Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited

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

INTERIM REPORT 2011

Explore our Network by Great Vision

Contents

Corporate Information

Directors

Executive Directors

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

Independent Non-Executive Directors

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

Registered Office

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

Company Secretary

Ms. Wong Pui Shan
FCCA, CPA, ACIS, ACS, Msc (Fin)

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

Cinda International Capital Limited

Legal Advisers as to Hong Kong Law

Pang & Co. in association with Salans LLP

Principal Bankers

In Hong Kong:

Bank of China (Hong Kong) Limited
Citic Bank International Limited
DBS Bank (Hong Kong) Limited
Deutsche Bank AG
JP Morgan Chase Bank, N.A. Hong Kong Branch

In the People's Republic of China:

Bank of China Limited
China Everbright Bank
China Guangfa Bank
China Merchants Bank
Industrial and Commercial Bank of China
The Export-Import Bank of China
The Hong Kong and Shanghai Banking Corporation Limited

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company", together with its subsidiaries hereinafter referred to as the "Group"), I would like to present to our shareholders the unaudited interim results for the six months ended 30 June 2011.

During the period under review, the Group successfully seized opportunities linked to an upturn in the domestic and global steel pipe markets and achieved outstanding results. In the first half of the year, turnover of the Group reached approximately RMB1,633.1 million, up 88.7% compared with the same period of 2010 (1H2010: RMB865.5 million). Profit attributable to owners of the Company surged 118.7% to approximately RMB113.2 million (1H2010: RMB51.8 million). Earnings per share totaled RMB0.11 (1H2010: RMB0.05). The Board does not recommend payment of an interim dividend for the six months ended 30 June 2011.

Looking back at the first six months of the year, the economic crisis took a turn from the worst in Europe in early 2010 and gradually stabilized. A pickup in the development of global infrastructure projects helped to drive the demand in the global steel pipe market from the tail end of last year. In addition, pipeline penetration continued to escalate in developing countries due to rising energy consumption. Against the backdrop of such favorable factors, the Group grasped a number of international opportunities including gas projects in Columbia and Peru with its high-quality and internationally approved steel pipe products. These projects drove both the Group's revenue and profit significantly higher during the period under review.

With respect to the domestic market, demand for energy in China has soared alongside the development of China's economy. China is rich in offshore petroleum and a number of extensive deep sea pipe line projects were launched during the period under review. Leveraging on the Group's competence in core production techniques for deep sea welded pipes, the Group successfully secured a number of large-scale offshore pipeline projects and also the first deep sea project in China, including the 66,200-tonne Mainland China Section of the South China Sea Gas Development Project (Liwan offshore project), and the 50,000-tonne Husky Liwan Deep Sea Project. Being the first and currently the only manufacturer to have developed deep sea LSAW steel pipes in the country, we believe that deep sea steel pipe projects will become the market focus and driver of our sales growth.

In addition, demand for infrastructure steel pipes from the State Grid also represents a major growth driver for the Group. The Group will deliver steel pipes for ultra-high-voltage power transmission grids of "Eastward Transmission of Anhui Electric Power" by the second half of the financial year. The 12th Five-Year Plan in China planned six ultra-high-voltage projects and among which the Shimeng project is expected to open for bidding at the end of this year or early next year. Leveraging our competitive edge our having secured the "Eastward Transmission of Anhui Electric Power" project which is the first ultra-high-voltage project by the State Grid, the Group will proactively participate in the bidding process and steel pipes for infrastructure purposes will continue to contribute to future business growth.

With the upturn in the market and rebound in demand for steel pipes, the Group plans to proactively enhance its productivity and propel growth to better cope with surging demand. Construction of two LSAW steel pipes production plants located in Zhuhai and Liangyungang respectively are in progress and commercial production of the same are expected to commence in the 4th quarter of 2011 and the 4th quarter of 2012 respectively. Total production capacity of the Group will reach 2.05 million tonnes, up 41% compared with 1.45 million tonnes at the end of 2010. Moreover, the Group plans to construct a steel plate processing production line with planned annual capacity of 2 million tonnes in Lianyungang to produce self-use steel plates and to further strengthen the Group's competitiveness.

