out in the paragraph headed "Corporate reorganisation" in "Appendix VI – Statutory and general information" to the Prospectus.

(b) Pursuant to the board resolution dated 2 November 2009, the registered capital of PCKSP (Lianyungang) was increased to RMB700 million, which was subsequently paid-up and verified by Lianyungang Tianzhou United Certified Public Accountants Co., Ltd. (連雲港天洲聯合會計師事務所), certified public accountants registered in the PRC, on 4 November 2009.

38. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 August 2009.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong