Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited

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

GROWTH STRATEGY
to change and develop



Annual Report 2011

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CORPORATE PROFILE

Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited is the largest manufacturer and exporter of longitudinal welded steel pipes in China. Our steel pipes are mainly for energy transmission that includes oil and gas transmission pipelines, deep sea pipelines, city gas networks, petrochemicals, mining and infrastructure.

Our production bases are located in Panyu, Zhuhai, Jiangyin, Lianyungang (under construction) and Saudi Arabia (under construction). We have 4 LSAW and 1 ERW production lines with annual production capacity of 1,450,000 tonnes as at 31 December 2011.

We are the industry pioneer, strong in research and development with 50 registered utility patents and 5 registered invention patents, and has a long standing international and nationwide track record. We are the first and only steel pipe manufacturer in China to develop deep sea welded steel pipes for use under 1,500m depth and we are also the core supplier of Shell. We are the only welded pipe manufacturer in China that has achieved four national honors and awards, including "Gold Cup Prize for Actual Qualify of Metallurgical Products", "China Well-known Trademark", "National-recognised Enterprise Technology Centre" and "High and New Technology Enterprise", and we are the main drafter of the national standard for welded steel pipes.

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

NOMINATION COMMITTEE

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

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

In the PRC:

Bank of China Limited
Bank of Communications
China Construction Bank
China Everbright Bank
China Guangfa Bank
Industrial and Commercial Bank of China
Shenzhen Development Bank
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 "Directors" or the "Board") of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company"), I would like to present the audited annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2011 (the "Reporting Year").

During the Reporting Year, with high-quality steel pipe products, the Group successfully captured the opportunity brought by the recovery of global and domestic steel pipe demand, and actively strived for international market expansion and business diversification, thus achieving remarkable results. During the Reporting Year, the turnover of the Group reached approximately RMB3,376.9 million, a 100.8% increase from 2010 (2010: approximately RMB1,681.5 million). Profit attributable to equity holders significantly increased by 228.5% to approximately RMB230.7 million (2010: approximately RMB70.2 million). Earnings per share totaled RMB0.23 (2010: RMB0.07). The Board recommended the payment of HK5.7 cents per share as the final dividend for the year ended 31 December 2011 (2010: HK2.5 cents per share).

Looking back in 2011, the global economy experienced high and lows, beginning with the downgrading of US sovereign credit ratings, the persistent European debt crisis and the earthquake that hit the northeast part of Japan, which all led to delay of the economy's revival. Despite the global economy slowdown, steel pipes remain to be the most economical, convenient and widely popular method for transmitting oil and gas. Along with the rapid development of developing countries, demand for resources has also been on the rise, and as a result, this further increased the demand for steel pipes. Moreover, with oil prices remaining at ominously high levels in 2011, a lot of oil and gas companies are enticed to allocate more resources on pipe construction projects. The elements mentioned above resulted in the global infrastructure projects regaining their pace of development within the year and thus increasing the global demand for steel pipes towards the end of 2010. With its internationally recognised high-quality steel pipe products, the Group successfully received orders from several international projects, including the gas transportation projects in Columbia and Peru, thus driving the Group's revenue and profit up substantially.

As one of the major leaders in the revival of the global economy, China's GDP still managed to reach a growth of 9.2% despite the effects brought by the macroeconomic austerity measures and the tightening of the monetary policy. As the economy in China continues to develop at a rapid pace, demand for energy in China has been constantly increasing. China has rich and abundant supply of oil and gas offshores, and hence a number of large-scale national deep sea pipeline projects have commenced gradually during the year. Being the first and currently the only manufacturer to have developed deep sea LSAW steel pipes in the country, the Group has successfully secured orders for several large-scale deep sea projects, and has delivered products for use in the West to East Natural Gas Offshore Pipeline II-Shenzhen and Hong Kong subsection, and partial mainland China section of the South China Sea Gas Development Project (Liwan offshore project), thus driving up the revenue and profit.

Demand for infrastructure steel pipes from the State Grid also represented another major growth driver for the Group. 2011 was the first year of the 12th Five-Year Plan in China. The State Grid was planning to invest around RMB500 billion in ultra-high voltage power grids. Leveraging the Group's high-quality steel pipe products, the Group successfully secured 67,000 tonnes of steel pipe product order from the State Grid. Apart from that, out of the six ultra-high voltage projects, the Shimeng project is expected to open for bidding in 2012. With our competitive edge in securing 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.

The Group currently has four longitudinal submerged arc welded ("LSAW") steel pipe production lines and one electric resistance welded ("ERW") steel pipe production line. As of 2011, the annual production capacity was 1,450,000 tonnes, with a utilisation rate of 90%. With the upturn in the market and rebound in demand for steel pipes, the Group planned to proactively enhance its production capacity and propel growth to better cope with surging demand. Construction of two LSAW steel pipe production lines located in Zhuhai and Liangyungang respectively, is in progress (the LSAW steel pipe production line in Lianyungang is equipped with COE technology and is the first LSAW steel pipe rapid production line in the world with invention patent) and the same are expected to commence commercial production in the second quarter of 2012 and the fourth quarter of 2012, respectively. Moreover, in order to meet with the demand for spiral submerged arc welded ("SSAW") steel pipe of some customers, the Group also planned to produce SSAW steel pipes in an auxiliary basis so as to widen product range. There will be one SSAW steel pipes production line in Zhuhai plant with total production capacity of 300,000 tonnes. It will be mainly be used for meeting the need of oil and gas transmission pipeline and infrastructure purposes and commercial production is expected to be commenced in the first quarter of 2013. There is also one pre-welding and precision welding SSAW steel pipe production line in Liangyungang plant under construction. Pre-welding and precision welding SSAW steel pipe production line is the latest and most advanced technology, and we strive to have this production line to commence commercial production in the third quarter of 2012. The production line has a capacity of 360,000 tonnes and the SSAW steel pipes will be used for oil and gas transmission pipeline. All in all, there will be new production lines commencing operation in the second, third and fourth quarter of 2012, thus generating more gigantic productivity and larger market scope for our Group. Total production capacity of the Group will reach 2,410,000 tonnes at the end of 2012, 66% up compared with the end of 2011.

The prime geographical location of Lianyungang allow us to also capture the business opportunities in Yangtze delta area, serving the economic regions of middle and western part of China and Huaihai Economic Zone, and to be the new coastal industrial region of Jiangsu Province. Therefore, other than the LSAW production lines mentioned above, the Group successfully acquired a piece of land in Liangyungang for the construction of a new heavy equipment factory which serves to manufacture steel pipe equipment and metallurgy

CHAIRMAN'S STATEMENT

equipment in September 2011. In addition, the Group has planned to establish a steel plate processing production line in Lianyungang, thus securing a stable supply of high-quality steel plates, being principal raw materials for manufacturing LSAW steel pipes and to further strengthen the Group's competitiveness.

During the year, the Group actively expanded its productivity outside China. The Group entered into an agreement with a Saudi Arabian company, Abdel Hadi Abdullah Al Qahtani & Sons, Co. ("AHQ") 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 can further develop, strengthen and expand the market share of our products in Saudi Arabia and other neighboring countries.

As a technology-oriented company, the Group's research and development ("R&D") continues to be recognised by industry peers. As of today, the Group was awarded five national patents and Gold Cup Prize for Actual Quality of Metallurgical Products, and also passed the re-exam of the "High and New Technology Enterprise". The Group also passed American Society of Mechanical Engineers ("ASME"), National Measurement Laboratory and National First-Class Measurement Unit. Apart from the above, the Group was also authorised to set up an Academician Workstation (院士工作站) by Guangdong Provincial Government which allocated two well-known members to join our Academician Workstation in hopes to further strengthen our R&D skills. With support from the nation and the industry, the Group is well reassured its success throughout its R&D process.

The Group forecasted that the business environment in 2012 will still be challenging. Nonetheless, China being one of the major drivers reviving the global economy, a soft landing for China is expected in 2012 due to its enormous domestic demands. In addition, 2012 is the second year of the 12th Five-Year Plan and the steel pipe projects will continue to be propelled. The Group expected that the Plan will generate robust demand for the Group's LSAW steel pipes in four folds, including exploration of deep sea oil and gas reserves and construction of deep sea pipelines, commencement of construction of smart grid projects, increasing consumption of natural gas as well as the gradual construction of city gas networks. As one of the Mainland China's largest LSAW steel pipe manufacturers and first steel pipe producer to successfully develop deep sea LSAW steel pipes, coupled with our enlarged production capacity and expanded product lines, 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.

The Board is confident of the prospects of steel pipe demand. On top of the four growth engines mentioned above, the Group is also optimistic towards the two potential growth drivers. One of them is the discovery of coal seam gas technology. Compared with the traditional technology, coal seam gas technology is able to provide a cleaner energy. While pipeline transportation is the main transmission of coal seam gas, the rise and popularisation of coal seam gas will help to drive the demand of steel pipelines. Separately, the current high price of commodities (such as copper and iron) lured the investment from iron ore companies, thus driving the demand of steel pipe given that pipeline transportation is the most economical and convenient method for transmitting minerals slurries.

Leveraging on our top quality output, extensive production scale, strong customer base and state-of-the-art production facilities and techniques, the Group has established a remarkable reputation and will continue to develop our advantages 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 year. 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 oversea and generate lucrative returns for shareholders.

Chen Chang
Chairman

Panyu, Guangdong Province, China
22 March 2012

AWARDS AND RECOGNITIONS

The Group was strong in research & development and has numerous awards and recognitions:

1996
Guangdong Province Outstanding New Product*
(The Economic Commission of Guangdong Province*)
GPEC

2005/Renewed in 2011
Gold Cup Prize for Actual Quality of Metallurgical Products*
– LSAW
(China Iron & Steel Association*)

1997
Gold Cup Prize for Actual Quality of Metallurgical Products*
(Ministry of Metallurgical Industries of the PRC*)

2005/Renewed in 2011
Gold Cup Prize for Actual Quality of Metallurgical Products*
– ERW
(China Iron & Steel Association*)

2001
Certificate for the Recognition of High and New Technology Enterprises*
(Guangzhou City Science and Technology Committee*)

2006
China Well-known Trademark*
(The Main Office of the State Administration for Industry and Commerce*)

2004
China Reserved Petroleum Pipeline Manufacturing Industry – Top Ten Enterprises in 2004*
(China Petroleum and Petro-chemical Equipment Industry Association*)

2006
Leader in Quality Management in Guangdong Province in 2005*
(Guangdong Provincial Bureau of Quality and Technical Supervision*)

* Unofficial transliteration from Chinese name for identification purposes only

AWARDS AND RECOGNITIONS

2007
China Torch Item*
(Science and Technology Department of the PRC*)

2007
First Prize for Sci-Tech Achievement in Guangzhou City*
(The People's Government of Guangzhou City*)

2007/Renewed in 2010
Guangdong Province Top Brand Product*
(Guangdong Provincial Bureau of Quality and Technical Supervision*)

2002/Renewed in 2010
Guangdong Province Famous Trademark*
(Guangdong Province Bureau for Administration of Industry and Commerce*)

2007
Best Original Product of Innovative Record for Guangdong Enterprise in 2007*
(Association of Enterprise in Guangdong Province & The Innovative Record of Guangdong Enterprise Approval Commission*)

2008
International Exhibition of Inventions Golden Award*
(Three-roller forming technology and equipment*)
(China Inventions Association*)

2007/Renewed in 2009
China Petroleum and Petro-chemical Equipment Well-known Brand*
(China Petroleum and Petro-chemical Equipment Industry Association*)

2008/Renewed in 2011
High and New Technology Enterprise*
(Department of Science and Technology of Guangdong Province*),
(Guangdong Province Department of Finance*),
(Guangdong Municipal Office of the State Administration of Taxation*) and
(Guangdong Provincial Local Taxation Bureau*)

* Unofficial transliteration from Chinese name for identification purposes only.