On the other hand, the Group is also expanding its productivity in countries other than China. The Group has entered into an agreement with a Saudi Arabian company, Abdel Hadi Abdullah Al Qahtani & Sons, Co to establish a Joint Venture ("JV") company in June 2011. Pursuant to the agreement, the JV company will set up two mills in two phases including one LSAW plant and one ERW plant with an annual design production capacity of 300,000 tonnes and 200,000 tonnes respectively. Based on the understanding of the Board, the JV company is the first company in Saudi Aramco region to provide LSAW steel pipes in the local market and therefore effectively filling a large gap in the market demand. The Board believes that the establishment of the JV company could further develop, strengthen and expand the market share of our products in Saudi Arabia and other neighboring countries.

Looking ahead, 2011 is the first year of the 12th Five-Year Plan in China and in accordance with the Plan, China will commence a number of pipeline production projects to meet the nation's rising energy demand. The State Grid is planning to invest around RMB500 billion in ultra-high voltage power grids. On the other hand, offshore oil and gas resources will be the key area for exploitation around the world in the future and it is expected that increments of oil and gas production volume will be mainly derived from the sea. As one of the Mainland China's largest LSAW steel pipes manufacturers and first steel pipe producer to successfully develop deep sea LSAW steel pipes, the Group possesses the right technology and know-how to stay ahead of the peers and capture growing business opportunities in the steel pipe market.

Besides, China plans to raise the use of natural gas from 3.8% in 2009 to 8-10% in 2020 and it is expected that a large number of natural gas pipelines will need to be built in the future and hence drives the vast demand for LSAW steel pipes. In light of safety requirements, all offshore pipeline projects, all State Grid projects, the majority of pipes in city gas networks as well as international projects will be using LSAW steel pipes while the proportion of LSAW steel pipes used in major national pipelines including the Third Phase of West-East Pipeline, the Central Asia Double Line, the Sino-Russian Pipeline increased. Demand for LSAW pipes has grown rapidly in the domestic market. As a result, the Group anticipates a huge room for growth.

By leveraging on our top quality output, extensive production scale, strong client base and state-of-the-art production facilities and techniques, the Group has established a remarkable reputation and will continue to develop our advantage as a market pioneer for future development.

Appreciation

On behalf of the Group, 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 over the past six months. The Group will continue to leverage on our competitive edge to secure projects with immense growth potential, so that we can become the leading manufacturer of quality LSAW steel pipes in Mainland China and generate lucrative returns for shareholders.

Chen Chang
Chairman

Panyu, Guangdong Province, China
22 July 2011

Business Review

The Group mainly manufactures and sells longitudinal welded steel pipes, as well as provides manufacturing service for processing raw materials into steel pipes. Our steel pipe 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"). We are one of the largest LSAW steel pipes manufacturers in the PRC who are capable of producing LSAW steel pipes that meet the X80 standard, and also accredited international certifications such as Det Norske Veritas ("DNV") and American Petroleum Institute ("API"). We were also recognized by Shell Global Solutions International B.V. as one of the registered complaints with the Shell Global Solutions' Design and Engineering Practices (DEP's Standard) and specified Shell Global Solution's piping specifications. We are the core supplier of Shell Canada Limited. In addition, we are the first and sole PRC manufacturer that has successfully developed deep sea pipelines of 1,500m depth. Our products are widely applicable on major pipeline projects and infrastructure projects domestically and internationally.

During the period under review, global economy has stabilized and international projects have gradually materialized. The Group obtained significant orders from Columbia and Peru Gas Projects which led to rebound of sales volume and profit during the period. Domestically, we have successfully won three bids which in aggregate has contract value of more than RMB1,423.6 million and comprises 131,246 tonnes of steel pipes from CNOOC China Limited, Petro China Company Limited and Husky Energy Inc respectively during the period under review. Part of the orders for the West to East Natural Gas Offshore Pipeline II-Shenzhen and Hong Kong subsection have been delivered during the period under review. As a result, the Group's performance for the period improved significantly as compared with corresponding period of last year.

As at 30 June 2011, the Group's undelivered orders on hand amounted to 354,778 tonnes of steel pipes, which comprise 310,332 tonnes of LSAW steel pipes and 44,446 tonnes of ERW steel pipes.

