Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
Stock code : 1938

GETTING THE WHOLE WORLD CONNECTED

ANNUAL REPORT 2010

CONTENTS

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Mr. Chen Chang | *Chairman*

Dear shareholders,

During the year ended 31 December 2010 (the "Reporting Year"), the turnover of the Group was approximately RMB1,681.5 million (2009: RMB2,825.7 million). Profit attributable to equity holders amounted to approximately RMB70.2 million (2009: RMB401 million). Earnings per share amounted to RMB0.07 (2009: RMB0.53). The Board recommended the payment of HK 2.5 cents per share as the final dividend for the year ended 31 December 2010.

Europe experienced another financial crisis in the beginning of 2010, which adversely affected the confidence of the global financial market, resulting in a slowdown of infrastructure project development worldwide, including pipeline projects. A number of export contracts initially expected did not materialize as scheduled and affected the overseas market performance. In addition, the Group did not receive any large steel pipe order with specific requirements as in 2009, which also led to a decrease in export sales of the Group.

In respect of the domestic market, the Chinese government has been implementing a series of tightening measures with the view to curb spending. This led to a delay in a number of pipeline construction projects in China as well as the postponement of the delivery schedule for some of the Group's domestic orders on hand. The Group's domestic sales dropped when compared with last year. However, offshore pipeline projects in China were not affected and posted a satisfactory growth as compared to the previous year. Large scale offshore pipeline projects in the PRC gradually commenced construction, such as Nanhai project and Liwan project, driving up the Group's offshore pipe manufacturing business. The Group has also secured orders from large scale offshore pipeline projects, including Liwan offshore Natural Gas project, which is expected to be delivered in 2011. We believe that these projects will become the market focus and our sales driver.

The Group also obtained state grid orders during the Reporting Year. We expect the number of state grid projects will continue to increase. Chu Kong Pipe will proactively participate in project bidding and ride on our unique edges of pioneering the manufacturing of steel pipes for infrastructure purpose to contribute to future business growth.

During the Reporting Year, the Group strived for enhancing productivity and market competitiveness, so as to better capture business opportunities available when market rebounds. The Group's new production line in Panyu, Guangdong commenced production in June 2010, which was ahead of schedule. With an annual production capacity of 300,000 tonnes, this production line is mainly used for the production of steel pipes for infrastructure projects. This not only helps further expanding the Group's productivity and strengthening our competitiveness, but also enabling us to grasp the opportunities of growing infrastructure development in China and explore new income source.

The Group has been dedicated to product and technological research and development. During the Reporting Year, the

Group has been granted the "State Recognized Enterprise Technology Centre" award by National Development and Reform Commission, the Ministry of Science and Technology, the Ministry of Finance, General Administration of Customs as well as the State Administration of Taxation. This represented another achievement of the Group following the successful development of "Deep Sea LSAW Steel Pipe". The selection criteria of the "State Recognized Enterprise Technology Centre" award are very strict and so far only 733 enterprises have been granted the award in the past 17 years. Chu Kong Pipe is the first welded pipe enterprise to have received this award in the PRC. We believe this is a recognition of Chu Kong Pipe's ability of achieving international and professional standard in product and technological development, which will help us attract more international customers and capitalize on market opportunities.

With the global economy maintains stable recovery, large scale infrastructure projects in China and large scale pipeline projects around the world will gradually resume construction. It is expected that China's steel pipe market boasts ample room for growth, given a number of pipeline projects will commence construction pursuant to the 12th Five-year Plan, the development of an ultra-high voltage direct current transmission project (1,100 kv) by State Grid Corporation of China in the coming five years, and the construction of oil and natural gas transmission pipeline with a length of over 40,000km by CNOOC in the coming years. Chu Kong Pipe is capable of undertaking bulk orders of Deep Sea LSAW Steel Pipes and its production line for infrastructure steel pipe has commenced operation. We are well positioned to excel in steel pipe market amidst positive prospects, to expedite business performance and to ensure our business return to growth track, delivering excellent results.

Leveraging our outstanding product quality, state-of-the-art production facilities and techniques as well as large production scale and a strong global client base, Chu Kong Pipe has established a remarkable reputation and will continue to develop our advantage as market pioneer for future development.

APPRECIATION

On behalf of Chu Kong Pipe, I would like to express my sincere appreciation and gratitude to the management team and all staff members for their valuable contribution and dedicated support to the Group in the past year. The Group will continue to leverage on our competitive edges to strive for securing projects with immense growth potential, so as to become the leading manufacturer of quality LSAW steel pipes in the PRC and generate lucrative returns to shareholders.

Chen Chang
Chairman
Panyu, Guangdong Province, China
29 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Despite the gradual recovery of the global economy from the global financial crisis in 2010, the operating environment in the steel pipe industry remained challenging, especially in the international market. Under the spectre of slowing down of the economy and tightened credit market due to the financial crisis in Europe emerged in early 2010, many major oil and gas projects were suspended thus affecting the steel pipe industry.

The Group is principally engaged in the manufacture and sale of longitudinal welded steel pipes, as well as providing steel pipe processing services and ancillary services such as coating and fittings. Our steel pipes products can be broadly categorized into longitudinal submerged arc welded steel pipes formed by submerged arc welding technology ("LSAW steel pipes") and steel pipes formed by electric resistance welding technology ("ERW steel pipes").

LSAW Steel Pipes

The Group is one of the largest LSAW steel pipes manufacturers in the Mainland China. LSAW steel pipes is the largest revenue contributor to the Group and accounted for approximately 87.7% of our total revenue for the year ended 31 December 2010. For the year ended 31 December 2010, revenue from the sales and manufacturing service of LSAW steel pipes amounted to approximately RMB1,439.5 million and RMB35.6 million, respectively, representing a decrease of 28.1% and 44.9%, respectively, as compared to those for the year ended 31 December 2009. The decrease in sales of LSAW steel pipes was mainly due to the decline in our international orders resulted from the delay of many oil and gas projects across the globe. The decrease in the revenue from the manufacturing service of LSAW steel pipes was mainly attributable to the decline in orders from China Petroleum and Chemical Corporation after its completion of the gas pipeline project near Sichuan Province, the PRC, during the year.

ERW Steel Pipes

After achieving the record-high revenue derived from the sales of ERW steel pipes in 2009 as a result of the lucrative orders of our customer in the Sultanate of Oman, the revenue from the sales and manufacturing service of ERW steel pipes retreated to normal levels in 2010. In general, market competition of ERW steel pipes is very keen due to its relatively low technical and standardized requirements. For the year ended 31 December 2010, revenue from the sales and manufacturing service of ERW steel pipes amounted to approximately RMB170.7 million and RMB4.7 million, respectively, representing a decrease of 74.5% and 47.3%, respectively, as compared to those for the year ended 31 December 2009. The total revenue from ERW steel pipes accounted for approximately 10.5% of the total revenue for the year ended 31 December 2010.

Despite the slowdown in 2010, the Group believes steel pipe market still has enormous growth potential in the long run for the following reasons: (i) pipeline transmission is the most economical, convenient and widely applied method for conveying oil and gas, (ii) pipeline penetration rate in developing countries is still low as compared to developed countries, (iii) the expected replacement demand in the US and Russia as most of their pipelines had been laid in late 1960s and 1970s and pipes used for oil and gas transportation usually have an average lifespan of approximately 25 to 30 years.

In anticipation of the growing demand of our products in the coming years, the Group plans to boost its production capacity to capture such growth potentials. The resulting economy of scale will enable us to seize a higher market share and enhance market recognition, thereby reinforcing our industry leadership.

During the year ended 31 December 2010, the installation of a new LSAW steel pipes production line designed for manufacturing of infrastructure pipes, with 300,000 tonnes annual capacity, was completed in Panyu, Guangdong Province, the PRC. This new production line commenced operation in June 2010. Furthermore, we have also acquired a parcel of land in Zhuhai, Guangdong Province, the PRC, for establishing of a new production base.

FINANCIAL REVIEW

Revenue and gross profit

For the year ended 31 December 2010, our revenue was approximately RMB1,681.5 million, representing a decrease of RMB1,144.2 million or 40.5% as compared to that of approximately RMB2,825.7 million in 2009. The decrease in revenue was mainly attributable to the decrease in sales volume and the average selling price of LSAW steel pipes and ERW steel pipes.

The following table sets forth the revenue, gross profit, sales volume and average gross profit per tonne by business segments for each of the period indicated:

	2010		2009	
	Revenue (RMB'000)	**% to total**	Revenue (RMB'000)	% to total
Sales of steel pipes:				
LSAW steel pipes	**1,439,529**	**85.6**	2,001,961	70.8
ERW steel pipes	**170,711**	**10.2**	669,719	23.7
Subtotal	**1,610,240**	**95.8**	2,671,680	94.5
Manufacturing services:				
LSAW steel pipes	**35,607**	**2.1**	64,618	2.3
ERW steel pipes	**4,741**	**0.3**	8,999	0.3
Subtotal	**40,348**	**2.4**	73,617	2.6
Others	**30,885**	**1.8**	80,439	2.9
Grand Total	**1,681,473**	**100**	2,825,736	100

	2010			2009		
	Gross profit (RMB'000)	**Sales volume (tonnes)**	**Average gross profit (RMB/ton)**	Gross profit (RMB'000)	Sales volume (tonnes)	Average gross profit (RMB/ton)
Sales of steel pipes:						
LSAW steel pipes	**244,813**	**184,528**	**1,327**	390,498	230,331	1,695
ERW steel pipes	**(2,627)**	**34,094**	**(77)**	195,534	75,107	2,603
Subtotal	**242,186**	**218,622**		586,032	305,438	
Manufacturing services:						
LSAW steel pipes	**18,757**	**18,253**	**1,028**	35,922	31,157	1,153
ERW steel pipes	**370**	**8,745**	**42**	4,294	17,200	250
Subtotal	**19,127**	**26,998**		40,216	48,357	
Others	**3,063**	**N/A**	**N/A**	15,657	N/A	N/A
Grand Total	**264,376**	**245,620**		641,905	353,795	

The revenue generated from the sales of steel pipes accounted for approximately 95.8% of our total revenue in 2010 as compared to approximately 94.5% in 2009. Steel pipes manufacturing services accounted for approximately 2.4% of our total revenue in 2010 as compared to approximately 2.6% in 2009. The revenues denoted by "Others" mainly represent the sale of steel fittings, trading of steel pipes and sale of scrap materials which accounted for approximately 1.8% of our total revenue in 2010 as compared to 2.9% in 2009.

Gross profit for 2010 was approximately RMB264.4 million, representing a decrease of 58.8% or RMB377.5 million as compared to approximately RMB641.9 million in 2009. Gross profit margin decreased from 22.7% for 2009 to 15.7% for 2010.

Selling price of steel pipes is calculated based on a cost-plus pricing model, i.e., price of the raw materials (in particular steel) marked up with processing fees. Hence, the impact of market price fluctuation of raw materials can be excluded in the analysis of average gross profit per tonne.

The average gross profit per tonne for LSAW steel pipes decreased by 21.7% from approximately RMB1,695 in 2009 to approximately RMB1,327 in 2010. This was primarily attributable to (i) the decrease in overseas orders which generally commands higher margin due to their higher requirements; and (ii) lower operational efficiency in 2010 because we increased the sales to city gas operators in order to maintain our market share and production volume under the unprecedented challenging economy. However, their orders were smaller and have more varieties in the production specifications.

The average gross profit per tonne for ERW steel pipes decreased by 103.0% from approximately RMB2,603 in 2009 to an average gross loss of approximately RMB77 in 2010. This was mainly because the Group received a large order of approximately RMB550.5 million of ERW steel pipes in 2009 from a customer in Sultanate of Oman, which contributed to a gross profit margin of approximately 34% in that year. However, the Group received no order of such kind of ERW steel pipes in 2010.

The average gross profit per tonne for manufacturing services of LSAW steel pipes decreased by 10.8% from approximately RMB1,153 in 2009 to approximately RMB1,028 in 2010. The average gross profit per tonne for manufacturing services of ERW steel pipes decreased by 83.2% from approximately RMB250 in 2009 to RMB42 in 2010. The decrease was mainly due to higher average manufacturing cost per tonne resulted from lower production volume for both LSAW steel pipes and ERW steel pipes in 2010.

Our overseas sales accounted for 62.5% of our total revenue in 2009, but only 39.5% in 2010. This was mainly attributable to the suspension and delay of major global oil and gas projects due to the uncertainty induced by the European financial crisis in early 2010.