2009
Guangdong Province Patent Excellence Award* (Three-roller forming technology and equipment*)
(Guangdong Provincial Bureau of Personnel & Intellectual Property Office of Guangdong Province*)

2010
Indigenous Innovation Product of Guangdong Province*
(Department of Science and Technology of Guangdong Province*, Development and Reform Commission of Guangdong Province*, Economic and Information Commission of Guangdong Province*, Finance Department of Guangdong Province*, Intellectual Property Department of Guangdong Province*, Administration of Quality and Technology Supervision of Guangdong Province*)

2009
High-tech Product of Guangdong Province*
(Department of Science and Technology of Guangdong Province*)

2010
First Prize for Sci-tech of Guangdong Province*
(The People's Government of Guangdong Province*)

2010
Key High and New Technology Enterprise of China Torch Item*
(Torch High-tech Industry Development Centre of Science and Technology Department of the PRC*)

2010
Technology Research and Development Centre of Guangdong Province*
(Department of Science and Technology of Guangdong Province*, Development and Reform Commission of Guangdong Province*, Economic and Trade Commission of Guangdong Province*)

2010
National-recognized Enterprise Technology Centre*
(National Development and Reform Commission*, Science and Technology Department*, Finance Department*, General Administration of Customs*, State Administration of Taxation*)

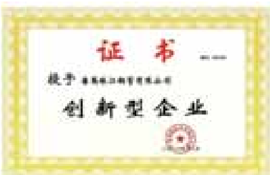
2010
Guangdong Province Outstanding Intellectual Property Enterprise*
(Intellectual Property Department of Guangdong Province*)

* Unofficial transliteration from Chinese name for identification only.

AWARDS AND RECOGNITIONS

2010
1st Runner-up of The 19th National Invention Exhibition*
Dual-drive push-press type steel pipe expanding device*
(Invention Association of China*)

2011
1st Runner-up of The 20th National Invention Exhibition*
Five-electrode submerged arc welding equipment
(Invention Association of China*)



2010
Innovative Enterprise of Guangzhou*
(Technology and City Enhancement Steering Committee of Guangzhou*)

2011
Governmental Quality Award of The Guangzhou Government*
(The People's Government of Guangzhou Province*)

2011
Intellectual Property Demonstration Enterprise of Guangdong Province*
(Intellectual Property Department of Guangdong Province*)

2011
Top 10 Original Brands of Guangdong Province*
(Association of Enterprises of Guangdong Province*, Association of Entrepreneurs of Guangdong Province*)

* Unofficial transliteration from Chinese name for identification purposes only.

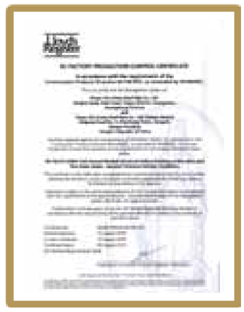
QUALITY CERTIFICATIONS

The Group has achieved numerous international certifications.

1996/Renewed in 2010
ISO9001
(Hong Kong Quality Assurance Agency)

1996/Renewed in 2011
API
(American Petroleum Institute)

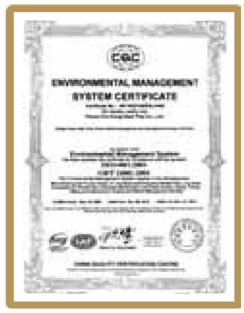
1996/Renewed in 2010
BSI
(Royal British Standard Institute)



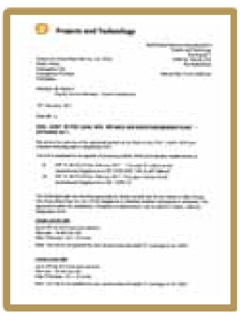
1999/Renewed in 2010
CE
(Lloyd's Register of Shipping)

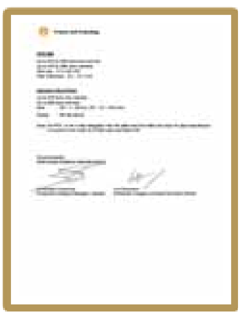
2006/Renewed in 2010
DNV
(Det Norske Veritas)

2002/Renewed in 2009
BV
(Bureau Veritas)



2004/Renewed in 2010
ISO9001 14001 OHSAS18001
(China Quality Certification Centre)





2009/Renewed in 2011
Shell
(Shell Global Solutions)

2011
CNAS
(China National Accreditation Service for Conformity Assessment)

2011
ASME
(American Society of Mechanical Engineers)

2012
CMS
(China Conformity for Measurement Management Systems)

TRACK RECORDS

The Group has long track records of involvement in onshore and offshore projects domestically and internationally.

Partial Onshore Projects for LSAW Pipe

Projects	Quantity sold (MT)	Year
Huainan-Shanghai Ultra High Voltage Power Grids, State Grid Corporation of China (SGCC), China	42,610	2012
Yunnan China Resources Gas Co., Limited, China	8,565	2012
Guangdong Natural Gas Pipe Network, CNOOC, China	48,274	2010–2011
Gas Pipeline Project, Southeast Asia	49,928	2010–2011
Syncrude, Canada	24,352	2010–2011
Zhejiang Gas Company, China	6,904	2011
Shell Nigeria	9,304	2011
Jingbian-XiAn Gas Pipeline Project, Phase III, CNPC, China	4,575	2011
ShangXi Guolin Coal Seam Gas Development Company Limited, China	7,957	2011
Turkmengas, Tukemenistan	12,048	2011
KOC/Petrofac, Kuwait	1,250	2011
Halfaya Project, CNPC, China	3,237	2011
KOC/ABB, Kuwait	3,650	2011
West – East Gas Pipeline Project, Phase II, CNPC, Hong Kong	55,946	2011
Crude Oil Pipeline SINOPEC, China	10,523	2010–2011
Inner Mongolia Gas, China	14,412	2010–2011
Columbia Gas Pipeline Project, Ecopetrol, Columbia	144,669	2010–2011
Shell Canada, Canada	27,000	2008–2011
China-Russia Oil Pipeline Project Phase II, CNPC, China	12,182	2010
Hangzhou Gas, China	7,000	2010
Anglo American, Brazil	4,017	2010
Guangdong Gas, China	55,000	2010
Foshang City Natural High Pressure Pipe Network Company, China	6,272	2010
Guangzhou Natural Gas Project Phase III, China	5,387	2010
East Siberia – Pacific Ocean, Russia	10,078	2010
Ampliacion Red Principal de Distribucion de Gas en Lima y Callao Project, Peru	11,350	2010
Kinteroni MIPAYA Pipeline Project, Repsol, Peru	17,831	2010
Syncrude, Canada	13,968	2010
West – East Gas Pipeline Project, Phase II, CNPC, China	47,282	2010
Guangdong Natural Gas Pipe Network, CNOOC, China	61,855	2009–2010
Guangdong LNG Company, CNOOC, China	18,234	2009
Guangdong Gas, China	12,076	2009
Guangdong LNG Company, CNOOC, China	16,925	2009
Shenzhen Gas Group Corporation Limited, China	13,750	2009
Yulin-Jinan Gas Pipeline, SINOPEC, China	14,006	2009
GTCL, Bangladesh	35,000	2009
Shell Canada, Canada	20,000	2009
Kazakhstan-China Pipeline, CNPC, China	77,400	2009
ESPERANZA Project, CNPC, Chile	36,000	2008
Yulin-Jinan Gas Pipeline, SINOPEC, China	14,000	2008
Southwest Oil and Gas Pipeline, CNPC, China	40,398	2007–2008
Kurdistan Gas Pipeline Network, The Middle East	23,000	2007
NGC, Nigeria	16,000	2007
Guangzhou Gas Company, China	15,603	2007
Sichuan-East Gas Pipeline Project, SINOPEC, China	200,000	2007
GNL Quintero Project, Chile	11,000	2007

Partial Onshore Projects for LSAW Pipe (continued)

Projects	Quantity sold (MT)	Year
Shagyrly-Shomyshty Gas Pipeline, Kazakhstan	11,000	2006
Sonatrach, Algeria	7,500	2006
Changbei Gas Field Project, Shell, China	3,600	2005
Beijing Gas Group Co., Ltd., China	13,000	2005
Guangzhou Gas Company, China	14,270	2005
Shenzhen Gas Group Corporation Limited, China	7,000	2005
Pipe and Piling, Canada	2,250	2005
Western Crude Oil and Product Oil Pipeline, CNPC, China	33,000	2004–2005
Zhuhai-Zhongshan Natural Gas Pipeline, CNOOC, China	11,000	2004
Guangdong Dapeng LNG Company, CNOOC & BP, China	14,523	2004
Zhongxian-Wuhan Natural Gas Pipeline, CNPC, China	1,200	2004
GTCL, Bangladesh	7,400	2004
Shanghai SECCO, SINOPEC BP, China	3,000	2003
Chang-Hu Natural Gas Pipeline (cross Yellow River) , China	450	2002
Wuxi Natural Gas Co.,Ltd CNPC (cross river), China	500	2002
Shanghai Network Pipeline, China	6,300	2002
Hainan Island-Loop Pipeline, CNOOC, China	5,000	2002
Yangzi Petro-Chemical Project, SINOPEC & BASF, China	4,400	2002
State Central Theater, China	500	2002
NOCO, The Middle East	4,000	2002
Yong-Hu-Ning Pipeline, SINOPEC (cross Changjiang River), China	5,000	2002
Jinan-Qingdao Gas Pipeline, SINOPEC (cross Yellow River), China	3,500	2002
KURT Urban Partners, USA	3,000	2001
Stemcor, England	1,367	2001
Vietnam Stadium, Vietnam	900	2001
S.C.CONPET.S.A, Romania	2,893	2001
Sawah Trading Company Limited, UAE	2,000	2001
China North Industry Co., China	1,400	2000
Ferrostal Aktiengessellschaft (Germany) Shanghai Office, USA	1,478	1999
Yajisha Bridge, Guangzhou, China	2,208	1999