Financial Review

During the period under review, the turnover of the Group was approximately RMB1,633.1 million (2010: RMB865.5 million), representing an increase of approximately 88.7% as compared to the corresponding period in 2010; gross profit amounted to approximately RMB269.9 million (2010: RMB146.6 million), representing an increase of approximately 84.0% as compared to the corresponding period in 2010; net profit attributable to the owners of the Company was approximately RMB113.2 million (2010: net profit of RMB51.8 million), representing an increase of approximately 118.7% as compared to the corresponding period in 2010; earnings per share were RMB0.11 (2010: RMB0.05) representing an increase of approximately 120.0% as compared to the corresponding period in 2010.

Revenue

Sales by geography

	Six months ended 30 June			
	2011		2010	
	RMB'000 (unaudited)	**% of revenue**	RMB'000 (unaudited)	% of revenue
Domestic sales	**691,684**	**42.4%**	600,955	69.4%
Overseas sales	**941,385**	**57.6%**	264,566	30.6%
Total	**1,633,069**	**100.0%**	865,521	100.0%

Sales by products

	Six months ended 30 June			
	2011		2010	
	RMB'000 (unaudited)	**% of revenue**	RMB'000 (unaudited)	% of revenue
Manufacture and sale of steel pipes				
LSAW steel pipes	**1,565,458**	**95.9%**	740,711	85.6%
ERW steel pipes	**34,224**	**2.1%**	85,410	9.9%
Sub total	**1,599,682**	**98.0%**	826,121	95.5%
Steel pipes manufacturing services				
LSAW steel pipes	**16,859**	**1.0%**	18,109	2.1%
ERW steel pipes	**2,378**	**0.1%**	1,410	0.1%
Sub total	**19,237**	**1.1%**	19,519	2.2%
Others	**14,150**	**0.9%**	19,881	2.3%
Total	**1,633,069**	**100.0%**	865,521	100.0%

During the period under review, our overseas sales was approximately RMB941.4 million, accounted for approximately 57.6% of our total revenue as compared to that of approximately RMB264.6 million, accounted for approximately 30.6%, for the corresponding period in 2010. The increase in overseas sales of approximately RMB676.8 million or 255.8% was mainly due to improving global economy and international projects gradually materialized. The Group obtained significant orders from Columbia and Peru Gas Projects which led to rebound of sales volume and profit during the period under review. Our domestic sales was approximately RMB691.7 million, accounted for 42.4% of our total revenue as compared to that of approximately RMB601.0 million, accounted for 69.4% of our total revenue, for the corresponding period in 2010. The increase in domestic sales of approximately RMB90.7 million or 15.1% was mainly due to (i) partial delivery of steel pipes for the Liwan offshore project and (ii) increased orders in citygas networks in most provinces and cities.

Gross Profit and Gross Profit Margin	**Six months ended 30 June**			
	2011		2010	
	RMB'000 (unaudited)	**%**	RMB'000 (unaudited)	%
Manufacture and sale of steel pipes				
LSAW steel pipes	**260,579**	**16.6%**	132,561	17.9%
ERW steel pipes	**422**	**1.2%**	1,809	2.1%
Sub total	**261,001**	**16.3%**	134,370	16.3%
Steel pipes manufacturing services				
LSAW steel pipes	**9,283**	**55.1%**	10,296	56.9%
ERW steel pipes	**(1,133)**	**(47.6)%**	114	8.1%
Sub total	**8,150**	**42.4%**	10,410	53.3%
Others	**704**	**5.0%**	1,841	9.3%
Total	**269,855**	**16.5%**	146,621	16.9%

During the period under review, the gross profit of the Group was approximately RMB269.9 million (2010: RMB146.6 million), representing an increase of approximately 84.0% as compared to the corresponding period in 2010. The increase was primarily attributable to the completion of the sales orders from a major customer in Columbia and Peru as discussed above. The overall gross profit margin was approximately 16.5% as compared with approximately 16.9% for the same period in 2010.

Other income and gains were approximately RMB8.8 million (2010: RMB7.2 million), representing an increase of approximately 21.9% as compared to the corresponding period in 2010. There was no significant fluctuation on other income and gains as compared with the corresponding period in 2010.

Selling and distribution expenses were approximately RMB28.0 million (2010: RMB18.1 million), representing an increase of approximately 55.0% as compared to the corresponding period in 2010. The percentage of selling and distribution expenses to our revenue was approximately 1.7% as compared to 2.1% for the same period in 2010. Increase in selling and distribution expenses was in line with the increase in sales for the period under review.