SALES BY GEOGRAPHICAL AREAS

	2010		2009	
	RMB'000	**%**	RMB'000	%
Overseas sales	**663,740**	**39.5**	1,766,115	62.5
Domestic sales	**1,017,733**	**60.5**	1,059,621	37.5
Total	**1,681,473**	**100.0**	2,825,736	100.0

OTHER INCOME AND GAINS

Other income and gains decreased by 67.7% or RMB24.1 million from approximately RMB35.6 million in 2009 to approximately RMB11.5 million in 2010. Other income in 2010 mainly represents bank interest income and subsidy income from the PRC government. The relative higher other income and gains recorded in 2009 was mainly attributable to a one-off gain from the disposal of certain property, plant and equipment that amounted to approximately RMB26.6 million in that year.

SELLING AND DISTRIBUTION COSTS

Selling and distribution expenses decreased by 51.1% or RMB44.8 million from approximately RMB87.6 million in 2009 to approximately RMB42.8 million in 2010. The selling and distribution expenses as a percentage of our total revenue were approximately 3.1% in 2009 and 2.5% in 2010 respectively. The decrease was mainly due to the reduced amount of commission paid to our sales agent of overseas market, which is in line with the decline in overseas sales.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 45.2% or RMB36.1 million from approximately RMB79.9 million in 2009 to approximately RMB116.0 million in 2010. The increase was primarily due to the composite effect of (i) an increase in research and development expenses from approximately RMB4.2 million in 2009 to approximately RMB24.7 million in 2010, a substantial portion of which was related to the research and development expenses of deep sea application for steel pipes; and (ii) the increase in salary and wages from approximately RMB15.7 million in 2009 to approximately RMB23.4 million in 2010 which was primarily due to the increase in a number of senior managements.

OTHER EXPENSES

Other expenses increased by 375.0% or RMB3.0 million from approximately RMB0.8 million in 2009 to approximately RMB3.8 million in 2010. The increase was mainly due to the increase in donations to charity amounted to approximately RMB3.3 million in 2010.

FINANCE COSTS

Finance costs decreased by 45.8% or RMB19.2 million from approximately RMB41.9 million in 2009 to approximately RMB22.7 million in 2010. The decrease was mainly attributable to the capitalization of interest that amounted to RMB15.6 million on a specific loan in 2010.

EXCHANGE LOSS, NET

Exchange loss decreased by 11.1% or RMB0.2 million from approximately RMB1.8 million in 2009 to approximately RMB1.6 million in 2010. The appreciation of Renminbi resulted in an increase in exchange loss because our overseas sales revenue was mostly denominated in US dollar. However, this was offset by the exchange gain arising from the borrowing of foreign currency loans during the year.

INCOME TAX EXPENSES

Income tax expenses decreased by 71.0% or RMB45.7 million from approximately RMB64.4 million in 2009 to approximately RMB18.7 million in 2010. The decrease is mainly due to the drop in our profit before tax. The Group's effective tax rate for 2010 was approximately 21.1% as compared to approximately 13.8% in 2009. This was mainly because (i) 廣州珍珠河石化管件有限公司 (Guangzhou Pearl River Petrol-Fittings Co., Ltd*) ("GPR Petrol-Fittings"), 廣州珍珠河石油套管有限公司 (Guangzhou Pearl River OCTG Co., Ltd*) ("GPR Casing Pipe"), 廣州珍珠河石油鋼管防腐有限公司 (Guangzhou Pearl River Petroleum Steel Pipe Coating Co., Ltd*) ("GPR Coating"), and 廣州珍珠河石油鋼管有限公司 (Guangzhou Pearl River Petroleum Steel Pipe Co., Ltd*) ("GPR Steel Pipe") were no longer entitled to full tax exemption but only to a 50% tax exemption commencing from 2010, (ii) there is an increase in non-deductible expenses in our overseas operations.

TOTAL COMPREHENSIVE INCOME FOR THE YEAR

As a result of the factors discussed above, our total comprehensive income for the year 2010 decreased by 84.7% or RMB339.6 million from approximately RMB401.0 million in 2009 to approximately RMB61.4 million in 2010. Net profit margin decreased from 14.2% in 2009 to 3.6% in 2010.

LIQUIDITY AND FINANCIAL RESOURCES

The following table sets out certain information regarding the Group's consolidated statement of cash flows for the years ended 31 December 2009 and 2010:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Net cash flows (used in)/from operating activities	**(586,388)**	634,459
Net cash flows used in investing activities	**(400,283)**	(274,271)
Net cash flows from/(used in) financing activities	**1,236,207**	(170,881)
Net increase in cash and cash equivalents	**249,536**	189,307

NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES

The Group's net cash flows from operating activities decreased by 192.4% or RMB1,220.9 million from approximately RMB634.5 million in 2009 to approximately negative RMB586.4 million in 2010. The net cash flows from operating activities are primarily due to the combined effect of (i) operating profit before changes in working capital of approximately RMB146.2 million, (ii) increase in inventories and prepayments of approximately RMB701.1 million resulted from the increase in order received to be delivered in the first quarter of 2011, (iii) decrease in trade and bills payables of approximately RMB191.6 million.

NET CASH FLOWS USED IN INVESTING ACTIVITIES

The Group's net cash flows used in investing activities increased by 45.9% or RMB126.0 million from approximately RMB274.3 million in 2009 to approximately RMB400.3 million in 2010. The net cash outflow was mainly resulted from the combined effect of (i) the payment of the balance of approximately RMB321.0 million for steel plate processing machines; (ii) the payment of approximately RMB21.9 million and approximately RMB49.6 million for a parcel of land in Jiangyin and Zhuhai, respectively, (iii) the purchase and installation of an infrastructure pipe production line that amounted to approximately RMB40.0 million, and (iv) the receipt of government grants amounted to approximately RMB30.7 million.

NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES

The Group's net cash flows used in financing activities increased by 823.3% or RMB1,407.1 million from approximately negative RMB170.9 million in 2009 to approximately RMB1,236.2 million in 2010. The net cash inflow was mainly resulted from the combined effect of (i) net proceeds of approximately RMB977.7 million from the issue of shares during the global offering in February 2010; (ii) borrowing of new bank loans of approximately RMB1,101.2 million and (iii) repayment of bank loans of approximately RMB804.2 million.

EXCHANGE RISK EXPOSURE

The Group mainly operates in the PRC and most of its operating transactions are settled in Renminbi except for export sales which are mostly denominated in US dollar. Most of its assets and liabilities are denominated in Renminbi. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group did not adopt formal hedging policies and no instruments were applied for foreign currency hedging purposes during the year ended 31 December 2010.

CAPITAL EXPENDITURE

For the year ended 31 December 2010, the Group invested approximately RMB432.6 million for the purchase of property, plant and equipment and land use rights. These capital expenditures were fully financed by internal resources and net proceeds from the issue of shares.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

The Group pledged certain property, plant and equipment and land use rights with an aggregate net book value of RMB52,781,000 (2009:RMB65,601,000) and RMB81,638,000 (2009:RMB83,713,000) as at 31 December 2010 respectively to secure bank loans granted to the Group.

FINANCIAL INSTRUMENTS

The Group did not have any hedging contracts or financial derivatives outstanding for the year ended 31 December 2010.

GEARING RATIO

The Group's gearing ratio is calculated based on the summation of bank and government loans, government grants and an amount due to the ultimate shareholder divided by total assets. The gearing ratio of the Group as at 31 December 2010 and 2009 are 27.8% and 29.8%, respectively.

As at 31 December 2010, total borrowings of the Group amounted to approximately RMB967.0 million, of which 24.8% were long term borrowings.

The net debt-to-equity ratio, defined as a percentage of net interest bearing borrowings over shareholders' equity, improved from 33.7% to 18.5% as at the end of the reporting years.

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

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

On 21 June 2010, 番禺珠江鋼管(珠海)有限公司 (Panyu Chu Kong Steel Pipe (Zhuhai) Co., Ltd*) ("PCKSP (Zhuhai)") was established as a wholly owned subsidiary of Chu Kong Steel Pipe Group Co., Limited ("CKSPG") with a registered capital of RMB300 million, which will be payable in cash, to engage in the manufacture and sale of steel pipes.

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

EVENT AFTER THE REPORTING PERIOD

On 1 March 2011, 番禺珠江鋼管有限公司 (Panyu Chu Kong Steel Pipe Co., Limited*) ("PCKSP") entered into an equipment transfer contract and a finance lease contract, collectively the finance lease arrangement, with 華融金融租賃股份有限公司 (China Huarong Financial Leasing Co., Ltd.*) (the "lessor"). Pursuant to the arrangement, PCKSP sold the equipment to the lessor, and the lessor leased back the equipment to PCKSP for a period of 60 months. The aggregate consideration was RMB160 million, and PCKSP paid a guarantee deposit of RMB24 million and service charge of RMB8 million to the lessor.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The shares of the Company were listed on the Main Board of the Stock Exchange on 10 February 2010 with net proceeds received by the Company from the global offering launched in February 2010 (including the 11,142,000 over-allotment shares) amounting to approximately HK$1,112.5 million (RMB977.7 million) after deducting underwriting commissions and all related expenses.

	Net proceeds from the global offering	
	Available (RMB' million)	Utilized up to 31 Dec 2010 (RMB' million)
Use of proceeds		
Establishment of a new production base in Lianyungang	684.4	321.0
Construction of new LSAW steel pipes production line and modification of an ancillary production line into a completed LSAW steel pipes production line	97.7	40.0
Repayment of bank loans	48.9	48.7
Expansion of overseas distribution network	19.6	8.4
Enhancement of our research and development capabilities	29.3	24.7
Working capital	97.8	97.3
Total	977.7	540.1

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2010, the Group had a total of 2,081 dedicated full time employees (2009:1,816 employees). The following set forth the total number of our staff by functions:

	2010	2009
Management	**42**	24
Production and logistic	**1,214**	1,075
Sales and marketing	**38**	32
Finance	**21**	15
Quality control	**395**	372
Research and development	**89**	45
Procurement	**31**	29
General administration and others	**251**	224
Total	**2,081**	1,816

For the year ended 31 December 2010, staff cost (including director's remuneration in the form of salaries and other benefits) was RMB91.4 million (2009: RMB70.7 million).

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

FUTURE PLANS AND PROSPECTS

Our Group strives for becoming a leading LSAW steel pipes manufacturer internationally and domestically with a strong focus on seeking opportunities across the globe where we have or can develop significant competitive advantage. Leverage on our experienced management team, research and development capabilities, state-of-the-art technology, well established client base and reputation of excellence, we are the only Chinese company qualified for undertaking most of the internationally large orders. The kind of projects that we bid for and received substantiates not only our order book position but also sets us apart from other domestic players.

By capitalizing on the following strategies, the Group is poised to achieve excellent performance:

CONSTRUCTION OF STEEL PLATES PROCESSING FACILITIES

The Group intends to construct a steel plates processing production line with a planned annual capacity of 2 million tonnes. It will be located in Lianyungang and is expected to be completed by end of 2013. This steel plates processing production line is capable of producing American Petroleum Institute (API)-grade steel plates and is expected to meet our captive consumption requirement. It will not only improve our steel pipes profitability but also secure stable supply of quality steel plates for production even when market conditions are tight.

CONSTRUCTION OF NEW LSAW STEEL PIPES PRODUCTION LINES

The Group intends to construct two oil and gas LSAW steel pipes production lines with a planned annual capacity of 300,000 tonnes each. These two production lines will be located in Zhuhai and Lianyungang and are expected to be completed by the 4th quarter of 2011 and the 3rd quarter of 2012, respectively. Upon completion of these two production lines in 2012, our annual capacity of oil and gas LSAW steel pipes will be enhanced to 1.6 million tonnes in catering to the increasing demand for oil and gas LSAW steel pipes.

SELECTIVE ACQUISITION AND PARTNERSHIP

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

The capital expenditure for the above future plans is expected to be funded by the proceeds raised from the global offering, internally generated funds and bank borrowings.

Looking forward, the global steel pipeline market is expected to grow dramatically because (i) pipeline penetration in developing countries is expected to rise due to the increase in energy consumption resulted from high economic growth and development, (ii) more capital expenditure will be spent on pipeline projects by oil and gas companies given the current high oil and gas price and (iii) increasing oil and gas exploration activities in difficult and distant locations will boost the demand for pipeline laying for oil and gas transportation to refineries.

Domestically, with the commencement of the 12th Five-Year Plan, we expect to see a spurt in construction of pipeline infrastructure, these include not only onshore but also offshore projects. Furthermore, State Grid's commencement of large-scale construction of smart grid projects which includes the building of several ultra-high-voltage power transmission lines nationwide in the coming five years will also facilitate the demand for our infrastructure pipe. All these, together with the continuing robust demand for city gas network, contributed to the positive prospects of the domestic market for steel pipes.