Partial Offshore Projects for LSAW Pipe

Projects	Quantity sold (MT)	Year
South China Sea Deep Water Gas Development PMT, CNOOC, China	66,238	2011
Liwan Deep Water Gas Development Project, Saipem/Husky/CNOOC, China	51,000	2011
West-East Gas Pipeline Project, Phase II, Hong Kong Branch, CNPC, China	14,665	2011
West Kowloon to Sai Ying Pun, WSD, Hong Kong	1,057	2010
Offshore & Onshore Pipeline Project-Feed, Total, Southeast Asia	15,500	2009
SBM Project, Pakistan	5,000	2008
SEPC-BOS C2 Jetty & Interconnecting Project, Shell Singapore	1,600	2008
Shuqaiq II Independent Water and Power Project, Saudi Arabia	3,100	2008
Pekerjaan Pembangunan TTU Dan Pipanisasi Jawa Project, Indonesia	1,700	2008
Manifa Field Causeway Project, Saudi Arabia	10,113	2007
Terminal Transit Utama Tuban & Pipanisasi Jawa Timur, Indonesia	2,050	2007
Permanent Aviation Fuel Facility, Hong Kong International Airport, Hong Kong	1,700	2007
Malaysia Angsi-TCOT Crude Oil Offshore Pipeline Project, PETRONAS, Malaysia	43,000	2007
Ledong Gas Fields Engineering PMT, CNOOC, China	27,000	2007
Jamnagar Refinery Complex/Bechtel, India	36,000	2006
Panyu/Huizhou Natural Gas Development Project, CNOOC, China	58,881	2005
CNOOC & Shell Petro Chemicals Company Ltd., China	12,149	2004
Chunxiao Gas Complex Development Project, CNOOC, China	68,645	2003
Shengli Oil Field, SINOPEC, China	1,552	2000

TRACK RECORDS

Partial Projects for ERW Pipe

Projects	Quantity sold (KM)	Year
Huainan-Shanghai Ultra High Voltage Power Grids, State Grid Corporation of China (SGCC), China	24,763 (MT)	2012
KOC, Kuwait	531	2011
Shanxi Gas City Network, China	20	2011
Chongqing Gas, China	67	2010
Shanxi Gas, China	42	2010
Takreer Re-routing of existing Inter-Refineries Pipelines, NPCC/Takreer, UAE	50	2010
OMV, Pakistan	44	2010
Sui Northern Gas Pipeline Limited, Pakistan	143	2009
Betara Complex Development Pipeline Project, Indonesia	91	2009
ONGC, India	300	2009
Electricity Network, China	960	2009
Flowline Pipes, PDO, Oman	1,602	2008
Gasoducto Gibraltar project, Columbia	151	2008
Esperanza Project, Chile	150	2008
Sui Northern Gas Pipeline Limited, Pakistan	250	2008
Fuliang Product Oil Pipeline, SINOPEC, China	83	2007
Sui Northern Gas Pipeline Limited, Pakistan	170	2007
Shengli Oil Field, SINOPEC, China	255	2007
Sui Northern Gas Pipelines Limited, Pakistan	195	2006
Gas Natural, Columbia	18	2006
Shengli Oil Field, SINOPEC, China	39	2005
Guizhou Kailin Mineral Slurry Pipeline, China	48	2005
Copergas, GDK, Brazil	126	2005
Henan Product Oil Pipeline, SINOPEC, China	191	2005
Pearl River Delta Product Oil Pipeline, SINOPEC, China	1,200	2004–2005
Singapore HG Metal Manufacturing Limited, Singapore	50	2005
Southwest Oil Pipeline, SINOPEC, China	379	2003–2004
GAIL, India	67	2003
Xinjiang Oil Equipment Corporation, CNPC, China	71	2002
Wuxi Town Gas Co., Limited, China	134	2002
Gas Authority India Limited (GAIL), India	141	2002
Zhongyuan Oil Field, SINOPEC, China	13	2002
Jingzhou-Jingmen Product Oil Pipeline, SINOPEC, China	153	2002
Maoming Petro-chem, SINOPEC, China	28	2001
Lan-Cheng-Yu Oil Pipeline Project, CNPC, China	220	2001
Sawah Trading Company Limited, UAE	63	2000
National Oil Company Limited, The Middle East	130	2000
Shantou Stadium, China	41	2000
Zhejiang Product Oil Storage Transport Co., Ltd, SINOPEC, China	55	1999
Texas Oil Field, USA	153	1998
Xinjiang Hua Wu Oil Company. CNPC, China	80	1998
Xinjiang Oil Field, CNPC, China	85	1998
Jidong Oil Field, CNPC, China	54	1997
Zhongyuan Oil Field, SINOPEC, China	76	1997
Changqing Oil Field, CNPC, China	290	1996
Kelamayi Oil Field, CNPC, China	150	1996
Thailand TK Co., Thailand	52	1996

MANAGEMENT DISCUSSION AND ANALYSIS

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 categorised into LSAW steel pipes and ERW steel pipes. We are one of the largest LSAW steel pipe manufacturers and exporters in the PRC who are capable of producing LSAW steel pipes that meet the X80 standard, and also accredited numerous international certifications such as Det Norske Veritas ("DNV") and American Petroleum Institute ("API"). In addition, we are the first and sole PRC manufacturer that has successfully developed deep sea welded pipes for use under 1,500m depth. Our products are widely applicable on major oil and gas pipeline projects (both onshore and offshore) and infrastructure projects domestically and internationally.

Our Group is able to manufacture offshore pipes for offshore projects and is classified as Offshore Engineering Equipment Industry (海洋工程裝備製造業) during the 12th Five-Year Plan. We were benefited and supported by PRC strategic policies. During the year, we were supported by PRC policy banks and insurance institution and we have maintained good relationship with China Development Bank, The Export-Import Bank of China and China Export & Credit Insurance Corporation. We have obtained medium-term loan and credit facilities from them.

LSAW Steel Pipes

The Group is one of the largest LSAW steel pipe manufacturers and exporters in the PRC. LSAW steel pipe is the largest revenue contributor to the Group and accounted for approximately 94.9% of our total revenue for the year ended 31 December 2011. For the year ended 31 December 2011, revenue from the sales and manufacturing service of LSAW steel pipes amounted to approximately RMB3,186.0 million and RMB19.3 million, respectively, representing an increase of 121.3% and a decrease of 45.9%, respectively, as compared to those for the year ended 31 December 2010. The increase in sales of LSAW steel pipes was mainly due to the stabilisation of the global economy and rising demand for pipeline under China's 12th Five-Year Plan and the Group has obtained numerous significant oversea and national orders during the year. The Group has received total orders for steel pipes amounted to 471,576 tonnes during 2011. Some of the new orders were for steel pipes used in significant oversea and national projects and part of them were delivered during the year.

	Tonnes of steel pipe ordered with the Group	RMB million
• Husky Deep Sea Project	50,000	500.0
• Liwan Offshore Project	66,200	713.1
• West-to-East II-HK Shenzhen Branch	15,046	210.5
• Guangdong Natural Gas Pipe Network Phase II	48,000	382.0
• State Grid Corporation of China	67,000	384.0
• Columbia gas project	150,000	1,175.0

The decrease in revenue from the manufacturing service of LSAW steel pipes was mainly due to customer preference for the Group's LSAW steel pipes products.

ERW Steel Pipes

Market competition of ERW steel pipes has been very keen due to its relatively low technical and standardised requirements. Revenue from ERW steel pipes accounted for a relatively small proportion of total sales of the Group. For the year ended 31 December 2011, revenue from the sales and manufacturing service of ERW steel pipes amounted to approximately RMB135.7 million and RMB3.3 million, respectively. The total revenue from ERW steel pipes accounted for approximately 4.1% of the total revenue for the year ended 31 December 2011.

2011 was the first year of the 12th Five-Year Plan and the Group expects enormous growth of the steel pipe industry for the following reasons: (i) South Sea has large oil and gas reserves which accounted for one-third of total oil and gas reserves of Mainland China. China National Offshore Oil Corporation ("CNOOC") will focus on exploiting oil and gas fields at South Sea during the 12th Five-Year Plan. For welded pipes, only LSAW steel pipes can be used for deep sea purposes and the Group is the first and only manufacturer in the PRC to develop deep sea LSAW steel pipes. Thus, the Group expects robust demand for deep sea LSAW steel pipes; (ii) growth of China's natural gas industry. China's natural gas production and consumption recorded significant growth while natural gas is still only a small proportion of China's energy consumption. It is estimated that China's natural gas consumption in 2015 will reach 260 billion cubic meters, which is 2.6 times that of 2010, with compound annual growth rate of 21%. China has to import gas from northwest and northeast China to east and south China. Pipeline transmission is the most economical, convenient and widely applied method for transmitting gas. Demand for steel pipes for transmission of gas will increase accordingly. It is expected that total length of China's pipelines will reach 150,000 km in 2015, which almost doubles that of 2010. (iii) promotion of coalbed methane in PRC. China has rich coal resources. Coal seam gas is a form of natural gas extracted from coal beds and is a cleaner energy. Demand for steel pipes for transmission of coal seam gas will increase accordingly. (iv) commencement of construction of ultra-high voltage grid projects. 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 power grids. The Group has won the bid of the first project of SGCC-Huainan-Shanghai Ultra-High Voltage Power Grids. It is expected that demand for LSAW steel pipes in ultra-high voltage power grids will increase.

MANAGEMENT DISCUSSION AND ANALYSIS

Despite the unstable global economy especially in Europe and the US, demand for steel pipes for transmission of oil and gas in developing countries was still high as energy consumption for those developing countries was increasing. The Group has received significant orders from Columbia and Peru during the year, which accounted for almost 36% of the total revenue of the Group. In addition, the commodity prices of minerals (e.g. copper and iron ore) were high which stimulate the investment by mineral companies. As pipeline transmission is the most economical and convenient method for transmitting minerals slurry, this also driving the growth in demand for steel pipes.

Due to expected growth in demand of our products in coming years, the Group plans to increase production capacity to capture growth potentials and continue to be the largest LSAW steel pipe manufacturer in the PRC. The Group has acquired two pieces of land in Lianyungang during the year. A new LSAW production line with COE method (the advanced technology which the Group has obtained invention patent) with 300,000 tonnes will be constructed in Lianyungang. It is expected to commence production by the fourth quarter of 2012.

The LSAW production line with 300,000 tonnes in Zhuhai will commence production in second quarter of 2012.