Administrative expenses were approximately RMB87.1 million (2010: RMB47.9 million), representing an increase of approximately 81.9% compared to the corresponding period in 2010. The increase was primarily due to (i) an increase of research and development expenses from approximately RMB7.6 million in 2010 to approximately RMB20.5 million in 2011, a substantial portion of which was related to the research and development of deep sea application for steel pipes under the depth 1,500m; (ii) the increase in salary and wages resulted from the increase in the number of senior managements; and (iii) the increase in office expenses for the new production bases in Zhuhai and Lianyungang.

Finance costs were approximately RMB20.9 million (2010: RMB20.3 million), representing an increase of 3.2% as compared to the corresponding period in 2010. The increase was the combined effect of (i) the increase in average bank loan balance to finance the working capital of the Company and increase in average interest rate as compared with the corresponding period in 2010; and (ii) capitalisation of interest amounting to RMB6.7 million for the period under review (2010: nil).

Future Plan and Prospects

The Group plans to build two oil and gas LSAW steel pipes production lines with a planned annual production capacity of 300,000 tonnes each at Zhuhai and Lianyungang respectively. The construction of production lines at Zhuhai and Lianyungang are in progress and will commence production by the 4th quarter of 2011 and the 4th quarter of 2012 respectively. The Group also plans to construct a steel plate processing production line with a planned annual production capacity of 2 million tonnes at Lianyungang, which is expected to be completed by the end of 2013. This steel plate processing production line is capable of producing American Petroleum Institute (API)-grade steel plate and is expected to meet our own consumption requirement. It will improve our steel pipe profitability and enable us to secure stable supply of quality steel plates for production.

Furthermore, the Group has signed a joint venture agreement with Abdel Hadi Abdullah Al Qahtani & Sons Co. ("AHQ"), to establish a JV company with a total capital of USD106 million and an initial paid-up capital of 25% of the total capital or equivalent in Saudi Riyal 100 million (equivalent to approximately USD26.5 million). The JV company will be owned as to 50% by the Group and 50% by AHQ. The proposed principal business of the JV company will be the manufacturing and sale of LSAW steel pipes and ERW steel pipes with annual capacity of 300,000 tonnes and 200,000 tonnes respectively. The JV company will increase the Group production capacity and develop, strengthen and expand the market share of the Group's products in Saudi Arabia and other neighboring countries. This can also create synergy effect and the Group could benefit from having lower cost of delivery by setting up production plants in the vicinity of the Group's established customers and potential clients in the location and thus improve the turnover and results for the Group.

The commencement of the 12th Five-Year Plan will generate robust demand for the Group's LSAW steel pipes in four folds: (i) exploration of deep sea oil and gas reserves and construction of deep sea pipelines. There were large oil and gas reserves found at South Sea. Only LSAW steel pipes can be used for deep sea oil and gas transmission and the Group is the first and only manufacturer in PRC to develop deep sea LSAW steel pipes; (ii) commencement of construction of smart grid projects which include the building of ultra-high voltage power grids. According to the State Grid Corporation of China ("SGCC"), they will invest RMB500 billion in ultra-high voltage power grids. SGCC has mandated the use of LSAW steel pipes in new ultra-high-voltage towers; (iii) increase consumption of natural gas from 3.8% of total energy consumption in 2009 to 8-10% by 2020. China has to import gas from Central Asia and Russia and more pipelines has to be built to import the natural gas from northwest and northeast China to east and south China. It is expected that the pipelines will use approximately 50% of the LSAW steel pipes; and (iv) more city gas networks are built and using LSAW steel pipes. Provincial and city governments are building pipelines to raise the consumption of natural gas and LSAW steel pipes are the mostly used in highly populated region.

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

Other Information

Employees

As at 30 June 2011, the Group had 2,263 full time employees in total (31 December 2010: 2,081). The Group provides competitive remuneration package to retain its employees including salaries, medical insurance, discretionary bonuses, other benefits as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

Exchange Risk Exposure

During the period under review, most of the Group's operating transactions are settled in RMB except for the export sales which are mostly denominated in US dollar. Most of the Group's assets and liabilities are denominated in RMB. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group did not adopt formal hedging policies and no instruments were applied for foreign currency hedging purposes during the period under review.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011 (Six months ended 30 June 2010: Nil) to the shareholders.