Against the backdrop of favorable market dynamics, we are committed to leveraging our strong production capacity, advanced research and development capability, as well as diversified and quality products, so as to achieve mighty growth in 2011.

EXECUTIVE DIRECTORS

Mr Chen Chang (陳昌)

Mr Chen Chang (陳昌), age 65, is an executive Director and the chairman of the Company and also a member of the remuneration committee of the Company. Mr Chen is the father of Ms Chen Zhao Nian and Ms Chen Zhao Hua (both being the executive Directors). Being the founder of the Group, Mr Chen is primarily responsible for the overall management and strategic planning and business development of the Group. Mr Chen has over 30 years in the areas related to woodwork, machine tool equipment and lift/ escalator equipment and accumulated experience and knowledge on mechanical and electrical industry. Mr Chen graduated from the graduate school of 中山大學 (Sun Yat-Sen University*) in Guangdong Province in October 1995 majoring in decision management. Mr Chen was appointed by several steel pipe related associations and organisations for various positions, including the member of 第四屆焊接鋼管學術委員會委員 (The Fourth Session of Welded Steel Pipe Academic Committee*) by 中國金屬學會軋鋼分會 (The Steel Rolling Branch Association of the Chinese Society for Metals*) in 2001, the vice president of 中國鄉鎮企業協會 (China Township Enterprises Association*), and the vice chairman of 第四屆理事會 (The Fourth Session of Board of Directors*) and 第五屆理事會 (The Fifth Session of Board of Directors*) by China Steel Construction Society, Steel Pipe Branch Association in 2004 and 2008 respectively. Mr Chen was awarded with various honours and obtained different qualifications. In 2004, he was honoured by Ministry of Commerce, Industry and Energy of Republic of Korea for his contribution to Korean economic development through trade revitalisation, and was also elected as 中國優秀民營科技企業家 (Excellent Entrepreneur in Chinese Private Technology Enterprises*) by All-China Federation of Industry & Commerce. In 2007, he was elected as the winner of 科學技術獎一等獎 (The First Prize of Science and Technology Awards*) by 廣州市人民政府 (Guangzhou Municipality People's Government*), and as authority expert of welded pipe industry by 中國國際權威專家協會 (Chinese International Authority Expert's Association*). In 2008, Mr. Chen was awarded the gold prize for his invention, 三輥成型工藝及設備 (Three-roller forming technology and equipment*), in 第六屆國際發明展覽會 (The Sixth Session of International Exhibition of Inventions*), and was awarded an outstanding award by 廣東省人事廳 (Guangdong Provincial Bureau of Personnel*) and 廣東省知識產權局 (Guangdong Province Intellectual Property Department*).

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

Ms Chen Zhao Nian (陳兆年)

Ms Chen Zhao Nian (陳兆年), aged 34, a daughter of the founder and also sister of Ms Chen Zhao Hua (being executive Director), is an executive Director. Ms Chen is primarily responsible for the daily management and operations of the Group. Ms Chen joined the Group in October 2002 as vice general manager after her graduation. Ms Chen obtained her bachelor's degree in arts from the University of Central Lancashire in the United Kingdom in June 2000 and obtained her master's degree in accounting from Leeds Metropolitan University in United Kingdom in October 2002.

Ms Chen Zhao Hua (陳兆華)

Ms Chen Zhao Hua (陳兆華), aged 32, a daughter of the founder and also sister of Ms Chen Zhao Nian (being executive Director), is an executive Director. Ms Chen is primarily responsible for handling sales, business relationship with overseas customers and sales and bidding agents as well as overseas marketing activities. Ms Chen joined the Group in December 2002 as vice general manager after her graduation. Ms Chen obtained her master degree of L.L.M. in International Commercial Law from University of Nottingham in United Kingdom in December 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Chen Ping (陳平)

Mr Chen Ping (陳平), aged 45. Mr Chen was appointed as an independent non-executive Director on 23 January 2010. Mr Chen is also a member of the audit committee and remuneration committee of the Company. Mr Chen graduated from the Jinan University, the PRC, in 1984 majoring in international finance and later obtained a doctoral degree in international finance in Nankai

University, the PRC, in December 1990. Commencing from January 1991, Mr Chen began lecturing at the Lingnan College, Sun Yat-Sen University in Guangdong Province, the PRC, teaching international finance, and is currently the vice president of the Lingnan College. Mr Chen also assumed various posts in societies and clubs concerning economics and finance, such as council member at 中國國際金融學會 (International Finance Society of China*) and 中國世界經濟學會 (China Society of World Economics*). Mr Chen is also engaged in academic research which mainly focuses on finance theory and policy, global economics and so forth, and has published a number of essays and publications. As an experienced professor, Mr Chen has won various awards for the lecture materials used and also for the essays published. In 1997, Mr Chen's teaching materials entitled 《國際金融》 (International finance*) was awarded as 國家教學成果二等獎 (National Educational Achievement Award – Second Class*) by Committee of Education of the PRC. In May 2002, Mr Chen's paper entitled 《上市公司兼併與收購的財富效應研究》 (Study on the effect of merger and acquisition of listed companies on wealth*) was selected for the Best Paper Award of the 9th Global Finance Association Annual Conference by the 9th GFA Annual Conference Program Committee. In 2005, Mr Chen's teaching materials entitled 《教學國際化的探索與實踐》 (Exploration and practice of educational internationalisation*) was awarded as 廣東省教學成果一等獎 (Guangdong Province Educational Achievement Award – First Class*). In 2006, Mr Chen was selected as nominee for 教育部新世紀優秀人才支持計劃 (Ministry of Education New Century Outstanding Person Support Scheme*). In 2007, Mr Chen received 寶鋼優秀教師獎 (Bao Steel Outstanding Teacher Award*). Mr Chen acted as an independent director of 深圳市中金嶺南有色金屬股份有限公司 (Shenzhen Zhongjin Lingnan Nonfemet Company Limited*), a company listed on the Shenzhen Stock Exchange, for six years until June 2008. Since January 2009, Mr Chen has been acting as an independent director of 廣晟有色金屬股份有限公司 (Rising Nonferrous Metals Share Co., Ltd.*), a company listed on the Shanghai Stock Exchange. Mr Chen was appointed as an independent director of 廣東湯臣倍健生物科技股份有限公司 (Guangdong By-health Biotechnology Co., Ltd*) ("Guangdong By-health Biotechnology"), a company listed on the Shenzhen Stock Exchange on 15 December 2010.

Mr Liang Guo Yao (梁國耀)

Mr LIANG Guo Yao (梁國耀), aged 53. Mr Liang was appointed as an independent non-executive Director on 23 January 2010. Mr Liang is also the chairman of the remuneration committee of the Company and a member of the audit committee of the Company. Mr Liang completed professional courses specialising in economics in 中共廣東省委黨校 (Zhongong Guangdong Province Wei Dang Xiao*) in July 1992. From June 2003 to July 2006, Mr Liang worked as Committee Secretary and National People's Congress Chairman of Shiji Town, Panyu, Guangzhou. Mr Liang was then responsible for the strategic planning for major matters of Shiji Town, such as those in relation to economics, laws and politics, social order and human resources arrangement. In March 1996, Mr Liang was appointed as Mayor of Dagang, Panyu in the 1st Meeting of the 14th People's Representative Congress of Dagang town, Panyu, responsible for the overall planning and implementation for the social and economical development of Dagang, as well as considering and if thought fit granting approvals for major infrastructure proposals at Dagang. Having been a government official serving at the local government in the PRC for over 30 years since 1975 until his retirement in 2006, Mr Liang has gained profound management experience in the public sector.

Mr See Tak Wah (施德華)

Mr SEE Tak Wah (施德華), aged 47. Mr See was appointed as an independent non-executive Director on 23 January 2010. Mr See is also the chairman of the audit committee of the Company. Mr See graduated from the Management School of Waikato University in New Zealand with a first class honours in Bachelor of Management Studies and is a member of the Institute of Chartered Accountants of New Zealand and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr See has over 20 years' experience in financial and general management where he previously worked as the regional business controller of Nokia Mobile Phones Asia Pacific, the managing director of Nokia Mobile Phones Hong Kong, the chief operating officer of First Mobile Group Holdings Limited and held key management position in the North Asia offices of Philips and Siemens. Mr See was an independent non-executive director of First Mobile Group Holdings Limited (Stock code: 0865) and resigned from such post with effect from 2 December 2009. Mr See is currently running his own strategic consultancy business. In addition, he currently serves as an independent non-executive director of Buildmore International Limited (Stock Code: 0108) and Sun East Technology (Holdings) Limited (Stock Code: 0365).

SENIOR MANAGEMENT

Mr Wang Lishu (王利樹)

Mr WANG Lishu (王利樹), aged 53. Mr Wang joined PCKSP in June 1994 as deputy director in charge of production and now serves as its chief engineer and director responsible for technical research and development at PCKSP. Prior to his promotion to serve as PCKSP's chief engineer, Mr Wang had previously assumed various posts at PCKSP such as its engineer, vice director at its branch factory for the manufacturing of welded steel pipes and its assistant chief engineer. At PCKSP, Mr Wang has been in charge of the installation, tuning and testing of the ERW steel pipes production line, JCOE production line and UOE production line. In 1982, he graduated from西安礦業學院(Xi'an Mining Institution*), the PRC, and majored in mechanisation of coal mine, and was recognised as senior mechanical engineer by 廣東省人事廳 (Guangdong Provincial Bureau of Personnel*) in 1998. In 1996, "Pressure ERW Steel Pipe Products" in which Mr Wang participated in designing was awarded as 廣東省優秀新產品獎 (Outstanding New Product Award of Guangdong Province*). In 1997, "Research & Manufacturing of Pressure ERW Steel Pipes" in which Mr Wang participated in designing was awarded the 2nd class prize by 廣東省重化工廳 (Guangdong Provincial Bureau of Heavy Chemical Industry*) and 廣東省市科技局 (Guangzhou Municipal Bureau of Science and Technology*). Mr Wang was appointed as member of 全國標準化技術委員會委員 (National Standardization Technology Committee*) in 2003. In 2004, Mr Wang was granted the qualification by the People's Government of Panyu District to enjoy special governmental subsidy. In 2006, he was accepted as member of 中國金屬學會軋鋼分會第五屆焊接鋼管學術委員會 (the 5th Academy Committee of Welded Steel Pipes under Steel Rolling Branch of China Metal Association*). In 2006, Mr Wang acted as member of the editorial board of the magazine 《鋼管》 (Steel Pipe*). In 2007, Mr Wang was granted the silver award at 第十六屆全國發明展覽會 (the 16th China Invention Exhibition*) for recognition of his welded pipes production technique patent in 2006, and was elected as the winner of 科學技術獎一等獎 (The First Prize of Science and Technology Awards*) by 廣州市人民政府 (Guangzhou Municipality People's Government*). In 2007, Mr Wang was employed as deputy director of 廣東省鄉鎮企業協會 (the Committee on The Teaching of Science under the Guangdong Township Enterprises Association*) and was honoured as 番禺區科技創新 帶頭人 (Technology Innovation Pioneer in Panyu District*) by 廣州市番禺區科技工作領導小組 (Guangzhou City Panyu District Technology Work Leading Committee*). In 2008, Mr Wang was appointed as a committee member of the assistant supervisor of 全國鋼標準化技術委員會鋼管分會技術委員會 (Technical Association of Steel Pipe Branch of National Technical Committee for Steel Standardization*).

Mr Leong Liem Seng (梁念成)

Mr LEONG Liem Seng (梁念成), aged 57, joined the Group in June 2010 as Vice President of Marketing and is responsible for the sales and marketing on both international and domestic market. Prior to joining the Group, Mr Leong has over 31 years of experience in Shell International as project manager, business development manager, contracting manager, chief procurement officer and global sourcing in various countries, including Singapore, the Netherlands, Thailand and China. Mr Leong is a qualified Professional Engineer (Singapore), Chartered Engineer (United Kingdom) and Member of Institution of Mechanical Engineers for UK and Singapore. He holds a degree in Mechanical Engineering and postgraduate qualification in Business Administration from Heriot Watt University in Britain in year 1978.

Mr Wong Yu May (黃耀楣)

Mr WONG Yu May (黃耀楣), aged 58, joined the Group in August 2010 as a Vice President of Finance. Mr Wong is responsible for overseeing the treasury and corporate finance functions of the Group and the relationship with banks. Mr Wong graduated from the HEC business school of University of Montreal in Canada in year 1975 and also obtained a Master of Business Administration degree at Concords University in Canada in year 1981. Mr Wong is an experienced international banker having worked in Canada, France, China, Taiwan and Hong Kong. Mr Wong has over 30 years of experience in the financial field.