FINANCIAL REVIEW

Revenue and gross profit

For the year ended 31 December 2011, our revenue was approximately RMB3,376.9 million, representing an increase of RMB1,695.4 million or 100.8% as compared with that of 2010. The increase in revenue was mainly attributable to the increase in sales volume of LSAW 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:

	2011		2010	
	Revenue RMB'000	**% to total**	Revenue RMB'000	% to total
Sales of steel pipes				
LSAW steel pipes	**3,186,043**	**94.3**	1,439,529	85.6
ERW steel pipes	**135,728**	**4.0**	170,711	10.2
Subtotal	**3,321,771**	**98.3**	1,610,240	95.8
Manufacturing services				
LSAW steel pipes	**19,258**	**0.6**	35,607	2.1
ERW steel pipes	**3,270**	**0.1**	4,741	0.3
Subtotal	**22,528**	**0.7**	40,348	2.4
Others	**32,566**	**1.0**	30,885	1.8
Grand total	**3,376,865**	**100.0**	1,681,473	100

	2011 Gross profit RMB'000	2011 Sales volume tonnes	2011 Average gross profit RMB/tonne	2010 Gross profit RMB'000	2010 Sales volume tonnes	2010 Average gross profit RMB/tonne
Sales of steel pipes						
LSAW steel pipes	**500,712**	**415,680**	**1,205**	244,813	184,528	1,327
ERW steel pipes	**(3,135)**	**21,951**	**(143)**	(2,627)	34,094	(77)
Subtotal	**497,577**	**437,631**		242,186	218,622	
Manufacturing services						
LSAW steel pipes	**10,207**	**15,577**	**655**	18,757	18,253	1,028
ERW steel pipes	**23**	**4,197**	**5**	370	8,745	42
Subtotal	**10,230**	**19,774**		19,127	26,998	
Others	**2,541**	**N/A**	**N/A**	3,063	N/A	N/A
Grand total	**510,348**	**457,405**		264,376	245,620	

The revenue generated from the sales of steel pipes accounted for approximately 98.3% of our total revenue in 2011 as compared with approximately 95.8% in 2010. Steel pipe manufacturing services accounted for approximately 0.7% of our total revenue in 2011 as compared with approximately 2.4% in 2010. The revenues denoted by "Others" mainly represented the sale of steel fittings, trading of steel pipes and sale of scrap materials which accounted for approximately 1.0% of our total revenue in 2011 as compared with 1.8% in 2010.

Gross profit for 2011 was approximately RMB510.3 million, representing an increase of 93.0% or RMB246.0 million as compared with approximately RMB264.4 million in 2010. Gross profit margin for 2011 was 15.1% which was similar to 15.7% of last year.

Selling price of steel pipes is calculated based on a cost-plus pricing model, i.e., price of the raw materials (in particular steel plate and steel coil) 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 9.2% from approximately RMB1,327 in 2010 to approximately RMB1,205 in 2011. This was attributable to (i) the increase in domestic sales where specification requirements were not high and the average gross profit was lower and (ii) the decrease in selling price offered to Columbia gas projects (re-order) due to its bulk order quantity.

The average gross loss per tonne for ERW steel pipes of RMB143 in 2011 was due to sales volume of ERW steel pipes not large enough to cover fixed costs absorbed in the cost of sales.

As to the manufacturing services, although the average gross profit per tonne for manufacturing services of LSAW steel pipes decreased by 36% as compared with last year, the gross profit margin was similar to that of last year.

Our oversea sales accounted for 51.8% of our total revenue in 2011, but only 39.5% in 2010. This was mainly attributable to recovery of global economy and high oil and gas prices which led to increasing capital expenditure on pipeline projects by oil and gas companies. The Group obtained significant orders from Columbia and Peru gas projects which accounted for almost 36% of total revenue of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

SALES BY GEOGRAPHICAL AREAS

	2011		2010	
	RMB'000	**%**	RMB'000	%
Overseas sales	**1,750,849**	**51.8**	663,740	39.5
Domestic sales	**1,626,016**	**48.2**	1,017,733	60.5
Total	**3,376,865**	**100.0**	1,681,473	100.0

OTHER INCOME AND GAINS

Other income and gains increased by 501.5% or RMB57.5 million from approximately RMB11.5million in 2010 to approximately RMB69.0 million in 2011. Other income in 2011 mainly represents bank interest income and subsidy income from the PRC government. Increase in other income was mainly due to increase in subsidy from the PRC government.

SELLING AND DISTRIBUTION COSTS

Selling and distribution costs increased by 66.1% or RMB28.3 million from approximately RMB42.8 million in 2010 to approximately RMB71.0 million in 2011. The increase was mainly due to the increased transportation expenses resulted from the increase in sales of the Group. The selling and distribution costs as a percentage of our total revenue were approximately 2.1% in 2011 and 2.5% in 2010, respectively.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 43.1% or RMB49.9 million from approximately RMB116.0 million in 2010 to approximately RMB165.9 million in 2011. The increase was primarily due to the composite effect of (i) the increase in R&D expenses, a substantial portion of which was related to the R&D expenses on deep sea application of steel pipes; (ii) the increase in salary and wages which was primarily due to the increase in a number of senior managements; (iii) the increase in office expenses for the new production bases in Zhuhai and Lianyungang; and (iv) the increase in bank charges resulted from the increase in sales as short term bank loans were needed for financing the working capital.

FINANCE COSTS

Finance costs increased by 186.8% or RMB42.5 million from approximately RMB22.7 million in 2010 to approximately RMB65.2 million in 2011. The increase was in line with the increase in bank loans and other borrowings as compared with last year. Increase in finance costs was mainly attributable to the increase in sales for the year as compared with last year for which the Group has incurred more borrowings to finance working capital accordingly.

EXCHANGE GAIN/(LOSS), NET

Exchange gain/loss has changed from approximately RMB1.6 million loss in 2010 to approximately RMB5.4 million gain in 2011. The exchange gain was resulted from the foreign currency loans which was offset by the exchange loss arising from our oversea sales denominated in US dollar during the year.

INCOME TAX EXPENSES

Income tax expenses increased by 160.2% or RMB30.0 million from approximately RMB18.7 million in 2010 to approximately RMB48.8 million in 2011. The increase was mainly due to the increase in our profit before tax. The Group's effective tax rate for 2011 was approximately 17.5% which was lower than that of 2010 (2010: 21.1%).

PROFIT FOR THE YEAR

As a result of the factors discussed above, our profit increased by 228.5% or RMB160.5 million from approximately RMB70.2 million in 2010 to approximately RMB230.7 million in 2011. Net profit margin increased from 4.2% in 2010 to 6.8% in 2011.

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 2010 and 2011:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Net cash flows from/(used in) operating activities	**1,332**	(586,388)
Net cash flows used in investing activities	**(686,295)**	(400,283)
Net cash flows from financing activities	**1,070,950**	1,236,207
Net increase in cash and cash equivalents	**385,987**	249,536

NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES

The Group's net cash flows from operating activities improved from approximately negative RMB586.4 million in 2010 to approximately positive RMB1.3 million in 2011. The net cash flows from operating activities were primarily due to the combined effect of (i) operating profit before changes in working capital of approximately RMB379.5 million, and (ii) increase in inventories, trade and bills receivables, trade and bills payables and prepayments of approximately RMB353.4 million resulted from the increase in sales for the year ended 2011 as compared with that of 2010.

NET CASH FLOWS USED IN INVESTING ACTIVITIES

The Group's net cash flows used in investing activities increased by 71.5% or RMB286.0 million from approximately RMB400.3 million in 2010 to approximately RMB686.3 million in 2011. The net cash outflows were mainly due to the purchase of land in Lianyungang and purchase of plant and machinery in Zhuhai and Lianyungang for construction of new production bases during the year.

NET CASH FLOWS FROM FINANCING ACTIVITIES

The Group's net cash flows from financing activities decreased by 13.4% or RMB165.3 million from approximately RMB1,236.2 million in 2010 to approximately RMB1,071.0 million in 2011. The net cash inflows were mainly resulted from the combined effect of (i) borrowing of new bank loans and government loans of approximately RMB3,321.7 million and (ii) repayment of bank loans and government loans of approximately RMB2,250.4 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 that future currency fluctuations 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 2011.

CAPITAL EXPENDITURE

For the year ended 31 December 2011, the Group invested approximately RMB686.3 million for the purchase of property, plant and equipment and land use rights. These capital expenditures were fully financed by internal resources, bank borrowings and net proceeds from the issue of shares.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at 31 December 2011, 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 RMB51,113,000 (2010: RMB52,781,000) and RMB79,563,000 (2010: RMB81,638,000) as at 31 December 2011 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 2011.

GEARING RATIO

The Group's gearing ratio is calculated based on the summation of bank loans and other borrowings divided by total assets. The gearing ratio of the Group as at 31 December 2011 and 2010 were 39.9% and 26.7%, respectively.

As at 31 December 2011, total borrowings of the Group amounted to approximately RMB2,167.1 million, of which 33.8% were long term borrowings.

As at 31 December 2011, approximately 80% of total borrowings were denominated in Renminbi which carried interest rates linked to the benchmark lending rate published by the People's Bank of China, and approximately 20% of total borrowings as at 31 December 2011 were denominated in US dollar and HK dollar with interest rates linked to the London interbank of 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 9 May 2011, 連雲港凱帝重工科技有限公司 (Lianyungang Kaidi Heavy Equipment Technology Company Limited) ("Kaidi") was established as a wholly-owned subsidiary of Panyu Chu Kong Steel Pipe Company Limited ("PCKSP"), with a registered capital of RMB100 million, which has been paid in cash, to engage in the manufacture of steel pipe equipment and metallurgy equipment.

On 13 June 2011, PCKSP has entered into the Agreement with AHQ to establish the JV Company with a registered capital at SR106 million (equivalent to approximately USD26.5 million). The JV Company will be owned 50% by PCKSP and 50% by AHQ. The total investment commitment in the JV Company by the Group will not exceed USD53 million, which is in proportion to its shareholding in the JV Company pursuant to the Agreement. The proposed principal business of the JV Company will be engaged in manufacturing and sale of LSAW steel pipes and ERW steel pipes.