Contingent Liabilities

As at 30 June 2011, the Group did not have any material contingent liabilities or guarantees.

Liquidity and Financial Resources

As at 30 June 2011, the cash and cash equivalents and current ratio of the Group, as a ratio of current assets to current liabilities, were approximately RMB303.3 million (at 31 December 2010: RMB599.2 million) and 1.72 (at 31 December 2010: 1.74) respectively.

As at 30 June 2011, the Group's aggregate borrowings was approximately RMB1,316.8 million (31 December 2010: approximately RMB967.0 million), of which approximately RMB1,170.5 million (31 December 2010: RMB967.0 million) was bank borrowings and government loan and approximately RMB146.3 million (31 December 2010: nil) was for obligations under finance leases.

The gearing ratio, expressed as a percentage of the summation of interest-bearing borrowings and finance lease over total assets of approximately RMB3,909.1 million (at 31 December 2010: RMB3,615.3 million) is approximately 33.7% (at 31 December 2010: 26.7%).

The Group's banks borrowings are mainly denominated in RMB 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 period with interest rates benchmarked to the London interbank offered rates for US dollar loans and Hong Kong interbank offered rates for HK dollar loans.

Use of Net Proceeds from the Global Offering

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

	Net proceeds from the global offering	
Use of proceeds	**Available (RMB million)**	Utilized up to 30 June 2011 (RMB million)
Establishment of a new production base in Lianyungang	**684.4**	462.7
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**	97.7
Repayment of bank loans	**48.9**	48.9
Expansion of overseas distribution network	**19.6**	19.6
Enhancement of our research and development capabilities	**29.3**	29.3
Working capital	**97.8**	97.8
Total	**977.7**	756.0

Directors' Interests in a Competing Business

As at the date of this report, none of the Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Other Information

Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures

As at 30 June 2011, 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 of Hong Kong Limited (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 Profits Limited ("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.

Interest and Short Positions of Substantial Shareholders in Shares, Underlying Shares and Debentures

As at 30 June 2011, 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%
Capital Research and Management Company	Investment manager	Long	50,570,000 (note 4)	5.00%

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.

4. The Capital Group Companies, Inc has 100% interest over Capital Research and Management Company.

Share Option Scheme

On 23 January 2010, we adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the growth of the Group. Eligible participants of the Scheme include, without limitation, employees, Directors and any other eligible persons as defined in the Scheme. As at 30 June 2011, no share option has been granted or agreed to be granted to any person under the Scheme.

Code on Corporate Governance Practices

Save as disclosed below, the Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices (the "CG Code") to the Listing Rules throughout the six months ended 30 June 2011.

CG Code 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 will nevertheless review the structure from time to time to ensure appropriate move is being taken should suitable circumstance arise.

Compliance with Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code throughout the six months ended 30 June 2011.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities for the six months ended 30 June 2011.

Audit Committee

The Company's Audit Committee comprises Mr. See Tak Wah (Chairman), Mr. Liang Guo Yao and Mr. Chen Ping who are the independent non-executive directors of the Company.

The Audit Committee has reviewed the Group's unaudited consolidated interim results for the six months ended 30 June 2011 in conjunction with the Company's external auditor.

The Audit Committee reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters of the Group.

Report on Review of Interim Condensed Consolidated Financial Statements

ERNST & YOUNG
安永

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2011, comprising of the interim condensed consolidated statement of financial position as at 30 June 2011 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standard on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants
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Two International Finance Centre
8 Finance Street, Central
Hong Kong