Mr Li Junqiang (李軍強)

Mr LI Junqiang (李軍強), aged 38. Mr Li joined PCKSP in July 1995 as a technician and thereafter acted as research engineer and manager of general planning. He is now the vice general manager of PCKSP in charge of procurement and logistic management. In 1995, he graduated from 北京科技大學 (University of Science and Technology Beijing*), the PRC, and majored in ferrous metallurgy, and was recognised as a mechanical engineer by 廣州市人事局 (Guangzhou Municipality Bureau of Personnel*) in 2005. In 2007, Mr Li was elected as the winner of 科學技術獎一等獎 (The First Prize of Science and Technology Awards*) by 廣州市人民政府 (Guangzhou Municipality People's Government*). Mr Li has over 14 years of experience in the ferrous metallurgy industry.

Mr Hu Chung Ming (胡宗明)

Mr HU Chung Ming (胡宗明), aged 38, is a fellow member of The Hong Kong Institute of Certified Public Accountants and a certified practicing accountant of the Australian Society of Certified Public Accountants. Mr Hu graduated from the University of Queensland in Australia with a bachelor's degree in commerce. Mr Hu is the Group chief financial officer and company secretary. He is responsible for overseeing all the finance, company secretarial and investors relations matters of the Group. Prior to joining the Group in September 2009, Mr Hu had over 8 years of experience in accounting and finance.

Ms Liu Yonghe (劉咏荷)

Ms LIU Yonghe (劉咏荷), aged 42, joined PCKSP in June 1994 and had worked as accounting staff and financial manager. Ms Liu has built up profound experience in financial management, accounting and auditing during her employment with PCKSP for over 10 years. Ms Liu is now the vice general manager and a director of PCKSP, responsible for cash flow and working capital control. She completed her professional accounting education at Lanzhou University of Finance and Economics, the PRC, in 1990 with a bachelor's degree in Economics and obtained the professional qualification as assistant accountant in 1991. Ms Liu has over 20 years of experience in the accounting and finance industry. She was awarded as the "March 8th Flag Bearer" in 1999 and 2002, respectively, and the post she held was awarded as the Women's Exemplary Post by the Guangzhou Women's Union in March 2005. In October 2009, Ms Liu obtained a master's degree in the Executive Master of Business Administration (EMBA) programme at the Asia International Open University (Macau).

Mr Xu Qilin (徐啟林)

Mr XU Qilin (徐啟林), aged 53, joined PCKSP in January 2001 and had worked as mechanical engineer and vice production manager. Prior to joining PCKSP, Mr Xu worked at 荊州機床廠 (Jingzhou Machine Tool Factory*) for about 18 years during which he took up several posts, including vice department head of the craftsmanship department, department head of the technical department and branch factory director. With his experience in machinery construction, Mr Xu received awards for his performance. With PCKSP, Mr Xu has participated in the refinement project of the UOE production line, and also led the construction project of PCKSP in connection with the JCOE production line in Zhangjiagang, Jiangsu Province, the PRC in 2006 and 2007 as well as the construction project of the JCOE production line in Jiangyin, Jiangsu Province, the PRC in 2008 and 2009. Mr Xu is now the vice general manager of PCKSP, responsible for production management. He completed his bachelor's degree in machinery manufacturing at Wuhan Polytechnic University, the PRC, in 1982 and became a senior engineer in March 1995. Mr Xu has over 27 years of experience in machinery manufacturing. He was awarded as Excellent Non-local Worker in Panyu, Guangzhou in October 2006.

Mr Wang Zhiming (王志明)

Mr WANG Zhiming (王志明), aged 48, joined PCKSP in 1997 and had worked as quality engineer, quality manager and quality controller. Mr Wang has participated in the construction project of the JCOE (Panyu) production line and UOE production line of PCKSP, and is primarily responsible for the manufacturing, installation and testing of quality control device for the production lines in PCKSP. In 2003, Mr Wang was appointed as an assistant to the general manager of the PCKSP and has gained experience for the sales and marketing of PCKSP's products in the PRC. Mr Wang is now the vice general manager of PCKSP, responsible for quality control and domestic sales. He completed his professional non-destructive testing education at Kunming University, the PRC, in 1987 and obtained a Grade III qualification in aerospace non-destructive ultrasonic testing in 1989. Mr Wang was elected as the winner of 科學技術獎一等獎 (The First Prize of Science and Technology Awards*) by 廣州市人民政府 (Guangzhou Municipality People's Government*) in 2007, and was awarded 科技進步獎三等獎 (The Third Prize of Technology Advancement Award*) by 中國石油和化學工業協會 (China Petroleum and Chemistry Industry Society*) in 2009. Mr Wang has over 21 years of experience in non-destructive testing and quality control.

COMPANY SECRETARY

Mr Hu Chung Ming (胡宗明)

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

REPORT OF THE DIRECTORS

The directors hereby present their report and the audited financial statements of the Group for the year ended 31 December 2010.

CORPORATE REORGANISATION

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

Pursuant to the reorganisation of the Group as set out in the Company's prospectus dated 28 January 2010, the Company became the holding company of the subsidiaries now comprising the Group on 23 January 2010.

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

PRINCIPAL ACTIVITIES

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

Details of the company's principal subsidiaries as at 31 December 2010 are set out in note 19 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 36 to 87.

The Directors recommended a final dividend of HK2.5 cents per share for the year ended 31 December 2010 payable to shareholders whose names appear on the Register of Members of the Company at the close of business on 10 June 2011. Subject to the passing of the relevant resolution at the forthcoming AGM of the Company, the final dividend will be payable on 28 June 2011.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 88. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in the Company's share capital during the year are set out in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

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

At 31 December 2010, the Company's reserves available for distribution to the shareholders in accordance with the Articles of Association were RMB517.7 million.

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

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling RMB3,262,000.

TAX RELIEF

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2010, sales to the Group's five largest customers accounted for 44.7% of the total revenue of the Group, and sales to the largest customer included therein amounted to 17.4%. Purchases from the Group's five largest suppliers accounted for 56.2% of the total purchases for the year. None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

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

Executive directors:

Mr. Chen Chang *(Chairman)*
Ms. Chen Zhao Nian
Ms. Chen Zhao Hua

Independent non-executive directors*:

Mr. Chen Ping
Mr. Liang Guo Yao
Mr. See Tak Wah

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out in the section headed "profile of Directors and Senior Management" on pages 16 to 19 of this annual report.

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

CHANGE IN INFORMATION OF DIRECTOR

Mr Chen Ping has been appointed as an independent director of Guangdong By-health Biotechnology, a company listed on the Shenzhen Stock Exchange on 15 December 2010. Except as set out in this report, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) to Listing Rules.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' REMUNERATION

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

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

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

As at 31 December 2010, the interests or short positions of the Directors and chief executive of the Company in the shares or underlying shares or, as the case may be, the percentage in the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571) (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Shares of the Company

Name of Director	Capacity	Position	Number of shares held	Percentage of shareholding in the Company
Chen Chang	Interest of controlled corporation (note 1)	Long	701,911,000	69.42%

Note:

1. These shares are held by Bournam, the entire issued share capital of which is wholly and beneficially owned by Mr. Chen Chang. By virtue of the SFO, Mr Chen is deemed to be interested in the 701,911,000 shares held by Bournam.

Shares of Associated Corporation

Mr. Chen Chang beneficially owns the entire issued share capital of Bournam. Bournam is the beneficial owner of about 69.42% of the issued shares of the Company.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance, to which the Company, or any of its holding companies, subsidiaries and fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2010.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

MANAGEMENT CONTRACTS

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

SHARE OPTION SCHEME

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

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

2. Participants of the Scheme include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

From the date of adoption of the Scheme and up to 31 December 2010, no share option has been granted or agreed to be granted to any person under the Scheme.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As at 31 December 2010, so far as the Directors are aware, save as disclosed above, the persons or corporations (not being a Director or a chief executive of the Company) who have interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or have otherwise notified to the Company were as follows:

Name of shareholder	Capacity	Position	Number of shares	Approximately percentage of voting power
Bournam Profits Limited	Beneficial owner (note 1)	Long	701,911,000	69.42%
Su Xing Fang	Interest of spouse (note 2)	Long	701,911,000	69.42%
Value Partners Limited	Investment manager	Long	61,015,000 (note 3)	6.03%
Cheah Capital Management Limited	Interest of controlled corporation	Long	61,015,000 (note 3)	6.03%
Value Partners Group Limited	Interest of controlled corporation	Long	61,015,000 (note 3)	6.03%
Cheah Company Limited	Interest of controlled corporation	Long	61,015,000 (note 3)	6.03%
Hang Seng Bank Trustee International Limited	Trustee	Long	61,015,000 (note 3)	6.03%
Cheah Cheng Hye	Person who set up a discretionary trust	Long	61,015,000 (note 3)	6.03%
To Hau Yin	Interest of spouse	Long	61,015,000 (note 3)	6.03%

Notes:

1. The entire share capital of Bournam is solely and beneficially owned by Mr. Chen Chang. Mr. Chen is deemed under the SFO to be interested in 701,911,000 shares.

2. Madam Su Xing Fang, the spouse of Mr. Chen Chang, is also deemed to be interested in such 701,911,000 shares in which Mr. Chen is deemed to be interested.

3. The 61,015,000 shares as referred to in note 3 above represent the same block of shares in which all the relevant parties are deemed under the SFO to be interested.

   Hang Seng Bank Trustee International Limited, as trustee of The C H Cheah Family Trust, has 100% interest over Cheah Company Limited which in turn has 100% interest over Cheah Capital Management Limited. Cheah Capital Management Limited has approximately 31.19% interest over Value Partners Group Limited which in turn has 100% interest over Value Partners Limited.

   The C H Cheah Family Trust was set up by Mr. Cheah Cheng Hye. Madam To Hau Yin is the spouse of Mr. Cheah Cheng Hye and accordingly is deemed to be interested in the 61,015,000 shares.

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

During the year ended 31 December 2010, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report section set out in pages 27 to 31.

PRE-EMPTIVE RIGHTS

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

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has since 23 January 2010 adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2010.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had certain connected and continuing connected transactions, details of which are set out in note 33 to the financial statements and disclosed in compliance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out in note 33 to the financial statements and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Directors had received letter from Ernst & Young, the auditors of the Company confirming that the continuing connected transaction (i) had received the approval of the Board of the Directors; (ii) was in accordance with the pricing policies of the Company; (iii) had been entered into in accordance with the relevant agreements governing the transactions; and (iv) had not exceeded the cap amount for the financial year ended 31 December 2010 as set out in the Prospectus.

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 37 to the financial statements.

AUDITORS

The Company has appointed Ernst & Young as auditors of the Company for the year ended 31 December 2010. A resolution will be proposed for approval by shareholders at the forthcoming annual general meeting to re-appoint Ernst & Young as auditors of the Company.

ON BEHALF OF THE BOARD

Chen Chang
Chairman
Hong Kong
29 March 2011

CORPORATE GOVERNANCE REPORT

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

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

CG CODE PROVISION A.2.1

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

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

BOARD OF DIRECTORS

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

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

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

The Board has delegated various responsibilities to the Board committees including the Audit Committee and the Remuneration Committee. Further details of these Committees are set out below on pages 28 to 29.

BOARD MEETINGS

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

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

For the financial year ended 31 December 2010, four Board meetings were held.

Appointments, Re-election and Removal of Directors

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

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

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

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

BOARD COMMITTEES

Audit Committee

The Company established the Audit Committee on 23 January 2010 in compliance with Rule 3.21 and Appendix 14 to the Listing Rules. The Audit Committee consists of three Independent Non-Executive Directors, namely Mr. Chen Ping, Mr. Liang Guo Yao and Mr. See Tak Wah. Mr. See Tak Wah is the Chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and the internal control procedures of our Group. The Audit Committee has reviewed the Company's financial statements and the Group's consolidated financial statements for the year ended 31 December 2010 and the interim financial statements for the six months ended 30 June 2010, including the accounting principles and practices adopted by the Company and Group.

For the financial year ended 31 December 2010, two meetings were held by the Audit Committee. At the meetings, it reviewed the annual results and interim results of the Group for year ended 31 December 2009 and six months ended 30 June 2010 respectively with the independent auditors and also the activities of the Group's internal control functions. It also reviewed the Company's progress in implementing the corporate governance requirements as set out in the CG Code.

Remuneration Committee

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

During the year and up to the date of the Annual Report, the Remuneration Committee has reviewed the Group's remuneration policy and reviewed the remuneration package of the executive directors and senior management.

For the financial year ended 31 December 2010, one meeting was held.