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

EVENT AFTER THE REPORTING PERIOD

There are no significant events subsequent to 31 December 2011 which would materially affect the Group's operating and financial performance as of the date of consolidated financial statements.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

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 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)	Utilised Up to 31 Dec 2011 (RMB' million)
Use of proceeds		
Establishment of a new production base in Lianyungang	684.4	572.4
Construction of new LSAW steel pipe production line and modification of an ancillary production line into a completed LSAW steel pipe production line	97.7	97.7
Repayment of bank loans	48.9	48.9
Expansion of oversea distribution network	19.6	19.6
Enhancement of our R&D capabilities	29.3	29.3
Working capital	97.8	97.8
Total	977.7	865.7

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2011, the Group had a total of 2,958 dedicated full time employees (2010: 2,081 employees). The following set forth the total number of our staff by functions:

	2011	2010
Management	**168**	42
Production and logistics	**1,586**	1,214
Sales and marketing	**37**	38
Finance	**29**	21
Quality control	**513**	395
R&D	**231**	89
Procurement	**42**	31
General administration and others	**352**	251
Total	**2,958**	2,081

For the year ended 31 December 2011, staff cost (including directors' remuneration in the form of salaries and other benefits) was RMB135.5 million (2010: RMB91.4 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 funds schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS AND PROSPECTS

Our Group strives to continue to be a leading LSAW steel pipe manufacturer domestically and becoming a major international LSAW steel pipe manufacturer. Leverage on our experienced management team, R&D capabilities, state-of-the-art technology, well established customer base and long track records with reputation, we are the only Chinese company qualified for undertaking most of the international large orders, and capable of producing deep sea welded steel pipes for use under 1,500m depth. We are also a core supplier of Shell. We were approved by the Guangdong Provincial Government to set up the Academician Workstation. This will further strengthen our R&D capabilities and further enhance our products into high-end use.

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

(1) Construction of Steel Plate Processing Facilities

The Group intends to construct a steel plate processing production line with a planned annual capacity of 2,000,000 tonnes. It will be located in Lianyungang and is expected to be completed by the end of 2013. This steel plate processing production line is capable of producing API-grade steel plates and is expected to meet our captive consumption requirement. It will not only improve our steel pipe profitability but also secure stable supply of high-quality steel plates for production even when market conditions are tight.

(2) Construction of New LSAW Steel Pipe Production Lines

Two oil and gas LSAW steel pipe production lines with a planned annual capacity of 300,000 tonnes each are under construction. These two production lines will be located in Zhuhai and Lianyungang and are expected to commence commercial production in the second quarter of 2012 and the fourth quarter of 2012, respectively. The LSAW production line in Lianyungang uses COE method which is the most advanced technology patented by the Group. Upon completion of these two production lines in 2012, our annual production capacity of oil and gas LSAW steel pipes will be enhanced to 1.6 million tonnes, allowing us to cater for the increasing demand for oil and gas LSAW steel pipes.

(3) Construction of New SSAW Steel Pipe Production Lines

In order to meet with the demand for SSAW steel pipes of some customers and to widen our product range, the Group intends to construct two SSAW steel pipe production lines as an auxiliary basis. One production line with annual capacity of 300,000 tonnes will be located in Zhuhai and the other production line with annual capacity of 360,000 tonnes will be located in Lianyungang. The SSAW steel pipe production line in Zhuhai is mainly for producing steel pipes used for oil and gas transmission and infrastructure, while the pre-welding and precision welding SSAW steel pipe production line in Lianyungang is mainly for producing steel pipes used for oil and gas transmission. The SSAW steel pipe production line in Lianyangang, which uses the most advanced technology, is expected to commence commercial production in the third quarter of 2012 while the SSAW production line in Zhuhai will commence commercial operation in first quarter of 2013. Upon completion of these two production lines, our annual capacity of SSAW steel pipes will become 660,000 tonnes.

(4) Formation of Joint Venture

On 13 June 2011, PCKSP entered into the Agreement with AHQ to establish the JV Company with a registered capital at SR106 million (equivalent to approximately USD26.5 million). The JV Company will be owned 50% by PCKSP and 50% by AHQ. The proposed principal business of the JV Company is the manufacturing and sale of LSAW steel pipes and ERW steel pipes. The JV Company is expected to commence operation in mid-2013. Forming the JV Company with AHQ will further develop, strengthen and expand the market shares of the Group in the Kingdom of Saudi Arabia and other neighboring countries. It is expected that the JV Company will improve the Group's turnover and results.

The Group intends to fund the capital expenditure by the proceeds from the global offering, internally generated funds and bank borrowings.

Looking forward, we expect that our turnover will continue to grow because (i) more capital expenditure will be spent on pipeline projects by oil and gas companies given the current high oil and gas prices, (ii) the Group has accumulated experience through involving in the Liwan Deep Sea Project and has moved up the technology ladder, and has been recognised as a supplier of high quality steel pipes, (iii) liquefied natural gas ("LNG") and shale gas as a clean energy are being used in more countries and pipeline is the most economical, convenient and widely applied way of transmission of such gases, and (iv) high commodity price of minerals which led to the demand for steel pipes as transmission of minerals slurry.

Domestically, 2012 is the second year of the 12th Five-Year Plan, we expect to see a spurt in construction of national pipelines and city gas networks and offshore projects. Furthermore, State Grid's commencement of large-scale construction of power grid projects which includes the building of several ultra-high voltage power grids nationwide in the coming five years will also facilitate the demand for our infrastructure pipes. In addition, China has been developing coalbed methane as a cleaner energy in light of its rich coal reserves, and pipeline is the most economical and convenient way of transmission of such energy. All these are expected to contribute to the robust demand of steel pipes.

The Group strives to be the leading manufacturer of high quality LSAW steel pipes in the PRC and oversea and will continue to seek opportunities to realise sustainable growth of our business. Based on our experienced management team, R&D capabilities, well established relationship with our major suppliers and customers and emphasis on our diversified and high quality products, the Group is well-positioned to capture the tremendous growth of steel pipe markets domestically and globally.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr Chen Chang (陳昌)

Mr Chen Chang (陳昌), age 66, is a Chief Executive Officer ("CEO") and the chairman of the Company and also a member of the nomination committee and 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 abundant 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. He served as the vice chairman of the fourth, fifth and sixth consecutive council of the 冷彎型綱分會 (Cold-formed Steel Sub-committee) of 中國綱結構協會 (China Steel Structure Association) in 2004, 2005 and 2010. In 2006, he was the vice president of the 冶金商會 (Metallurgical Chamber of Commerce) of 中華全國工商業聯合會 (All-China Federation of Industry & Commerce). 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*). In the same year, Mr. Chen was honored as 抗震救災先進個人 (Outstanding Individual in Earthquake Relief*) in Guangzhou. In 2009, he was granted 第四屆發明創業獎 (The Fourth Invention and Entrepreneur Award*) by the China Steel Association and recognized as a Guangzhou Model Labor. In 2010, Mr Chen, by leading the research and development in manufacturing process of and technology in Large Diameter Longitudinal Two-End Submerged Arc Welded Steel Pipes and its series of products, won the 科學技術獎一等獎 (First Prize of Science and Technology Awards*) in Guangdong Province. In 2011, Mr. Chan was granted a 廣州市優秀企業家 (Guangzhou Outstanding Entrepreneur*) honors.

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. Together with Mr Chen's personal interest of 1,638,000 shares of the Company, Mr Chen has total interest in 703,549,000 shares of the Company.

Ms Chen Zhao Nian (陳兆年)

Ms Chen Zhao Nian (陳兆年), aged 35, a daughter of Mr. Chen Chang 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. In 2011, Ms Chen was a Member of the Standing Committee of Sixteenth Session of NPC in Panyu, Guangzhou, the Vice President of 廣州市女企業家協會 (the Guangzhou Association of Women Entrepreneur*) and an executive member of 廣州市番禺區中小企業投融資促進會 (SMEs Investment and Finance Promotion Association of Panyu, Guangzhou*). Ms Chen was awarded as the "March 8th Flag Bearer" of Guangzhou City in 2010-2011.

Ms Chen Zhao Hua (陳兆華)

Ms Chen Zhao Hua (陳兆華), aged 33, a daughter of Mr. Chen Chang 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.

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INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Chen Ping (陳平)

Mr Chen Ping (陳平), aged 46. Mr Chen was appointed as an independent non-executive Director on 23 January 2010. Mr Chen is also the chairman of the nomination committee, 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 54. 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, a member of the audit committee and nomination 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. 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. 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. 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 48. 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).

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PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr Wang Lishu (王利樹)

Mr WANG Lishu (王利樹), aged 54. 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 58, joined the Group in June 2010 as Vice President of Marketing and is responsible for the sales and marketing on both international and domestic markets. 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. He had lived in various countries, including Singapore, the Netherlands, Thailand and China throughout the years. 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 from Heriot Watt University in Britain in year 1978 and postgraduate qualification in Business Administration from National University of Singapore. He also attended executive programmes organised by Insead-Shell Group Business Leadership Programme in 2004.

Mr Wong Yu May (黃耀楣)

Mr WONG Yu May (黃耀楣), aged 59, 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 39. 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 16 years of experience in the ferrous metallurgy industry.

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Ms Wong Pui Shan (王珮珊)

Ms Wong Pui Shan (王珮珊), aged 35, joined the Group in April 2011 as the chief financial officer and company secretary of the Company. Ms. Wong received her Master of Science in Finance from the Chinese University of Hong Kong and Bachelor of Arts Degree (Hons) in Accountancy from the Hong Kong Polytechnic University. She is a fellow member of the Association of Chartered Certified Accountants, member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. Prior to joining the Company, she had served with an international audit firms for four years and listed companies as financial controller and company secretary for more than eight years.

Ms Liu Yonghe (劉咏荷)

Ms LIU Yonghe (劉咏荷), aged 43, 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 54, 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 30 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 49, 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

Ms Wong Pui Shan (王珮珊)

Ms Wong is the company secretary of the Company. Ms Wong is working for the Company on a full time basis. Details of her biography are set out above in this section.

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REPORT OF THE DIRECTORS

The directors hereby present their report and the audited financial statements of the Group for the year ended 31 December 2011.

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 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. 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 2011 are set out in note 19 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 42 to 96.

The Directors recommended a final dividend of HK5.7 cents per share for the year ended 31 December 2011 payable to shareholders whose names appear on the Register of Members of the Company on 4 June 2012. Subject to the passing of the relevant resolution at the forthcoming annual general meeting ("AGM") of the Company, the final dividend will be payable on or about 27 June 2012.

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 97. 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 30 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 2011, the Company's reserves available for distribution to the shareholders in accordance with the Articles of Association were RMB688,970,000.

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 International Financial Reporting Standards ("IFRSs").

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling RMB765,000.

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 2011, sales to the Group's five largest customers accounted for 56.8% of the total revenue of the Group, and sales to the largest customer included therein amounted to 36.4%. Purchases from the Group's five largest suppliers accounted for 67.3% of the total purchases of the Group, and purchases from the largest supplier included therein amounted to 30.6%. 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 and five largest suppliers.

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

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, the Company considers them to be independent.

REPORT OF THE DIRECTORS

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 23 to 26 of this annual report.

In accordance with article 105(A) of the Articles of Association, Ms. Chen Zhao Nian and Mr. Liang Guo Yao will retire and, being eligible, will offer themselves for re-election at the forthcoming AGM of the Company.