22 July 2011

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	Notes	Six months ended 30 June **2011** **(Unaudited)** **RMB'000**	 2010 (Unaudited) RMB'000
REVENUE	5	**1,633,069**	865,521
Cost of sales		**(1,363,214)**	(718,900)
Gross profit		**269,855**	146,621
Other income and gains	5	**8,835**	7,249
Selling and distribution costs		**(28,010)**	(18,067)
Administrative expenses		**(87,069)**	(47,865)
Other expenses		**(1,169)**	(1,102)
Finance costs	6	**(20,908)**	(20,256)
Exchange loss, net		**(1,349)**	(3,216)
PROFIT BEFORE TAX	7	**140,185**	63,364
Income tax expense	8	**(26,978)**	(11,608)
PROFIT FOR THE PERIOD		**113,207**	51,756
Other comprehensive income:			
Exchange differences on translating foreign operations		**(4,545)**	(239)
Income tax relating to component of other comprehensive income		**–**	–
Other comprehensive income for the period, net of tax		**(4,545)**	(239)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**108,662**	51,517
Profit attributable to:			
Owners of the Company		**113,207**	51,756
Total comprehensive income attributable to:			
Owners of the Company		**108,662**	51,517
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	9	**RMB0.11**	RMB0.05

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2011

	Notes	**30 June 2011 (Unaudited) RMB'000**	31 December 2010 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**1,100,708**	1,071,197
Investment properties		**1,885**	1,954
Deposit paid for purchases of items of property, plant and equipment		**211,341**	64,914
Prepaid land lease payments		**151,751**	122,983
Goodwill		**4,075**	4,075
Deferred tax assets		**1,172**	1,261
Pledged deposits		**24,053**	4,410
Total non-current assets		**1,494,985**	1,270,794
CURRENT ASSETS			
Inventories	11	**1,066,041**	977,539
Trade and bills receivables	12	**595,506**	355,025
Prepayments, deposits and other receivables		**421,198**	360,905
Pledged deposits		**28,060**	51,897
Cash and bank balances		**303,301**	599,178
Total current assets		**2,414,106**	2,344,544
TOTAL ASSETS		**3,909,091**	3,615,338
CURRENT LIABILITIES			
Trade and bills payables	13	**245,133**	203,983
Interest-bearing loans and other borrowings	14	**929,293**	727,017
Other payables and accruals		**209,938**	394,499
Tax payable		**15,973**	19,333
Total current liabilities		**1,400,337**	1,344,832
NET CURRENT ASSETS		**1,013,769**	999,712
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,508,754**	2,270,506

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2011

	Notes	**30 June 2011 (Unaudited) RMB'000**	31 December 2010 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing loans and other borrowings	14	**387,459**	240,000
Deferred tax liabilities		**5,902**	2,265
Government grants		**37,224**	37,224
Total non-current liabilities		**430,585**	279,489
Net assets		**2,078,169**	1,991,017
EQUITY			
Equity attributable to owners of the Company			
Issued capital	15	**88,856**	88,856
Reserves		**1,989,313**	1,880,651
Proposed final dividend		**–**	21,510
Total equity		**2,078,169**	1,991,017
TOTAL EQUITY AND LIABILITIES		**3,909,091**	3,615,338

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	Attributable to Owners of the Company								
	Issued capital RMB'000	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 2011	**88,856**	**897,643**	**224,589**	**57,607**	**81,560**	**620,864**	**21,510**	**(1,612)**	**1,991,017**
Total comprehensive income for the period	–	–	–	–	–	113,207	–	(4,545)	108,662
Final dividends of 2010 declare	–	(21,510)	–	–	–	21,510	(21,510)	–	(21,510)
At 30 June 2011 (unaudited)	**88,856**	**876,133***	**224,589***	**57,607***	**81,560***	**755,581***	**–**	**(6,157)***	**2,078,169**

* These reserve accounts comprise the consolidated reserves of RMB1,989,313,000 (31 December 2010 (audited): RMB1,880,651,000) in the interim condensed consolidated statement of financial position as at 30 June 2011.

For the six months ended 30 June 2010

	Attributable to Owners of the Company							
	Issued capital RMB'000	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	Exchange fluctuation reserve RMB'000	Total RMB'000
At 1 January 2010	–	–	233,372	57,607	73,707	579,990	7,255	951,931
Total comprehensive income for the period	–	–	–	–	–	51,756	(239)	51,517
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)
At 30 June 2010 (unaudited)	88,856	897,643	224,589	57,607	73,707	631,746	7,016	1,981,164

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

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 Panyu Chu Kong Steel Pipe Co., Ltd. ("PCKSP") by Lessonstart Enterprises Limited ("Lessonstart").