The attendance of individual members of the Board and other Board Committees meetings for the financial year ended 31 December 2010 is set out in the table below:

	Meeting attended/held		
	Board	Audit Committee	Remuneration Committee
Executive Directors			
Chen Chang (Chairman of Board)	4/4	–	1/1
Chen Zhao Nian	4/4	–	–
Chen Zhao Hua	3/4	–	–
Independent non-executive Directors			
Chen Ping	4/4	2/2	1/1
Liang Guo Yao	4/4	2/2	1/1
See Tak Wah	4/4	2/2	–

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has since 23 January 2010 adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2010.

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial Reporting

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

Independent Auditors

During the year ended 31 December 2010, the remuneration paid or payable to the independent auditors, Ernst & Young, for services rendered is broken down below:

	2010
	HK$'000
Audit services	1,880
Non-audit services	–
Total	1,880

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

Internal Controls

The Board has overall responsibilities for maintaining a sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority, and is designed to help the Group achieve its business objectives, safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

The Board, with the assistance of Baker Tilly Hong Kong Certified Public Accountants, assessed the effectiveness of the Group's internal control system which covered all material controls, including financial, operational and compliance controls as well as risk management functions during the year ended 31 December 2010. No major issue was raised but certain areas for improvement had been identified and considered for appropriate actions.

Directors' Responsibility on the Financial Statements

The Directors are responsible for overseeing the preparation of financial statements for the year ended 31 December 2010 with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and suitable accounting standards.

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

NON-COMPETITION UNDERTAKINGS

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

COMMUNICATION WITH SHAREHOLDERS

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

The forthcoming annual general meeting of the Company will be held on 10 June 2011.

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

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

Mr. CHEN Ping
Mr. LIANG Guo Yao
Mr. SEE Tak Wah

REGISTERED OFFICE

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

COMPANY SECRETARY

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. CHEN Chang
Ms. CHEN Zhao Nian

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Qinghe Road
Shiji Town
511450 Panyu District
Guangzhou City
Guangdong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite Nos 1, 2 and 19
15th Floor, Tower 3
China Hong Kong City
33 Canton Road
Tsim Sha Tsui, Kowloon
Hong Kong

AUDITOR

Ernst & Young

STOCK CODE & COMPANY'S WEBSITE

1938
www.pck.com.cn

COMPLIANCE ADVISER

ICBC International Capital Limited

LEGAL ADVISERS AS TO HONG KONG LAW

Pang & Co. in association with Salans LLP

PRINCIPAL BANKERS

In Hong Kong:
JP Morgan Chase Bank, N.A., Hong Kong Branch
Deutsche Bank AG
Bank of China (Hong Kong) Limited

In the People's Republic of China:
Industrial and Commercial Bank of China
The Export-Import Bank of China
China Construction Bank
Bank of China Ltd.
China Everbright Bank
The Hong Kong and Shanghai Banking Corporation Ltd.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

ERNST & YOUNG
安 永

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

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

We have audited the consolidated financial statements of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 36 to 87 which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
29 March 2011

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	7	**1,681,473**	2,825,736
Cost of sales		**(1,417,097)**	(2,183,831)
Gross profit		**264,376**	641,905
Other income and gains	7	**11,466**	35,574
Selling and distribution costs		**(42,765)**	(87,628)
Administrative expenses		**(115,984)**	(79,940)
Other expenses		**(3,807)**	(827)
Finance costs	8	**(22,731)**	(41,893)
Exchange loss, net		**(1,576)**	(1,784)
PROFIT BEFORE TAX	9	**88,979**	465,407
Income tax expense	12	**(18,742)**	(64,389)
PROFIT FOR THE YEAR		**70,237**	401,018
Profit attributable to:			
Owners of the Company		**70,237**	401,018
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	14	**RMB0.07**	RMB0.53
OTHER COMPREHENSIVE INCOME:			
Exchange differences on translation of foreign operations		**(8,867)**	(18)
Income tax relating to component of other comprehensive income		**–**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(8,867)**	(18)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**61,370**	401,000
Total comprehensive income attributable to:			
Owners of the Company		**61,370**	401,000

Details of the dividend paid and proposed for the year are disclosed in note 13 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**1,071,197**	499,891
Investment properties	16	**1,954**	–
Deposits paid		**64,914**	278,814
Prepaid land lease payments	17	**122,983**	84,659
Goodwill	18	**4,075**	4,075
Deferred tax assets	20	**1,261**	1,320
Pledged deposits	24	**4,410**	11,566
Total non-current assets		**1,270,794**	880,325
CURRENT ASSETS			
Inventories	21	**977,539**	520,157
Trade receivables	22	**355,025**	267,158
Prepayments, deposits and other receivables	23	**360,905**	116,223
Pledged deposits	24	**51,897**	201,056
Cash and bank balances	24	**599,178**	349,302
Total current assets		**2,344,544**	1,453,896
CURRENT LIABILITIES			
Trade and bills payables	25	**203,983**	395,570
Interest-bearing bank loans and government loans	26	**727,017**	292,953
Other payables and accruals	27	**394,499**	266,220
Tax payable		**19,333**	24,236
Due to the ultimate shareholder	33	**–**	20,540
Total current liabilities		**1,344,832**	999,519
NET CURRENT ASSETS		**999,712**	454,377
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,270,506**	1,334,702
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	26	**240,000**	377,000
Government grants	28	**37,224**	5,771
Deferred tax liabilities	20	**2,265**	–
Total non-current liabilities		**279,489**	382,771
NET ASSETS		**1,991,017**	951,931
EQUITY			
Equity attributable to owners of the Company			
Issued capital	29	**88,856**	–
Reserves	30 (a)	**1,880,651**	951,931
Proposed final dividend	13	**21,510**	–
TOTAL EQUITY		**1,991,017**	951,931

Chen Chang
Director

Chen Zhao Nian
Director

	Attributable to owners of the Company								
	Issued capital RMB'000 note 29	Share premium RMB'000	Contributed surplus RMB'000 note (a)	Capital reserve RMB'000 note (b)	Statutory reserve fund RMB'000 note (c)	Retained profits RMB'000	Proposed final dividend RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 1 January 2009	–	–	233,372	57,607	33,016	269,369	–	7,273	600,637
Profit for the year	–	–	–	–	–	401,018	–	–	401,018
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(18)	(18)
Total comprehensive income for the year	–	–	–	–	–	401,018	–	(18)	401,000
Profit appropriation to reserves	–	–	–	–	40,691	(40,691)	–	–	–
Dividend paid (note 13)	–	–	–	–	–	(49,706)	–	–	(49,706)
At 31 December 2009	–	–	233,372	57,607	73,707	579,990	–	7,255	951,931
At 1 January 2010	–	–	233,372	57,607	73,707	579,990	–	7,255	951,931
Profit for the year	–	–	–	–	–	70,237	–	–	70,237
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(8,867)	(8,867)
Total comprehensive income for the year	–	–	–	–	–	70,237	–	(8,867)	61,370
Issued and fully paid shares	8,783	–	(8,783)	–	–	–	–	–	–
Capitalisation issue of shares	57,122	(57,122)	–	–	–	–	–	–	–
Issuance of new shares for the global offering	21,970	966,680	–	–	–	–	–	–	988,650
Issuance of new shares upon exercise of the Over-allotment Option	981	43,137	–	–	–	–	–	–	44,118
Share issue expenses	–	(55,052)	–	–	–	–	–	–	(55,052)
Profit appropriation to reserves	–	–	–	–	7,853	(7,853)	–	–	–
Proposed final 2010 dividend (note 13)	–	–	–	–	–	(21,510)	21,510	–	–
At 31 December 2010	**88,856**	**897,643***	**224,589***	**57,607***	**81,560***	**620,864***	**21,510**	**(1,612)***	**1,991,017**

* These reserve accounts comprise the consolidated reserves of RMB1,880,651,000 (2009: RMB951,931,000) in the consolidated statement of financial position as at 31 December 2010.

Notes:

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

(b) Capital reserve represents the excess capital paid over the registered capital of PCKSP by Lessonstart Enterprises Limited ("Lessonstart").

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**88,979**	465,407
Adjustments for:			
Finance costs	8	**22,731**	41,893
Bank interest income	7	**(7,737)**	(4,819)
Loss/(gain) on disposal of items of property, plant and equipment, net		**358**	(26,267)
Depreciation	9	**39,815**	31,534
Amortisation of prepaid land lease payments	17	**2,392**	2,153
Impairment of trade receivables recognised/(reversed)	22	**(384)**	2,035
Reversal of impairment of deposits and other receivables	23	**–**	(555)
		146,154	511,381
Decrease/(increase) in inventories		**(457,382)**	190,537
Increase in trade receivables		**(87,483)**	(29,010)
Decrease/(increase) in prepayments, deposits and other receivables		**(243,741)**	52,557
Decrease/(increase) in pledged deposits		**156,119**	(109,588)
Increase/(decrease) in trade and bills payables		**(191,587)**	197,244
Increase/(decrease) in other payables and accruals		**124,856**	(129,397)
Increase/(decrease) in an amount due to the ultimate shareholder		**(20,540)**	5,258
Increase in government grants		**800**	2,090
Cash generated from/(used in) operations		**(572,804)**	691,072
Interest received	7	**7,737**	4,819
Corporate income tax paid		**(21,321)**	(61,432)
Net cash flows from/(used in) operating activities		**(586,388)**	634,459
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(361,052)**	(392,597)
Addition to prepaid land lease payments		**(71,504)**	–
Proceeds from disposal of items of property, plant and equipment		**1,620**	118,326
Receipt of government grants		**30,653**	–
Net cash flows used in investing activities		**(400,283)**	(274,271)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of shares		**977,716**	–
New bank loans and government loans		**1,101,238**	1,925,447
Repayment of bank loans		**(804,174)**	(2,004,168)
Dividend paid		**–**	(49,706)
Interest paid		**(38,573)**	(42,454)
Net cash flows from/(used in) financing activities		**1,236,207**	(170,881)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**249,536**	189,307
Exchange realignment		**144**	(45)
Cash and cash equivalents at beginning of year		**349,498**	160,236
CASH AND CASH EQUIVALENTS AT END OF YEAR		**599,178**	349,498
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**599,178**	349,302
Pledged bank deposits with original maturity of less than three months when acquired	24	**–**	196
Cash and cash equivalents as stated in the statement of cash flows		**599,178**	349,498

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**44**	–
Investments in subsidiaries	19	**1,778,636**	–
Total non-current assets		**1,778,680**	–
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	**128**	–
Due from subsidiaries	19	**919,661**	–
Cash and bank balances	24	**45**	–
Total current assets		**919,834**	–
CURRENT LIABILITIES			
Other payables and accruals	27	**28**	–
Due to a subsidiary		**–**	19,370
Total current liabilities		**28**	19,370
NET CURRENT ASSETS/(LIABILITIES)		**919,806**	(19,370)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,698,486**	(19,370)
Net assets/(liabilities)		**2,698,486**	(19,370)
EQUITY			
Equity attributable to owners of the Company			
Issued capital	29	**88,856**	–
Reserves	30(b)	**2,588,120**	(19,370)
Proposed final dividend	13	**21,510**	–
Total equity/(deficit)		**2,698,486**	(19,370)

1. CORPORATE INFORMATION

Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company") was incorporated in the Cayman Islands on 9 January 2008 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The initial authorised share capital of the Company was HK$100,000 divided into 1,000,000 shares of HK$0.10 each. The Company's registered office address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company and its subsidiaries (together, the "Group") are involved in the manufacture and sale of welded steel pipes and the provision of related manufacturing services. There were no significant changes in the nature of the Group's principal activities during the year.

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), pursuant to which the Company became the holding company of the Group on 23 January 2010. Further details of the Group Reorganisation (the "Reorganisation") were set out in the Company's prospectus dated 28 January 2010. The shares of the Company were listed on the Stock Exchange on 10 February 2010.