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 renewed the letter of appointment with the Company for a term of two years commencing from 1 February 2012 and is subject to termination by either party giving not less than one month's written notice.

None of the Directors proposed for re-election at the forthcoming AGM 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 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 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 (the "Model Code") of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (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%
	Personal interest	Long	1,638,000	0.16%

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 2011.

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 2011, 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 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
Su Xing Fang	Interest of spouse (note 1)	Long	703,549,000	69.58%
Value Partners Limited	Investment manager	Long	57,114,000 (note 2)	5.64%
Cheah Capital Management Limited	Interest of controlled corporation	Long	57,114,000 (note 2)	5.64%
Value Partners Hong Kong Limited	Interest of controlled corporation	Long	57,114,000 (note 2)	5.64%
Value Partners Group Limited	Interest of controlled corporation	Long	57,114,000 (note 2)	5.64%
Cheah Company Limited	Interest of controlled corporation	Long	57,114,000 (note 2)	5.64%
Hang Seng Bank Trustee International Limited	Trustee	Long	57,114,000 (note 2)	5.64%
Cheah Cheng Hye	Person who set up a discretionary trust	Long	57,114,000 (note 2)	5.64%
To Hau Yin	Interest of spouse	Long	57,114,000 (note 2)	5.64%
Capital Research and Management Company	Investment manager	Long	50,570,000 (note 3)	5.00%

Notes:

1. Madam Su Xing Fang, the spouse of Mr. Chen Chang, is also deemed to be interested in such 703,549,000 shares in which Mr. Chen is deemed to be interested.

2. The 57,114,000 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 28.47% interest over Value Partners Group Limited which in turn has 100% interest over Value Partners Hong Kong Limited. Value Partners Hong Kong Limited 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 57,114,000 shares.

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

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

During the year ended 31 December 2011, 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 34 to 39.

REPORT OF THE DIRECTORS

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 adopted 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 2011.

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 34 to the financial statements and disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out in note 34 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 a letter from Ernst & Young, the auditors of the Company confirming that the continuing connected transactions (i) had received the approval of the Board of the Directors; (ii) were 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 2011 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

There are no significant events subsequent to 31 December 2011 which would materially affect the Group's operating and financial performance as of the date of consolidated financial statements.

AUDITORS

The Company has appointed Ernst & Young as auditors of the Company for the year ended 31 December 2011. A resolution will be proposed for approval by shareholders at the forthcoming AGM to re-appoint Ernst & Young as auditors of the Company.

ON BEHALF OF THE BOARD

Chen Chang
Chairman
Hong Kong
22 March 2012

CORPORATE GOVERNANCE REPORT

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 maximising shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders, comply with the increasingly stringent regulatory requirements, and 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 Listing Rules as its own code of corporate governance. The Board considers that 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 separately 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 arises.

BOARD OF DIRECTORS

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

All Directors have carried out their duties in good faith, in compliance with applicable laws and regulations and in the interests of the Company and its shareholders at all times.

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 that all of the independent non-executive Directors are independent.

The Board has delegated various responsibilities to the Board committees including the Audit Committee, the Nomination Committee and the Remuneration Committee. Further details of these Committees are set out below on pages 36 to 37.

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 at least 3 days 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 2011, five Board meetings were held.

The Company's Articles of Association contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

Appointments, Re-election and Removal of Directors

The Board is responsible for selection and approval of candidates for appointment as directors to the Board. The Company has established a Nomination Committee on 22 March 2012. The Nomination Committee is responsible for reviewing Board composition, evaluating the balance of skills, knowledge and experience of the Board and making recommendations on the appointment of directors.

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 re-appointed for a term of two years commencing from 1 February 2012, and are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

In accordance with the Company's Articles of Association, all Directors shall be subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment. In accordance with Articles of Association, Ms. Chen Zhao Nian and Mr. Liang Guo Yao will retire and, being eligible, will offer themselves for re-election at the forthcoming AGM of the Company.

Training Induction and Continuing Development of Directors

Each newly appointed director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for directors will be arranged where necessary.

BOARD COMMITTEES

The Board has established three committees, namely, Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the websites of the Company and the Stock Exchange.

The majority of the members of each Board committee are independent non-executive directors.

Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances at the Company's expense.

Audit Committee

The Audit Committee consists of three independent non-executive directors, namely Mr. Chen Ping, Mr. Liang Guo Yao and Mr. See Tak Wah. All of them are independent non-executive directors. Mr. See Tak Wah is the Chairman of the Audit Committee, who has appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors. 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 2011 and the interim financial statements for the six months ended 30 June 2011, including the accounting principles and practices adopted by the Company and Group.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the internal auditor or external auditors before submission to the Board

- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditors

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures

The Audit Committee held two meetings during the year ended 31 December 2011 and all members of the Committee attended both meetings. At the meetings, it reviewed the financial reporting and compliance procedures, the report of the internal auditor on the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors.

The Company's annual results for the year ended 31 December 2011 and interim results for the six months ended 30 June 2011 have been reviewed by the Audit Committee.

Nomination Committee

The Company established the Nomination Committee on 22 March 2012 in compliance with Appendix 14 to the Listing Rules. The Nomination Committee consists of three members, namely Mr. Chen Ping, Mr. Liang Guo Yao and Mr. Chen Chang. Mr. Chen Ping is the Chairman of the Nomination Committee. The majority of them are independent non-executive directors.

The primary functions of the Nomination Committee are to review and monitor the structure, size and composition (including the skills, knowledge and experience) of the Board to complement the Company's corporate strategy and make recommendations to the Board on matters relating to the appointment or re-appointment of directors and succession planning for directors; and assess the independence of independent non-executive directors.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

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 majority of them are independent non-executive directors. 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 2011, one meeting was held and all members attended the meeting of the committee.

The attendance of individual members of the Board and other Board Committees meetings for the financial year ended 31 December 2011 is set out in the table below:

	Meeting attended/held			
	Board	Audit Committee	Nomination Committee*	Remuneration Committee
Executive Directors				
Mr. Chen Chang (Chairman of the Board)	5/5	N/A	N/A	1/1
Ms. Chen Zhao Nian	5/5	N/A	N/A	N/A
Ms. Chen Zhao Hua	5/5	N/A	N/A	N/A
Independent non-executive Directors				
Mr. Chen Ping	5/5	2/2	N/A	1/1
Mr. Liang Guo Yao	5/5	2/2	N/A	1/1
Mr. See Tak Wah	5/5	2/2	N/A	N/A

* Nomination Committee was formed on 22 March 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted 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 2011.

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, IFRSs 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 2011, the remuneration paid or payable to the independent auditors, Ernst & Young, for services rendered is broken down below:

	2011 HK$'000
Audit services	2,680
Non-audit services	354
Total	3,034

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 Company has set up internal audit department to ensure 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 has reviewed the internal audit report and 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 2011. 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 2011 with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flows 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, 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.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

To promote effective communication, the Company maintains a website at http://www.pck.com.cn, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted.

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

The forthcoming AGM of the Company will be held on 25 May 2012. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

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.

SHAREHOLDER RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual directors.

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting.

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG 安永

22nd Floor
CITIC Tower
1 Tim Mei Avenue, 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 42 to 96, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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.

INDEPENDENT AUDITORS' REPORT

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 2011, 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
22 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	7	**3,376,865**	1,681,473
Cost of sales		**(2,866,517)**	(1,417,097)
Gross profit		**510,348**	264,376
Other income and gains	7	**68,972**	11,466
Selling and distribution costs		**(71,023)**	(42,765)
Administrative expenses		**(165,925)**	(115,984)
Other expenses		**(3,087)**	(3,807)
Finance costs	8	**(65,196)**	(22,731)
Exchange gain/(loss), net		**5,413**	(1,576)
PROFIT BEFORE TAX	9	**279,502**	88,979
Income tax expense	12	**(48,775)**	(18,742)
PROFIT FOR THE YEAR		**230,727**	70,237
Profit attributable to:			
Owners of the Parent		**230,727**	70,237
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	14	**RMB0.23**	RMB0.07
OTHER COMPREHENSIVE INCOME:			
Exchange differences on translation of foreign operations		**(2,578)**	(8,867)
Income tax relating to component of other comprehensive income		**–**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(2,578)**	(8,867)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**228,149**	61,370
Total comprehensive income attributable to:			
Owners of the Parent		**228,149**	61,370

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 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**1,420,346**	1,071,197
Investment properties	16	**1,813**	1,954
Deposits paid		**174,973**	64,914
Prepaid land lease payments	17	**339,776**	122,983
Goodwill	18	**4,075**	4,075
Deferred tax assets	20	**4,394**	1,261
Pledged deposits	24	**165**	4,410
Total non-current assets		**1,945,542**	1,270,794
CURRENT ASSETS			
Inventories	21	**1,190,235**	977,539
Trade and bills receivables	22	**803,321**	355,025
Prepayments, deposits and other receivables	23	**462,357**	360,905
Pledged deposits	24	**47,483**	51,897
Cash and bank balances	24	**981,779**	599,178
Total current assets		**3,485,175**	2,344,544
CURRENT LIABILITIES			
Trade and bills payables	25	**666,583**	203,983
Interest-bearing bank loans and other borrowings	26	**1,434,816**	727,017
Other payables and accruals	28	**323,443**	394,499
Tax payable		**39,512**	19,333
Total current liabilities		**2,464,354**	1,344,832
NET CURRENT ASSETS		**1,020,821**	999,712
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,966,363**	2,270,506
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	26	**732,289**	240,000
Government grants	29	**34,153**	37,224
Deferred tax liabilities	20	**2,265**	2,265
Total non-current liabilities		**768,707**	279,489
Net assets		**2,197,656**	1,991,017
EQUITY			
Equity attributable to owners of the Parent			
Issued capital	30	**88,856**	88,856
Reserves	31(a)	**2,062,075**	1,880,651
Proposed final dividend	13	**46,725**	21,510
Total equity		**2,197,656**	1,991,017

Chen Chang
Director

Chen Zhao Nian
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Attributable to owners of the Parent								
	Issued capital RMB'000 (note 30)	**Share premium** RMB'000	**Contributed surplus** RMB'000	**Capital reserve** RMB'000 (note (a))	**Statutory reserve fund** RMB'000 (note (b))	**Retained profits** RMB'000	**Proposed final dividend** 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
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)
Transfer from retained profits	–	–	–	–	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
At 1 January 2011	88,856	897,643	224,589	57,607	81,560	620,864	21,510	(1,612)	1,991,017
Profit for the year	–	–	–	–	–	230,727	–	–	230,727
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(2,578)	(2,578)
Total comprehensive income for the year	–	–	–	–	–	230,727	–	(2,578)	228,149
Final 2010 dividend declared	–	(21,510)	–	–	–	21,510	(21,510)	–	(21,510)
Transfer from retained profits	–	–	–	–	22,665	(22,665)	–	–	–
Proposed final 2011 dividend (note 13)	–	(46,725)	–	–	–	–	46,725	–	–
At 31 December 2011	**88,856**	**829,408***	**224,589***	**57,607***	**104,225***	**850,436***	**46,725**	**(4,190)***	**2,197,656**

* These reserve accounts comprise the consolidated reserves of RMB2,062,075,000 (2010: RMB1,880,651,000) in the consolidated statement of financial position as at 31 December 2011.