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

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash outflow from operating activities	**(344,734)**	(418,979)
Net cash outflow from investing activities	**(219,440)**	(360,857)
Net cash inflow from financing activities	**268,150**	898,006
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(296,024)**	118,170
Exchange realignment	**147**	(241)
Cash and cash equivalents at beginning of period	**599,178**	349,498
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**303,301**	467,427

1. Corporate Information

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

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

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

2. Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and International Accounting Standards ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "IASB").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010.

2. Basis of Preparation (Continued)

Basis of consolidation

The acquisitions of the subsidiaries pursuant to the Reorganisation were regarded as a business combination under common control. Accordingly, the interim condensed 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 interim consolidated results for the six months ended 30 June 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.

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

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

These interim condensed consolidated financial statements are unaudited, but have been reviewed by the Audit Committee of the Company and the Company's external auditors, Ernst & Young.

3. Accounting Policies

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the annual financial statements for the financial year ended 31 December 2010, except for the adoption of the standards, amendments and interpretations issued by the IASB mandatory for annual periods beginning 1 January 2011. The effect of the adoption of these standards, amendments and interpretations was not material to the Group's results of operations or financial position.

4. Operating Segment Information

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

4. Operating Segment Information (Continued)

Information about products

The revenue of the major products is analysed as follows:

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Manufacture and sale of steel pipes:		
LSAW steel pipes	**1,565,458**	740,711
ERW steel pipes	**34,224**	85,410
Steel pipe manufacturing services:		
LSAW steel pipes	**16,859**	18,109
ERW steel pipes	**2,378**	1,410
Others*	**14,150**	19,881
	1,633,069	865,521

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

4. Operating Segment Information (Continued)

Information about geographical areas

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

The following table presents the geographical revenue information for the Group:

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sales to external customers:		
Mainland China	**691,684**	600,955
America	**872,565**	40,103
European Union	**40,167**	165
Middle East	**1,859**	40,452
Other Asian countries	**26,453**	180,002
Others	**341**	3,844
	1,633,069	865,521

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

Information about major customers

For the six months ended 30 June 2011, revenue from a major customer of the Group amounting to RMB785,241,000 (for the six months ended 30 June 2010: RMB1,008,000) accounted for 48% (for the six months ended 30 June 2010: 0.1%) of the Group's total revenue.

5. 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 period.

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

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Manufacture and sale of seam welded steel pipes and the provision of related manufacturing services	**1,633,069**	865,521
Other income and gains		
Bank interest income	**4,687**	4,483
Subsidy income from the PRC government	**4,000**	2,623
Compensation	**22**	143
Others	**126**	–
	8,835	7,249

The subsidy income represented subsidies granted by the local finance bureau to Panyu Chu Kong Steel Pipe Co Ltd. 番禺珠江鋼管有限公司 ("PCKSP") as an encouragement for its development. There are no unfulfilled conditions or contingencies relating to such subsidies.

6. Finance Costs

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans and government loans	**22,418**	20,256
Less: Interest capitalised	**(6,713)**	–
Other borrowing cost	**5,203**	–
	20,908	20,256

7. Profit Before Tax

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

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	**1,247,074**	665,999
Depreciation	**19,127**	18,709
Impairment of trade receivables reversed	**(593)**	(571)

8. 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.

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 period.

8. Income Tax (Continued)

The major components of the income tax expense in the interim condensed consolidated statement of comprehensive income are as follows:

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – Mainland China		
Charged for the period	**23,252**	11,521
Deferred	**3,726**	87
Total tax charge for the period	**26,978**	11,608

9. Earnings Per Share Attributable to Owners of the Company

The calculation of basic earnings per share is based on the profit for the period attributable to owners of the Company of RMB113,207,000 (2010: RMB51,756,000), and the weighted average number of ordinary shares of 1,011,142,000 (2010: 952,076,784) in issue during the period.

No adjustment has been made to the basic earnings per share amounts presented for the periods ended 30 June 2011 and 2010 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those periods.