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The acquisitions of the subsidiaries pursuant to the Reorganisation were regarded as a business combination under common control. Accordingly, the consolidated financial statements have been prepared in accordance with the principles of merger accounting. On this basis, the Company has been treated as the holding company of its subsidiaries since the beginning of the financial periods presented rather than from their respective dates of acquisition. Accordingly, the consolidated results for the year ended 31 December 2010 include the results of the Company and its subsidiaries with effect from 1 January 2010 or since their respective dates of incorporation or establishment, whichever is shorter. The comparative consolidated statement of financial position as at 31 December 2009 was prepared as if the existing Group had been in place at that date.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present fairly the results and state of affairs of the Group as a whole.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs, which are effective for annual periods beginning on or after 1 January 2010, for the first time for the current year's financial statements:

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
IFRIC 17	*Distributions of Non-cash Assets to Owners*
IFRS 5 Amendments included in *Improvements to IFRSs* issued in May 2008	Amendments to IFRS 5 *Non-current assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to IFRSs 2009	Amendments to a number of IFRSs issued in April 2009

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

3.2. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for Firs-time Adopters* [2]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures –Transfers of Financial Assets* [4]
IFRS 9	*Financial Instruments* [6]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [5]
IAS 24 (Revised)	*Related Party Disclosures* [3]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* [3]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the IASB has issued *Improvements to IFRSs 2010* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

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

IFRS 7 was amended as part of *Improvements to IFRSs 2010* in order to clarify the existing disclosure requirements. The effect of the amendment is to encourage qualitative disclosures in the context of the quantitative disclosure required to help users of financial statements to form an overall picture of the nature and extent of risks arising from financial instruments. This amendment also clarifies the required level of disclosure around credit risk and collateral held and provides relief from disclosure of renegotiated loans.

The IASB introduced enhanced disclosure requirements to IFRS 7 Financial Instruments as part of its comprehensive review of off-balance sheet activities. The amendments are designed to ensure that users of financial statements are able to more readily understand transactions involving the transfer of financial assets (for example, securitisations), including the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

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

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2013.

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

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

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

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

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

Improvements to IFRSs 2010 issued in May 2010 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations from 1 January 2010 (continued)

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. 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. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), 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 profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period 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 profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss 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. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing cost on related borrowed funds 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.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs less accumulated depreciation and any impairment losses. Depreciation is calculated on the straight-line basis over the estimated useful lives.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

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

Investments and other financial assets

Initial recognition and measurement

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

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

The Group's financial assets include cash and bank balances and trade and other receivables.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in other income and gains or finance costs in profit or loss. These net fair value changes do not include any interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. 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.

Loans and receivables

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

Held-to-maturity investments

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other income in profit or loss, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the statement of comprehensive income in other operating expenses and removed from the available-for-sale investment valuation reserve. Interest earned is reported as interest income and is recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets to assess whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

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 when:

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

– the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and bills payables, other payables, an amount due to the ultimate shareholder and interest-bearing bank loans and other borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Loans and borrowings

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

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

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 profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

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

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
Work in progress and finished goods	Cost of direct materials, direct labour and an appropriate proportion of overheads

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

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 profit or loss by way of a reduced depreciation charge.

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;

(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; and

(d) rental income, on a time proportion basis over the lease terms.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal government. These subsidiaries are required to contribute certain percentages of their payroll costs to the central pension schemes. The contributions are charged to profit or loss 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.

Borrowing costs

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

The Company incorporated in the Cayman Islands has the Hong Kong dollar as its functional currency. The functional currency of the PRC subsidiaries is the RMB. As the Group mainly operates in Mainland China, RMB is used as the presentation currency of the Group. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the end of the reporting period. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of the reporting period and their statements of comprehensive income are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from subsidiaries in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing and amount of the payment of the dividend, where the Group considers that if it is probable that the profits of the subsidiaries in the PRC will not be distributed in the foreseeable future, then no withholding taxes are provided.

Estimation uncertainty

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

Impairment of non-financial assets

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

Useful lives and residual values of property, plant and equipment

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

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgements regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amounts of the deferred tax assets and related financial models and budgets are reviewed at the end of the reporting period and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow the utilisation of the carryforward of tax losses, and that the asset balance will be reduced and charged to profit or loss.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Write-down of inventories to net realisable value

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

Impairment of trade and other receivables

The Group estimates the provisions for impairment of trade and other receivables by assessing their recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amount of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the provisions at the end of the reporting period.

6. OPERATING SEGMENT INFORMATION

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

Information about products

The revenue of the major products is analysed as follows:

	2010 **RMB'000**	2009 RMB'000
MANUFACTURE AND SALE OF STEEL PIPES:		
LSAW steel pipes	**1,439,529**	2,001,961
ERW steel pipes	**170,711**	669,719
STEEL PIPE MANUFACTURING SERVICES:		
LSAW steel pipes	**35,607**	64,618
ERW steel pipes	**4,741**	8,999
Others*	**30,885**	80,439
	1,681,473	2,825,736

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

6. OPERATING SEGMENT INFORMATION (continued)

Information about geographical areas

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

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

	2010 RMB'000	2009 RMB'000
SALES TO EXTERNAL CUSTOMERS:		
Mainland China	**1,017,733**	1,059,621
America	**255,429**	164,626
European Union	**1,128**	104,286
Middle East	**90,750**	720,255
Other Asian countries	**312,684**	683,917
Others	**3,749**	93,031
	1,681,473	2,825,736

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

Information about a major customer

For the year ended 31 December 2010, revenue from a major customer of the Group amounting to RMB292,295,000 (2009: RMB33,685,000) accounted for 17% (2009: 1%) of the Group's total revenue.

7. REVENUE, OTHER INCOME AND GAINS

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

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

	2010 RMB'000	2009 RMB'000
Revenue		
Manufacture and sale of welded steel pipes and the provision of related manufacturing services	**1,681,473**	2,825,736
Other income and gains		
Bank interest income	**7,737**	4,819
Gain on disposal of items of property, plant and equipment	**–**	26,459
Subsidy income from the PRC government	**3,445**	3,542
Compensation	**149**	114
Others	**135**	640
	11,466	35,574

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

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Interest on bank loans and government loans	**38,357**	41,893
Less: Interest capitalised	**(15,626)**	–
	22,731	41,893

9. PROFIT BEFORE TAX

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

	Notes	**2010** RMB'000	2009 RMB'000
Cost of inventories sold		**1,255,883**	2,020,044
Depreciation		**39,815**	31,534
Amortisation of prepaid land lease payments	*17*	**2,392**	2,153
Minimum lease payments under operating leases in respect of buildings		**2,794**	787
Auditors' remuneration		**1,791**	2,212
Exchange loss, net		**1,576**	1,784
Finance costs	*8*	**22,731**	41,893
Employee benefit expenses (including directors' remuneration (note 10)):			
Wages and salaries		**84,413**	65,778
Retirement benefit scheme contributions		**6,977**	4,894
Impairment of trade receivables recognised/(reversed)	*22*	**(384)**	2,035
Reversal of impairment of deposits and other receivables	*23*	**–**	(555)
Bank interest income	*7*	**(7,737)**	(4,819)
Loss/(gain) on disposal of items of property, plant and equipment, net		**358**	(26,267)
Research and development costs		**24,652**	4,160

10. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

	2010 RMB'000	2009 RMB'000
Fees	**495**	–
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**4,535**	1,580
Retirement benefit scheme contributions	**44**	45
	4,579	1,625
	5,074	1,625

(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.

	2010 RMB'000	2009 RMB'000
Mr. Chen Ping	**165**	–
Mr. Liang Guo Yao	**165**	–
Mr. See Tak Wah	**165**	–
	495	–

There were no other emoluments payable to the independent non-executive directors during the year.

(b) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement benefit scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2010				
Executive directors:				
Mr. Chen Chang	**–**	**2,249**	**10**	**2,259**
Ms. Chen Zhao Nian	**–**	**1,143**	**17**	**1,160**
Ms. Chen Zhao Hua	**–**	**1,143**	**17**	**1,160**
	–	**4,535**	**44**	**4,579**
Year ended 31 December 2009				
Executive directors:				
Mr. Chen Chang	–	610	11	621
Ms. Chen Zhao Nian	–	485	17	502
Ms. Chen Zhao Hua	–	485	17	502
	–	1,580	45	1,625

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

11. FIVE HIGHEST PAID EMPLOYEES

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

	2010	2009
	RMB'000	RMB'000
Directors	**3**	3
Non-director, highest paid employees	**2**	2
	5	5

Details of the remuneration of the above directors are set out in note 10 above. Details of the remuneration of the above non-director, highest paid employees during the year are as follows:

	2010	2009
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**2,351**	2,245
Retirement benefit scheme contributions	**10**	60
	2,361	2,305

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

	2010	2009
	RMB'000	RMB'000
Nil to RMB1,000,000	**1**	2
RMB1,000,001 to RMB1,500,000	**1**	–
	2	2

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

12. INCOME TAX

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

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

Lessonstart and Lucknow Consultants Limited ("Lucknow"), which were incorporated in the British Virgin Islands, are not subject to income tax.

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

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

12. INCOME TAX (continued)

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

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

PCKSP, as a High and New Technology Enterprise ("HNTE") qualified on 16 December 2008, was entitled to a reduced rate of 15% from 1 January 2008 to 31 December 2010. If it cannot remain to be qualified as a HNTE, it will be subject to the rate of 25% from 1 January 2011 onwards.

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

Panyu Chu Kong Steel Pipe (Lianyungang) Co., Ltd. ("PCKSP (Lianyungang)") and PCKSP (Zhuhai), which were established in 2009 and 2010, respectively, are subject to income tax at a rate of 25%.

Guangzhou Panyu Chu Kong Hualong Petroleum Steel Pipe Anti-Corrosion Co., Ltd. ("Hualong Anti-Corrosion"), as a sino-foreign joint venture enterprise of a production nature established in a coastal economic open zone, is subject to the income tax rate of 25% upon the implementation of the New Corporate Income Tax Law on 1 January 2008.

Taxes on profits assessable in the 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 year are as follows:

	2010 **RMB'000**	2009 RMB'000
Group:		
Current – Mainland China charged for the year	**16,418**	64,643
Deferred (note 20)	**2,324**	(254)
Total tax charge for the year	**18,742**	64,389

12. INCOME TAX (continued)

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

	Year ended 31 December 2010					
	Mainland China RMB'000	**%**	**Hong Kong and others RMB'000**	**%**	**Total RMB'000**	**%**
Profit/(loss) before tax	**101,902**		**(12,923)**		**88,979**	
Tax at the statutory tax rate	**25,475**	**25.0**	**(705)**	**5.5**	**24,770**	**27.8**
Tax effect of:						
Lower tax rate for PRC subsidiaries	**(1,978)**	**(1.9)**	**–**	**–**	**(1,978)**	**(2.2)**
Lower tax rate for an HNTE	**(7,347)**	**(7.2)**	**–**	**–**	**(7,347)**	**(8.3)**
Effect of withholding tax at 10% on certain profits of the Group's PRC subsidiaries	**–**	**–**	**2,265**	**(17.5)**	**2,265**	**2.6**
Expenses not deductible for tax*	**214**	**0.2**	**–**	**–**	**214**	**0.3**
Income not subject to tax	**(715)**	**(0.7)**	**(142)**	**1.1**	**(857)**	**(1.0)**
Tax loss not recognised	**828**	**0.8**	**847**	**(6.6)**	**1,675**	**1.9**
Income tax expense reported in the consolidated statement of comprehensive income at the Group's effective tax rate	**16,477**	**16.2**	**2,265**	**(17.5)**	**18,742**	**21.1**

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

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

13. DIVIDEND

	2010 RMB'000	2009 RMB'000
Proposed final – HK2.5 cents per ordinary share	**21,510**	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

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

	2010 RMB'000	2009 RMB'000
Dividend	**–**	49,706

14. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year ended 31 December 2010 attributable to owners of the Company, and the weighted average number of ordinary shares of 981,852,126 (2009: 750,000,000) in issue during the year.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2010 includes the pro forma issued share capital of the Company of 750,000,000 shares, comprising:

(i) 100,000,000 shares issued and fully paid (note 29(c)); and

(ii) the capitalisation issue of 650,000,000 shares (note 29(d)).

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2010 includes the weighted average of 222,602,740 shares issued upon the listing of the Company's shares on the Stock Exchange on 10 February 2010 and the weighted average of 9,249,386 shares issued upon the partial exercise of the Over-allotment Option (note 29(f)) on 4 March 2010 in addition to the aforementioned 750,000,000 ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2010 and 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these years.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2010						
At 31 December 2009 and 1 January 2010:						
Cost	110,116	490,632	14,172	17,218	137,679	769,817
Accumulated depreciation and impairment	(24,198)	(227,224)	(8,951)	(9,553)	–	(269,926)
Net carrying amount	85,918	263,408	5,221	7,665	137,679	499,891
At 1 January 2010, net of accumulated depreciation and impairment	85,918	263,408	5,221	7,665	137,679	499,891
Additions	30,665	24,942	4,830	10,976	543,784	615,197
Disposals	–	(358)	(610)	(1,010)	–	(1,978)
Depreciation provided during the year	(2,729)	(34,526)	(1,374)	(1,134)	–	(39,763)
Transfer to investment properties	(2,076)	–	–	–	–	(2,076)
Transfers	18,460	129,305	–	–	(147,765)	–
Exchange realignment	–	–	(15)	(59)	–	(74)
At 31 December 2010, net of accumulated depreciation	130,238	382,771	8,052	16,438	533,698	1,071,197
At 31 December 2010:						
Cost	155,157	644,520	18,365	27,122	533,698	1,378,862
Accumulated depreciation	(24,919)	(261,749)	(10,313)	(10,684)	–	(307,665)
Net carrying amount	130,238	382,771	8,052	16,438	533,698	1,071,197

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

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

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

Included in the carrying amount of the property, plant and equipment was capitalised interest of RMB15,626,000 (2009: nil) as at 31 December 2010.