Notes:

(a) 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").

(b) 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 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**279,502**	88,979
Adjustments for:			
Finance costs	8	**65,196**	22,731
Bank interest income	7	**(7,029)**	(7,737)
Loss on disposal of items of property, plant and equipment, net		**684**	358
Depreciation	9	**38,869**	39,815
Amortisation of prepaid land lease payments	17	**3,478**	2,392
Reversal of impairment of trade receivables	22	**(1,131)**	(384)
Reversal of impairment of deposits and other receivables	23	**(33)**	–
		379,536	146,154
Increase in inventories		**(212,696)**	(457,382)
Increase in trade and bills receivables		**(447,165)**	(87,483)
Increase in prepayments, deposits and other receivables		**(91,495)**	(243,741)
Decrease in pledged deposits		**8,659**	156,119
Increase/(decrease) in trade and bills payables		**462,600**	(191,587)
Increase/(decrease) in other payables and accruals		**(70,336)**	124,856
Decrease in an amount due to the ultimate shareholder		**–**	(20,540)
Increase/(decrease) in government grants		**(3,071)**	800
Cash generated from/(used in) operations		**26,032**	(572,804)
Interest received	7	**7,029**	7,737
Corporate income tax paid		**(31,729)**	(21,321)
Net cash flows from/(used in) operating activities		**1,332**	(586,388)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(460,574)**	(361,052)
Addition to prepaid land lease payments		**(225,726)**	(71,504)
Proceeds from disposal of items of property, plant and equipment		**5**	1,620
Receipt of government grants		**–**	30,653
Net cash flows used in investing activities		**(686,295)**	(400,283)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of shares		**–**	977,716
New bank loans and government loans		**3,321,691**	1,101,238
Repayment of bank loans and government loans		**(2,250,425)**	(804,174)
Dividend paid		**(21,510)**	–
Interest paid		**(68,784)**	(38,573)
Interest element of finance lease rental payments		**(10,527)**	–
Cash received from sales and lease back finance lease		**128,000**	–
Capital element of finance lease rental payments		**(27,495)**	–
Net cash flows from financing activities		**1,070,950**	1,236,207
NET INCREASE IN CASH AND CASH EQUIVALENTS		**385,987**	249,536
Effect of foreign exchange rate changes, net		**(3,386)**	144
Cash and cash equivalents at beginning of year		**599,178**	349,498
CASH AND CASH EQUIVALENTS AT END OF YEAR		**981,779**	599,178
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**981,779**	599,178
Cash and cash equivalents as stated in the statement of cash flows		**981,779**	599,178

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**33**	44
Investments in subsidiaries	19	**1,778,636**	1,778,636
Total non-current assets		**1,778,669**	1,778,680
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	**1,389**	128
Due from subsidiaries	19	**846,261**	919,661
Cash and bank balances	24	**218**	45
Total current assets		**847,868**	919,834
CURRENT LIABILITIES			
Other payables and accruals	28	**351**	28
Total current liabilities		**351**	28
NET CURRENT ASSETS		**847,517**	919,806
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,626,186**	2,698,486
Net assets		**2,626,186**	2,698,486
EQUITY			
Issued capital	30	**88,856**	88,856
Reserves	31(b)	**2,490,605**	2,588,120
Proposed final dividend	13	**46,725**	21,510
Total equity		**2,626,186**	2,698,486

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 Company's registered office address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. 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.

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board (the "IASB"), and the International Accounting Standards and Standing Interpretations Committee Interpretation approved by the International Accounting Standards Committee that remain in effect, 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 consolidated financial statements include the financial statements of the Group for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. 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 for the first time for the current year's 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 First-time Adopters*
IAS 24 (Revised)	*Related Party Disclosures*
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
IFRIC 14 Amendments	Amendment to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
IFRIC 19	*Extinguishing Financial Liability with Equity Instruments*
Improvements to IFRSs 2010	Amendments to a number of IFRSs issued in May 2010

Other than as further explained below regarding the impact of IAS 24 (Revised), and amendments to IFRS 3, IAS 1, IAS 27 and IFRIC 13 included in Improvements to IFRSs 2010, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these IFRSs are as follows:

(a) IAS 24 (Revised) Related Party Disclosures

IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 34 to the consolidated financial statements.

(b) Improvements to IFRSs 2010 issued in May 2010 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

➤ IFRS 3 Business Combinations: The amendment clarifies that the amendments to IFRS 7, IAS 32 and IAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

➤ IAS 1 Presentation of Financial Statements: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(b) (continued)

- IAS 27 Consolidated and Separate Financial Statements: The amendment clarifies that the consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier.

- IFRIC 13 Customer Loyalty Programmes: The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amounts of discounts or incentives otherwise granted to customers not participating in the award credit scheme are to be taken into account.

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 these financial statements.

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* [1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities* [4]
IFRS 9	*Financial Instruments* [6]
IFRS 10	*Consolidated Financial Statements* [4]
IFRS 11	*Joint Arrangements* [4]
IFRS 12	*Disclosure of Interests in Other Entities* [4]
IFRS 13	*Fair Value Measurement* [4]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* [3]
IAS 12 Amendments	Amendments to IAS 12 Income Taxes – *Deferred Tax: Recovery of underlying assets* [2]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits* [4]
IAS 27 (revised)	*Separate Financial Statements* [4]
IAS 28 (revised)	*Investments in Associates and Joint Ventures* [4]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* [5]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine* [4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect the Group is as follows:

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.

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

In November 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 2015.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and SIC 12 *Consolidation — Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12.

IFRS 11 replaces IAS 31 Interests in *Joint Ventures* and SIC 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, and the consequential amendments to IAS 27 and IAS 28 from 1 January 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

Amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

IAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt IAS 19 (2011) from 1 January 2013.

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 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 Group elects whether it measures the non-controlling interests in the acquire that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. 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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

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 identifiable net 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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 depreciates them accordingly.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

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.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net 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.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under IAS 39 are satisfied.

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, in rare circumstances, 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 as these instruments cannot be reclassified after initial recognition.

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 finance costs for loans and in other expenses for receivables 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 investments 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 revaluation 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, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of comprehensive income in other expenses. Interest earned whilst holding the available-for-sale financial investments 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 investments 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 investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, 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. 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 from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and 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 maturity amount 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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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 plus, 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 includes 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.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of IAS 39 are satisfied.

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. These 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 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) when 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, when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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) when 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 arising on settlement or translation of monetary items 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. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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 described 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:

	2011	2010
	RMB'000	RMB'000
Manufacture and sale of steel pipes:		
LSAW steel pipes	**3,186,043**	1,439,529
ERW steel pipes	**135,728**	170,711
Steel pipe manufacturing services:		
LSAW steel pipes	**19,258**	35,607
ERW steel pipes	**3,270**	4,741
Others*	**32,566**	30,885
	3,376,865	1,681,473

* 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:

	2011	2010
	RMB'000	RMB'000
Sales to external customers:		
Mainland China	**1,626,016**	1,017,733
America	**1,390,057**	255,429
European Union	**97,785**	1,128
Middle East	**98,418**	90,750
Other Asian countries	**91,073**	312,684
Others	**73,516**	3,749
	3,376,865	1,681,473

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 2011, revenue from a major customer of the Group amounting to RMB1,229,086,000 (2010: RMB158,807,000) accounted for 36% (2010: 9%) 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:

	2011	2010
	RMB'000	RMB'000
Revenue		
Manufacture and sale of welded steel pipes and the provision of related manufacturing services	**3,376,865**	1,681,473
Other income and gains		
Bank interest income	**7,029**	7,737
Subsidy income from the PRC government	**59,048**	3,445
Compensation	**203**	149
Rental income	**2,438**	–
Others	**254**	135
	68,972	11,466

The subsidy income represented subsidies granted by the local finance bureau to Kaidi and PCKSP as encouragements for their investment and technological innovation, respectively. There are no unfulfilled conditions or contingencies relating to these subsidies.

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Group 2011 RMB'000	2010 RMB'000
Interest on bank loans and government loans	**68,064**	38,357
Interest on finance leases	**10,527**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**78,591**	38,357
Less: Interest capitalised	**(13,395)**	(15,626)
	65,196	22,731

9. PROFIT BEFORE TAX

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

	Notes	2011 RMB'000	2010 RMB'000
Cost of inventories sold		**2,552,006**	1,255,883
Depreciation		**38,869**	39,815
Amortisation of prepaid land lease payments	17	**3,478**	2,392
Minimum lease payments under operating leases in respect of buildings		**2,159**	2,794
Auditors' remuneration		**2,099**	1,791
Exchange loss/(gain), net		**(5,413)**	1,576
Finance costs	8	**65,196**	22,731
Employee benefit expenses (including directors' remuneration (note 10)):			
Wages and salaries		**122,220**	84,413
Retirement benefit scheme contributions		**13,258**	6,977
Reversal of impairment of trade receivables	22	**(1,131)**	(384)
Reversal of impairment of deposits and other receivables	23	**(33)**	–
Bank interest income	7	**(7,029)**	(7,737)
Loss on disposal of items of property, plant and equipment, net		**684**	358
Research and development costs		**45,938**	24,652

10. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

	2011 RMB'000	2010 RMB'000
Fees	**522**	495
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**4,520**	4,535
Retirement benefit scheme contributions	**40**	44
	4,560	4,579
	5,082	5,074

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2011 RMB'000	2010 RMB'000
Mr. Chen Ping	**180**	165
Mr. Liang Guo Yao	**180**	165
Mr. See Tak Wah	**162**	165
	522	495

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

(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 2011				
Executive directors:				
Mr. Chen Chang	–	2,248	2	2,250
Ms. Chen Zhao Nian	–	1,136	19	1,155
Ms. Chen Zhao Hua	–	1,136	19	1,155
	–	4,520	40	4,560
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

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:

	2011	2010
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:

	2011 RMB'000	2010 RMB'000
Salaries, allowances and benefits in kind	4,543	2,351
Retirement benefit scheme contributions	19	10
	4,562	2,361

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

	2011	2010
Nil to RMB1,000,000	–	1
RMB1,000,001 to RMB2,600,000	2	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 Chu Kong Steel Pipe Group Co., Limited ("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-invested enterprises of a production nature which have not fully utilised their five-year tax holiday will be allowed to continue to receive the benefits of tax exemption during the five-year 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. PCKSP has renewed its HNTE eligible in 2011 and continued to be entitled to a reduced rate of 15% from 1 January 2011 to 31 December 2013.