10. Property, Plant and Equipment

	30 June 2011	31 December 2010
	(Unaudited)	(Audited)
	RMB'000	RMB'000
At beginning of the period/year	**1,071,197**	499,891
Additions	**48,716**	615,197
Disposals	**–**	(1,978)
Depreciation	**(19,101)**	(39,763)
Transfer to investment properties	**–**	(2,076)
Exchange realignment	**(104)**	(74)
At end of the period/year	**1,100,708**	1,071,197

11. Inventories

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Raw materials	**505,442**	350,597
Work in progress	**168,955**	246,395
Finished goods	**391,644**	380,547
	1,066,041	977,539

12. Trade and Bills 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:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Within 60 days	**433,811**	211,901
61 to 90 days	**15,031**	20,306
91 to 180 days	**44,627**	32,690
181 to 365 days	**72,950**	52,623
1 to 2 years	**19,565**	27,368
2 to 3 years	**11,401**	17,609
	597,385	362,497
Less: Impairment of trade receivables	**(6,879)**	(7,472)
	590,506	355,025
Bills receivable	**5,000**	–
	595,506	355,025

13. 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:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Within 90 days	**121,604**	138,355
91 to 180 days	**45,083**	9,429
181 to 365 days	**13,736**	16,881
1 to 2 years	**16,762**	854
2 to 3 years	**742**	6,868
Over 3 years	**6,389**	–
	204,316	172,387
Bills payable	**40,817**	31,596
	245,133	203,983

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.

14. Interest-Bearing Loans and Other Borrowings

	Effective interest rate %	Maturity	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Current				
Finance lease payables	6.9	2012	**28,808**	–
Bank loans				
– secured	6.31	2012	**99,000**	85,300
– unsecured	0.880~6.667	2012	**601,955**	442,187
Government loans				
– unsecured	3.760~4.260	2012	**199,530**	199,530
			929,293	727,017
Non-current				
Finance lease payables	6.9	2015	**117,459**	–
Bank loans				
– secured	5.933~6.400	2014	**270,000**	240,000
			387,459	240,000
			1,316,752	967,017

14. Interest-Bearing Loans and Other Borrowings (Continued)

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**700,955**	527,487
In the third to fifth years, inclusive	**270,000**	240,000
	970,955	767,487
Government loans repayable:		
Within one year	**199,530**	199,530
Finance lease payables:		
Within one year	**28,808**	–
In the second year	**30,802**	–
In the third to fifth years, inclusive	**86,657**	–
	146,267	–
	1,316,752	967,017

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 RMB51,947,000 (31 December 2010: RMB52,781,000) 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 RMB80,600,000 (31 December 2010: RMB81,638,000) as at the end of the reporting period.

15. Share Capital

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Authorised:		
10,000,000,000 (31 December 2010: 10,000,000,000) ordinary shares of HK$0.10 each	**878,335**	878,335
Issued and fully paid:		
1,011,142,000 (31 December 2010: 1,011,142,000) ordinary shares of HK$0.10 each	**88,856**	88,856

16. Operating Lease Arrangements

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

As at 30 June 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Within one year	**2,235**	2,385
In the second to fifth years, inclusive	**918**	2,091
	3,153	4,476

17. Commitments

In addition to the operating lease commitments detailed in note 16 above, the Group had the following capital commitments:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Contracted, but not provided for:		
Purchase of plant and machinery	**237,576**	53,722
Investment in a jointly-controlled entity	**344,500**	–
	582,076	53,722

18. Related Party Transactions

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

Name of party	Relationship
Guangzhou Fulingda Elevator Co., Ltd. ("GZFLD") 廣州富菱達電梯有限公司	GZFLD is a party controlled by the Group's ultimate controlling 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 controlled by Group's ultimate controlling shareholder.

18. Related Party Transactions (Continued)

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

(a) Recurring transactions

Name of party	Nature of transaction	Six months ended 30 June **2011** **(Unaudited)** **RMB'000**	 2010 (Unaudited) RMB'000
GZFLD	Purchases of spare parts	**–**	257
GZMT	Purchases of spare parts	**1,411**	1,706

These purchases were made at prices based on agreements entered into between the parties.

(b) Compensation of key management personnel of the Group

	Six months ended 30 June **2011** **(Unaudited)** **RMB'000**	 2010 (Unaudited) RMB'000
Salaries, allowances and benefits in kind	**3,690**	3,407
Retirement benefit scheme contributions	**73**	69
Total compensation paid to key management personnel	**3,763**	3,476

19. Events after the Reporting Period

There are no significant events subsequent to 30 June 2011 which would materially affect the Group's operating and financial performance as of the date of these interim condensed consolidated financial statements.

20. Approval of the Financial Statements

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 22 July 2011.