Included in the total costs of plant and machinery are certain assets acquired in prior years for which government grants of RMB5,950,000 (2009: RMB5,950,000) were received and deducted from their costs in arriving at their carrying amounts. The original costs of those assets before the deduction of the grants amounted to RMB117,183,000 (2009: RMB117,183,000) as at 31 December 2010.

Details of the Group's property, plant and machinery pledged to secure the Group's bank loans are set out in note 26.

Certificates of ownership in respect of certain buildings of the Group located in Guangzhou with a net carrying amount of approximately RMB35,445,000 (2009: RMB20,189,000) as at 31 December 2010, have not yet been issued by the relevant PRC authorities. As at the end of the reporting period, the directors are still in the process of obtaining these certificates.

16. INVESTMENT PROPERTIES

	Group 2010 RMB'000	2009 RMB'000
At 1 January:		
Cost		
Accumulated depreciation and impairment	–	–
Net carrying amount	–	–
	–	–
At 1 January, net of accumulated depreciation and impairment	–	–
Transfer from property, plant and equipment	2,076	–
Depreciation provided during the year	(52)	–
Exchange realignment	(70)	–
At 31 December, net of accumulated depreciation and impairment	1,954	–
At 31 December:		
Cost	3,947	–
Accumulated depreciation and impairment	(1,993)	–
Net carrying amount	1,954	–

The Group's investment properties are held under medium term leases and are situated in Hong Kong. The investment properties are leased to third parties under operating leases, further details of which are summarised in note 31.

At 31 December 2010, the fair value of the Group's investment properties was approximately HK$3,300,000, which was based on the valuation by Prudential Surveyors (Hong Kong) Ltd., independent professionally qualified valuers, on an open market, existing use basis.

17. PREPAID LAND LEASE PAYMENTS

	Group 2010 RMB'000	2009 RMB'000
Carrying amount at 1 January	86,812	88,965
Additions	41,657	–
Amortisation provided during the year	(2,392)	(2,153)
Carrying amount at 31 December	126,077	86,812
Current portion included in prepayments, deposits and other receivables	(3,094)	(2,153)
Non-current portion	122,983	84,659

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

Details of the Group's leasehold lands that are pledged to secure the Group's bank loans are set out in note 26.

18. GOODWILL

	Group	
	2010	2009
	RMB'000	RMB'000
At beginning and end of year	**4,075**	4,075

Impairment testing of goodwill

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

The recoverable amount of the CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections was 18.6% as at 31 December 2010. Cash flows beyond the five-year period were extrapolated using the estimated growth rate of 6% as at 31 December 2010. The growth rate does not exceed the projected longterm average growth rate for the anti-corrosion business of Hualong Anti-Corrosion in Mainland China.

Key assumptions were used in the value in use calculation of the CGU as at 31 December 2010. 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 rate – The discount rate used is before tax and reflects specific risks relating to the CGU.

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

No impairment loss provision for the carrying value of goodwill has been considered necessary by management as at 31 December 2010.

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010	2009
	RMB'000	RMB'000
Unlisted shares, at cost	**1,778,636**	–

As at 31 December 2010, the amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB919,661,000 (2009: nil) and nil (2009: RMB19,370,000), respectively, are unsecured, interest-free and have no fixed terms of repayment.

19. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Company name	Place and date of incorporation/ establishment/ operations	Nominal value of issued shares/ registered capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Lessonstart	British Virgin Islands 18 May 1993	US$300	100	–	Investment holding
Lucknow	British Virgin Islands 22 November 1994	US$10	–	100	Investment holding
Crown Central	Hong Kong 21 March 1995	HK$1,000	–	100	Trading of steel pipes
CKSPG	Hong Kong 13 December 2007	HK$100,000	–	100	Investment holding and trading of steel pipes
PCKSP 番禺珠江鋼管有限公司	The PRC 7 June 1993	HK$800,000,000	–	100	Manufacture and sale of welded steel pipes
GPR Petrol-Fittings 廣州珍珠河石化管件有限公司	The PRC 16 October 2006	HK$5,000,000	–	100	Manufacture and sale of petro fittings
GPR Casing Pipe 廣州珍珠河石油套管有限公司	The PRC 16 October 2006	HK$21,000,000	–	100	Manufacture and sale of oil country tubular goods
GPR Coating 廣州珍珠河石油鋼管防腐有限公司	The PRC 16 October 2006	HK$10,000,000	–	100	Steel pipe casing and lining services
GPR Steel Pipe 廣州珍珠河石油鋼管有限公司	The PRC 16 October 2006	HK$50,000,000	–	100	Manufacture and sale of welded steel pipes
PCKSP (Lianyungang) * 番禺珠江鋼管(連雲港)有限公司	The PRC 8 July 2009	RMB700,000,000	–	100	Manufacture and sale of 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	The PRC 19 October 1999	RMB2,060,000	–	100	Steel pipe casing and lining services
PCKSP (Zhuhai) * 番禺珠江鋼管(珠海)有限公司	The PRC 21 June 2010	HK$300,000,000	–	100	Manufacture and sale of welded steel pipes

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

* These companies have not yet commenced operation.

20. DEFERRED TAX

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

Group:

	Impairment of trade and other receivables	
	2010	2009
	RMB'000	RMB'000
At beginning of year	**1,320**	1,066
Credited/(charged) to the consolidated statement of comprehensive income (note 12)	**(59)**	254
At end of year	**1,261**	1,320

As at 31 December 2010, the Group had tax losses arising in Hong Kong of RMB24,537,000 (2009: RMB21,702,000), which 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 for which the tax losses can be utilised.

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

Group:

	Withholding taxes	
	2010	2009
	RMB'000	RMB'000
At beginning of year	**–**	–
Charged to the consolidated statement of comprehensive income (note 12)	**2,265**	–
At end of year	**2,265**	–

As at 31 December 2010, there was an unrecognised deferred tax liability of RMB38 million (2009: RMB32 million) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries. A deferred tax liability has not been recognised in respect of these unremitted earnings as the directors have no intention to remit those earnings in the foreseeable future.

21. INVENTORIES

	Group	
	2010	2009
	RMB'000	RMB'000
Raw materials	**350,597**	166,604
Work in progress	**246,395**	49,820
Finished goods	**380,547**	303,733
	977,539	520,157

22. TRADE RECEIVABLES

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

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

	Group	
	2010	2009
	RMB'000	RMB'000
Within 60 days	**211,901**	159,643
61 to 90 days	**20,306**	8,676
91 to 180 days	**32,690**	43,582
181 to 365 days	**52,623**	25,337
1 to 2 years	**27,368**	34,663
2 to 3 years	**17,609**	3,113
	362,497	275,014
Less: Impairment of trade receivables	**(7,472)**	(7,856)
	355,025	267,158

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
At beginning of year	**7,856**	5,821
Impairment losses recognised (note 9)	**432**	2,035
Impairment losses reversed (note 9)	**(816)**	–
At end of year	**7,472**	7,856

The above provision for impairment of trade receivables is full provision 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.

An aged analysis of trade receivables that are not considered to be impaired:

	Group	
	2010	2009
	RMB'000	RMB'000
Neither past due nor impaired	**260,655**	218,387
Past due but not impaired		
1 to 180 days	**67,823**	44,479
181 to 365 days	**14,095**	2,359
Over 365 days	**12,452**	1,933
	355,025	267,158

22. TRADE RECEIVABLES (continued)

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

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

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**220,104**	96,158	**56**	–
Deposits and other receivables	**27,889**	17,763	**72**	–
Tax recoverable	**110,346**	692	**–**	–
Current portion of land lease payments	**3,109**	2,153	**–**	–
	361,448	116,766	**128**	–
Less: Impairment of deposits and other receivables	**(543)**	(543)	**–**	–
	360,905	116,223	**128**	–

The movements in provision for impairment of deposits and other receivables are as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
At beginning of year	**543**	1,098
Impairment losses reversed (note 9)	**–**	(555)
At end of year	**543**	543

As at 31 December 2010, 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.

24. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

		Group		Company	
		2010	2009	**2010**	2009
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Cash and bank balances		**599,178**	349,302	**45**	–
Pledged bank deposits	(a)	**56,307**	212,622	**–**	–
		655,485	561,924	**45**	–
Less:					
Pledged deposits with original maturity of over three months when acquired		**(56,307)**	(212,426)	**–**	–
Cash and cash equivalents	(b)	**599,178**	349,498	**45**	–

Notes:

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

(b) As at 31 December 2010, the Group's cash and cash equivalents denominated in RMB amounted to RMB524,354,000 (2009: RMB319,068,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks in Mainland China with no recent history of default.

25. TRADE AND BILLS PAYABLES

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

	Group	
	2010	2009
	RMB'000	RMB'000
Within 90 days	**138,355**	57,286
91 to 180 days	**9,429**	3,410
181 to 365 days	**16,881**	3,306
1 to 2 years	**854**	9,385
2 to 3 years	**6,868**	1,686
	172,387	75,073
Bills payable	**31,596**	320,497
	203,983	395,570

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

All the bills payable bear maturity dates within 180 days.

26. INTEREST-BEARING BANK LOANS AND GOVERNMENT LOANS

	Effective interest rate %	Maturity	Group 2010 RMB'000	Group 2009 RMB'000
CURRENT				
Bank loans				
– secured	4.62~5.67	2011	**85,300**	292,953
– unsecured	0.88~4.86	2011	**442,187**	–
Government loans				
– unsecured	3.51~3.76	2011	**199,530**	–
			727,017	292,953
NON-CURRENT				
Bank loans				
– secured	5.93	2014	**240,000**	377,000
			967,017	669,953

	Group 2010 RMB'000	Group 2009 RMB'000
ANALYSED INTO :		
Bank loans repayable:		
Within one year	**527,487**	292,953
In the third to fifth years, inclusive	**240,000**	377,000
	767,487	669,953
Government loans repayable:		
Within one year	**199,530**	–
	967,017	669,953

The Group's bank loans are secured by:

(a) a charge over certain property, plant and equipment of the Group with a net carrying amount of approximately RMB52,781,000 (2009:RMB65,601,000) as at the end of the reporting period; and

(b) a charge over certain leasehold lands of the Group with a net carrying amount of approximately RMB81,638,000 (2009: RMB83,713,000) as at the end of the reporting period.

In addition, no interest-bearing bank loans of the Group (2009: RMB126,050,000) were guaranteed by related parties as at the end of the reporting period (note 33 (b)).

The Group has the following undrawn banking facilities:

	Group 2010 RMB'000	Group 2009 RMB'000
FLOATING RATE		
– expiring within one year	**1,516,268**	1,406,270

Except for the unsecured bank loans of RMB97,854,000 as at 31 December 2010 (2009: RMB4,432,000), which are denominated in Hong Kong dollars, the bank loans are denominated in RMB.

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits received and receipts in advance	**356,894**	215,228	**–**	–
Other payables*	**16,613**	12,338	**–**	–
Payroll payables	**7,620**	8,707	**–**	–
Accruals and other liabilities	**10,629**	19,547	**28**	–
Other tax payables	**2,743**	10,400	**–**	–
	394,499	266,220	**28**	–

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

28. GOVERNMENT GRANTS

As at 31 December 2010, government grants represented funds of RMB6,571,000 received in advance from the local finance bureau to PCKSP as an encouragement for its technological innovation and improvements, and RMB30,653,000 to PCKSP (Zhuhai) as a subsidy for the construction of production plants. Related expenditure has not yet been undertaken.

29. ISSUED CAPITAL

During the year, the movements in authorised and issued share capital were as follows:

	Notes	Number of ordinary shares of HK$0.10 each	Nominal value of ordinary shares HK$'000	RMB'000
Authorised:				
On incorporation	(a)	**1,000,000**	**100**	**93**
As at 1 January 2010		**1,000,000**	**100**	**93**
Increase in authorised share capital	(b)	**9,999,000,000**	**999,900**	**878,242**
As at 31 December 2010		**10,000,000,000**	**1,000,000**	**878,335**
Issued:				
Issued and fully paid	(c)	**1,000,000**	**100**	**88**
Increase in issued share capital	(c)	**99,000,000**	**9,900**	**8,695**
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public	(d)	**650,000,000**	**–**	**–**
Pro forma share capital as at 23 January 2010		**750,000,000**	**10,000**	**8,783**
Capitalisation of share premium account as set out above	(d)	**–**	**65,000**	**57,122**
Issuance of new shares for the global offering	(e)	**250,000,000**	**25,000**	**21,970**
Issuance of new shares upon exercise of the Over-allotment Option	(f)	**11,142,000**	**1,114**	**981**
As at 31 December 2010		**1,011,142,000**	**101,114**	**88,856**

29. ISSUED CAPITAL (continued)

Notes:

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

(b) Pursuant to a written resolution of the sole shareholder passed on 23 January 2010, the authorised share capital of the Company was increased from HK$100,000 to HK$1,000,000,000 by the creation of 9,999,000,000 additional shares of HK$0.10 each;

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

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

(e) In connection with the Company's initial public offering, 250,000,000 shares of HK$0.10 each were issued at a price of HK$4.5 per share for a total cash consideration, before listing expenses, of HK$1,125,000,000. Dealings of these shares on the Stock Exchange commenced on 10 February 2010; and

(f) Pursuant to the Global Offering and Over-allotment Option approved on 23 January 2010, the Company granted an option to the international underwriters, exercisable by J.P. Morgan Securities Ltd. ("J.P. Morgan") in consultation with the joint bookrunners on behalf of the international underwriters at the sole and absolute discretion of J.P. Morgan, whereby the Company was required to allot and issue up to 45,000,000 additional shares to cover any over-allocation in the global offering. The exercise price per share for the Over-allotment Option is HK$4.50. On 4 March 2010, the Over-allotment Option was partially exercised and, as a result, the Company issued 11,142,000 additional shares. Dealings of these shares on the Stock Exchange commenced on 9 March 2010.

The proceeds of HK$1,114,200, representing the par value, have been credited to the Company's share capital and the remaining proceeds of HK$49,024,800 have been credited to the share premium account.

30. RESERVES

(a) Group

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

30. RESERVES (continued)

(b) Company

	Share premium RMB'000	Contributed surplus RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 1 January 2010	–	–	(19,370)	–	(19,370)
Total comprehensive income for the year	–	–	(8,432)	(30,064)	(38,496)
Arising from the Reorganisation	–	1,712,731	–	–	1,712,731
Issuance of new shares for the global offering	966,680	–	–	–	966,680
Issuance of new shares upon exercise of the Over-allotment Option	43,137	–	–	–	43,137
Share issue expenses	(55,052)	–	–	–	(55,052)
Proposed final 2010 dividend	–	–	(21,510)	–	(21,510)
	954,765	1,712,731	(49,312)	(30,064)	2,588,120

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 16 to the financial statements) under operating lease arrangements, with leases negotiated for terms of two years.

At 31 December 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2010 RMB'000	2009 RMB'000
Within one year	225	–

(b) As lessee

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 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2010 RMB'000	2009 RMB'000
Within one year	2,385	73
In the second to fifth years, inclusive	2,091	11
	4,476	84

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, the Group had the following capital commitments:

	Group	
	2010	2009
	RMB'000	RMB'000
Contracted, but not provided for:		
Plant and machinery	**53,722**	261,476

At the end of the reporting period, the Company had no significant commitments.

33. RELATED PARTY TRANSACTIONS

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

Name of party	**Relationship**
Guangzhou Fulingda Elevator Co., Ltd. ("GZFLD") 廣州富菱達電梯有限公司	GZFLD is a party of which Mr. Chen Chang is the ultimate shareholder.
Guangzhou City Pearl River Machine Tool Works Co., Ltd. ("GZMT") 廣州市珠江機床廠有限公司	GZMT is a party of which Mr. Chen Chang is the ultimate shareholder.

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

(a) Recurring transactions

		Group	
Name of party	**Nature of transaction**	**2010**	2009
		RMB'000	RMB'000
GZFLD	Purchases of spare parts	**1,269**	3,471
GZMT	Purchases of spare parts	**12,817**	11,886

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

33. RELATED PARTY TRANSACTIONS (continued)

(b) Guarantees provided by related parties of the Group

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

	Group	
	2010	2009
	RMB'000	RMB'000
GZFLD	**–**	30,000
GZFLD and Mr. Chen Chang	**–**	13,800
Mr. Chen Chang	**–**	82,250
	–	126,050

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

	Group	
	2010	2009
	RMB'000	RMB'000
Amount due to Mr. Chen Chang	**–**	20,540

The amount due to the ultimate shareholder was non-trade in nature, unsecured, interest-free and was repaid in February 2010.

Compensation of key management personnel of the Group:

	Group	
	2010	2009
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**9,376**	3,637
Retirement benefit scheme contributions	**97**	110
Total compensation paid to key management personnel	**9,473**	3,747

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

34. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

Financial assets

	Loans and receivables	
	2010	2009
	RMB'000	RMB'000
Trade receivables (note 22)	**355,025**	267,158
Financial assets included in prepayments, deposits and other receivables (note 23)	**27,889**	17,763
Pledged deposits (note 24)	**56,307**	212,622
Cash and bank balances (note 24)	**599,178**	349,302
	1,038,399	846,845

Financial liabilities

	Financial liabilities at amortised cost	
	2010	2009
	RMB'000	RMB'000
Trade and bills payables (note 25)	**203,983**	395,570
Financial liabilities included in other payables and accruals (note 27)	**144,613**	12,338
Interest-bearing bank loans and government loans (note 26)	**967,017**	669,953
Due to the ultimate shareholder (note 33)	**–**	20,540
	1,315,613	1,098,401

Company

Financial assets

	Loans and receivables	
	2010	2009
	RMB'000	RMB'000
Financial assets included in prepayments, deposits and other receivables (note 23)	**72**	–
Due from subsidiaries (note 19)	**919,661**	–
Cash and bank balances (note 24)	**45**	–
	919,778	–

Financial liabilities

	Financial liabilities at amortised cost	
	2010	2009
	RMB'000	RMB'000
Due to a subsidiary (note 19)	**–**	19,370

35. FAIR VALUE

The carrying amounts and fair values of the Group's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
FINANCIAL ASSETS				
Cash and bank balances	**599,178**	349,302	**599,178**	349,302
Pledged deposits, current portion	**51,897**	201,056	**51,897**	201,056
Pledged deposits, non-current portion	**4,410**	11,566	**4,410**	11,566
Trade receivables	**355,025**	267,158	**353,709**	266,463
Financial assets included in prepayments, deposits and other receivables	**27,889**	17,763	**27,889**	17,763
	1,038,399	846,845	**1,037,083**	846,150
FINANCIAL LIABILITIES				
Trade and bills payables	**203,983**	395,570	**203,983**	395,570
Financial liabilities included in other payables and accruals	**144,613**	12,338	**144,613**	12,338
Interest-bearing bank loans and government loans	**967,017**	669,953	**964,916**	669,953
Due to the ultimate shareholder	**–**	20,540	**–**	20,540
	1,315,613	1,098,401	**1,313,512**	1,098,401

Company

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
FINANCIAL ASSETS				
Cash and bank balances	**45**	–	**45**	–
Financial assets included in prepayments, deposits and other receivables	**128**	–	**128**	–
Due from subsidiaries	**919,661**	–	**919,661**	–
	919,834	–	**919,834**	–
FINANCIAL LIABILITIES				
Financial liabilities included in other payables and accruals	**28**	–	**28**	–
Due to a subsidiary	**–**	19,370	**–**	19,370
	28	19,370	**28**	19,370

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, the current portion of pledged deposits, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from and to subsidiaries and an amount due to the ultimate shareholder approximate to their carrying amounts largely due to the short term maturities of these instruments.

35. FAIR VALUE (continued)

The fair values of the non-current portion of pledged deposits, interest-bearing bank loans and government loans have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and government loans, 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 risk. Interest-bearing loans, cash and short term deposits are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to the statement of comprehensive income as earned/incurred.

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

If there would be a general increase/decrease in the interest rate of bank loans and government loans with floating interest rates by one percentage point, with all other variables held constant, the consolidated operating results would have been decreased/increased by approximately RMB3.9 million for the year ended 31 December 2010 (2009: RMB6.3 million), and there is no impact on other components of the consolidated equity, except for retained profits, of the Group. The estimated one percentage point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next year end date. The sensitivity analysis was performed on the same basis.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales by operating units in currencies other than the units' functional currency. Approximately 42% (2009: 65%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sale.

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

Effect on profit before tax

		2010 RMB'000	2009 RMB'000
Increase in the US dollar rate	+3%	**20,548**	52,104
Decrease in the US dollar rate	-3%	**(20,548)**	(52,104)

(d) Credit risk

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

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 22.

(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 regard to its future capital commitments and other financing requirements, the Group has already obtained banking facilities with several PRC banks of up to an amount of RMB2,707 million as at 31 December 2010, of which an amount of approximately RMB1,191 million has been utilised.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Liquidity risk (continued)

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

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

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

	31 December 2010			
		Less than	**Over**	
	On demand	**1 year**	**1 year**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Trade and bills payables	**–**	**203,983**	**–**	**203,983**
Other payables	**–**	**144,613**	**–**	**144,613**
Interest-bearing bank loans and government loans	**–**	**727,017**	**240,000**	**967,017**
	–	**1,075,613**	**240,000**	**1,315,613**

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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 the end of the reporting periods are as follows:

	2010 **RMB'000**	2009 RMB'000
Interest-bearing bank loans and government loans (note 26)	**967,017**	669,953
Due to the ultimate shareholder (note 33)	**–**	20,540
Government grants	**37,224**	5,771
Total debts	**1,004,241**	696,264
Total assets	**3,615,338**	2,334,221
Gearing ratio	**27.8%**	29.8%

37. EVENTS AFTER THE REPORTING PERIOD

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

On 1 March 2011, PCKSP entered into an equipment transfer contract and a finance lease contract (collectively the "finance lease arrangement"), with 華融金融租賃股份有限公司 (the "lessor"). Pursuant to the finance lease arrangement, PCKSP sold the equipment to the lessor, and the lessor leased back the equipment to PCKSP for a period of 60 months. The aggregate consideration was RMB160 million, and PCKSP paid a guarantee deposit of RMB24 million and a service charge of RMB8 million to the lessor.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2011.

FIVE-YEAR FINANCIAL SUMMARY

SUMMARY FINANCIAL INFORMATION

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

Results

	Year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,681,473**	2,825,736	2,624,639	1,458,028	1,099,741
Cost of sales	**(1,417,097)**	(2,183,831)	(2,087,689)	(1,191,977)	(919,865)
Gross profit	**264,376**	641,905	536,950	266,051	179,876
Other income and gains	**11,466**	35,574	6,430	3,253	2,496
Selling and distribution costs	**(42,765)**	(87,628)	(57,172)	(63,106)	(47,408)
Administrative expenses	**(115,984)**	(79,940)	(90,033)	(48,616)	(36,976)
Other expenses	**(3,807)**	(827)	(4,000)	(2,876)	(1,635)
Finance costs	**(22,731)**	(41,893)	(65,186)	(45,439)	(43,185)
Exchange loss, net	**(1,576)**	(1,784)	(9,021)	(10,692)	(1,544)
Share of profit of a jointly controlled entity	**–**	–	–	–	2,475
Profit before tax	**88,979**	465,407	317,968	98,575	54,099
Tax	**(18,742)**	(64,389)	(42,504)	(28,224)	(16,102)
Profit for the year	**70,237**	401,018	275,464	70,351	37,997
Other comprehensive income for the year	**(8,867)**	(18)	1,925	2,897	1,424
Total comprehensive income for the year	**61,370**	401,000	277,389	73,248	39,421
Earnings per share (RMB) – basic	**0.07**	0.53	0.37	0.09	0.05

Assets and Liabilities

	31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**1,270,794**	880,325	634,136	574,744	473,206
Current assets	**2,344,544**	1,453,896	1,344,639	1,199,030	692,415
Current liabilities	**(1,344,832)**	(999,519)	(1,263,457)	(1,422,358)	(605,695)
Non-current liabilities	**(279,489)**	(382,771)	(114,681)	(28,168)	(313,431)
Total Equity	**1,991,017**	951,931	600,637	323,248	246,495

The financial information for each of the four years ended 31 December 2009 has been prepared upon the Reorganisation as if the group structure, at the time when the Shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The results for each of the three years ended 31 December 2008, and the assets and liabilities as at 31 December 2006, 2007 and 2008 have been extracted from the Prospectus dated 10 February 2010.