Guangzhou Pearl River Petro-fittings Co., Ltd. ("GPR Petrol-Fittings"), Guangzhou Pearl River OCTG Co., Ltd. ("GPR Casing Pipe"), Guangzhou Pearl River Petroleum Steel Pipe Coating Co., Ltd. ("GPR Coating") and Guangzhou Pearl River Petroleum Steel Pipe Co., Ltd. ("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.

Guangzhou Panyu Chu Kong Hualong Petroleum Steel Pipe Anti-Corrosion Co., Ltd. ("Hualong Anti-Corrosion") is subject to the income tax rate of 25% upon the implementation of the New Corporate Income Tax Law on 1 January 2008.

Panyu Chu Kong Steel Pipe (Lianyungang) Co., Ltd. ("PCKSP (Lianyungang)"), Panyu Chu Kong Steel Pipe (Zhuhai) Co., Ltd. ("PCKSP (Zhuhai)") and Kaidi, which were established in 2009, 2010 and 2011, respectively, are subject to income tax at a rate of 25%.

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

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

	2011	2010
	RMB'000	RMB'000
Group:		
Current – Mainland China		
charged for the year	**51,908**	16,418
Deferred (note 20)	**(3,133)**	2,324
Total tax charge for the year	**48,775**	18,742

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 2011

	Mainland China RMB'000	%	Hong Kong and others RMB'000	%	Total RMB'000	%
Profit/(loss) before tax	**294,226**		**(14,724)**		**279,502**	
Tax at the statutory tax rate	**73,557**	**25.0**	**(1,296)**	**8.8**	**72,261**	**25.8**
Tax effect of:						
Lower tax rate for PRC subsidiaries	**(2,100)**	**(0.7)**	**–**	**–**	**(2,100)**	**(0.7)**
Lower tax rate for an HNTE	**(23,194)**	**(7.9)**	**–**	**–**	**(23,194)**	**(8.3)**
Expenses not deductible for tax*	**1,330**	**0.5**	**–**	**–**	**1,330**	**0.5**
Income not subject to tax	**(59)**	**–**	**–**	**–**	**(59)**	**–**
Tax losses utilised from previous periods	**(828)**	**(0.3)**	**–**	**–**	**(828)**	**(0.3)**
Tax loss not recognised	**–**	**–**	**1,365**	**(9.3)**	**1,365**	**0.5**
Income tax expense reported in the consolidated statement of comprehensive income at the Group's effective tax rate	**48,706**	**16.5**	**69**	**(0.5)**	**48,775**	**17.5**

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

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

13. DIVIDENDS

	2011 RMB'000	2010 RMB'000
Proposed final – HK5.7 cents (2010: HK2.5 cents) per ordinary share	**46,725**	21,510

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

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year ended 31 December 2011 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,011,142,000 (2010: 981,852,126) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2010 and 2011 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 2011						
At 31 December 2010 and 1 January 2011:						
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
At 1 January 2011, net of accumulated depreciation	130,238	382,771	8,052	16,438	533,698	1,071,197
Additions	3,719	36,029	5,267	9,773	334,075	388,863
Disposals	–	(166)	(6)	(517)	–	(689)
Depreciation provided during the year	(3,814)	(30,247)	(2,684)	(2,074)	–	(38,819)
Transfers	3,032	26,794	515	–	(30,341)	–
Exchange realignment	–	–	(36)	(170)	–	(206)
At 31 December 2011, net of accumulated depreciation	133,175	415,181	11,108	23,450	837,432	1,420,346
At 31 December 2011:						
Cost	161,908	706,885	24,073	31,537	837,432	1,761,835
Accumulated depreciation	(28,733)	(291,704)	(12,965)	(8,087)	–	(341,489)
Net carrying amount	133,175	415,181	11,108	23,450	837,432	1,420,346

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 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

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 RMB27,849,000 (2010: 15,626,000) as at 31 December 2011.

Included in the total costs of plant and machinery are certain assets acquired in prior years for which government grants of RMB5,950,000 (2010: 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 117,183,000 (2010: RMB117,183,000) as at 31 December 2011.

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 RMB42,223,000 (2010: RMB35,445,000) as at 31 December 2011, 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.

The net carrying amounts of the Group's fixed assets held under finance leases included in the total amounts of plant and machinery and office and other equipment at 31 December 2011 amounted to RMB92,971,000 (2010: nil) and RMB312,000 (2010: nil), respectively.

16. INVESTMENT PROPERTIES

	Group	
	2011	2010
	RMB'000	RMB'000
Carrying amount at 1 January	**1,954**	–
Transfer from property, plant and equipment	**–**	2,076
Depreciation provided during the year	**(50)**	(52)
Exchange realignment	**(91)**	(70)
Carrying amount at 31 December	**1,813**	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 32.

At 31 December 2011, the fair value of the Group's investment properties was approximately HK$6,000,000 (2010: 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	
	2011	2010
	RMB'000	RMB'000
Carrying amount at 1 January	**126,077**	86,812
Additions	**224,773**	41,657
Amortisation provided during the year	**(3,478)**	(2,392)
Carrying amount at 31 December	**347,372**	126,077
Current portion included in prepayments, deposits and other receivables	**(7,596)**	(3,094)
Non-current portion	**339,776**	122,983

The Group's leasehold lands are situated in Mainland China and are 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	
	2011	2010
	RMB'000	RMB'000
At 1 January and 31 December	**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 19.2% as at 31 December 2011. Cash flows beyond the five-year period were extrapolated using the estimated growth rate of 7% as at 31 December 2011. The growth rate does not exceed the projected long term 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 2011. 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 2011.

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**1,778,636**	1,778,636

As at 31 December 2011, the amounts due from subsidiaries included in the Company's current assets of RMB846,261,000 (2010: RMB919,661,000), 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 and place of operations	Nominal value of issued shares/ registered capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Lessonstart Enterprises Limited	British Virgin Islands 18 May 1993	US$300	100	–	Investment holding
Lucknow Consultants Limited	British Virgin Islands 22 November 1994	US$10	–	100	Investment holding
Crown Central Holdings Limited	Hong Kong 21 March 1995	HK$1,000	–	100	Trading of steel pipes
Chu Kong Steel Pipe Group Co. Limited	Hong Kong 13 December 2007	HK$100,000	–	100	Investment holding and trading of steel pipes
Panyu Chu Kong Steel Pipe Co. Limited 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
Guangzhou Pearl River Petrol-Fittings Co. Limited 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
Guangzhou Pearl River OCTG Co. Limited 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
Guangzhou Pearl River Petroleum Steel Pipe Coating Co. Limited 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
Guangzhou Pearl River Petroleum Steel Pipe Co. Limited 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
Panyu Chu Kong Steel Pipe (Lianyungang) Co. Limited* 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

19. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued shares/ registered capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Guangzhou Panyu Chu Kong Hualong Petroleum Steel Pipe Anti-Corrosion Co. Limited 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
Panyu Chu Kong Steel Pipe (Zhuhai) Co. Limited* 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
Lianyungang Kaidi Heavy Equipment Technology Company Limited* 連雲港凱帝重工科技有限公司	The PRC 9 May 2011	RMB100,000,000	–	100	Manufacture steel pipe equipment and metallurgy equipment

Except for Hualong Anti-Corrosion, established as sino-foreign joint venture enterprise, and PCKSP (Lianyungang) and Kaidi established as domestic-invested enterprises, 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 RMB'000	**Losses available for offsetting against future taxable profits** RMB'000	**Total** RMB'000
At 1 January 2011	**1,261**	**–**	**1,261**
Credited/(charged) to the consolidated statement of comprehensive income (note 12)	**(185)**	**3,318**	**3,133**
At 31 December 2011	**1,076**	**3,318**	**4,394**

	Impairment of trade and other receivables RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2010	1,320	–	1,320
Charged to the consolidated statement of comprehensive income (note 12)	(59)	–	(59)
At 31 December 2010	(1,261)	–	1,261

As at 31 December 2011, the Group had tax losses arising in Hong Kong of RMB30,930,000 (2010: RMB24,537,000), 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 and CKSPG that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

Group:

	Withholding taxes	
	2011 **RMB'000**	2010 RMB'000
At 1 January	**2,265**	–
Charged to the consolidated statement of comprehensive income (note 12)	**–**	2,265
At 31 December	**2,265**	2,265

As at 31 December 2011, there was an unrecognised deferred tax liability of RMB62 million (2010: RMB38 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	
	2011	2010
	RMB'000	RMB'000
Raw materials	**407,572**	350,597
Work in progress	**192,506**	246,395
Finished goods	**590,157**	380,547
	1,190,235	977,539

22. TRADE AND BILLS RECEIVABLES

	Group	
	2011	2010
	RMB'000	RMB'000
Trade receivables	**798,595**	362,497
Impairment	**(6,274)**	(7,472)
Trade receivables, net	**792,321**	355,025
Bills receivable	**11,000**	–
	803,321	355,025

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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. 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 and net of provision, is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within 60 days	**587,844**	211,901
61 to 90 days	**46,850**	20,306
91 to 180 days	**84,349**	32,690
181 to 365 days	**23,626**	52,623
1 to 2 years	**40,401**	27,368
2 to 3 years	**7,732**	10,137
Over 3 years	**1,519**	–
	792,321	355,025

22. TRADE AND BILLS RECEIVABLES (continued)

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

	Group	
	2011	2010
	RMB'000	RMB'000
At 1 January	**7,472**	7,856
Impairment losses recognised (note 9)	**618**	432
Amount written off as uncollectible	**(67)**	–
Impairment losses reversed (note 9)	**(1,749)**	(816)
At 31 December	**6,274**	7,472

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.

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

	Group	
	2011	2010
	RMB'000	RMB'000
Neither past due nor impaired	**653,583**	260,655
Past due but not impaired		
1 to 180 days	**86,264**	67,823
181 to 365 days	**38,585**	14,095
Over 365 days	**13,889**	12,452
	792,321	355,025

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 maturity profile of the bills receivable of the Group as at the end of the reporting period is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within 6 months	**11,000**	–

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**272,192**	220,104	**1,321**	56
Deposits and other receivables	**62,870**	27,889	**68**	72
Tax recoverable	**120,209**	110,346	**–**	–
Current portion of land lease payments	**7,596**	3,109	**–**	–
	462,867	361,448	**1,389**	128
Less: Impairment of deposits and other receivables	**(510)**	(543)	**–**	–
	462,357	360,905	**1,389**	128

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

	Group	
	2011	2010
	RMB'000	RMB'000
At 1 January	**543**	543
Impairment losses reversed (note 9)	**(33)**	–
At 31 December	**510**	543

As at 31 December 2011, 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	
		2011	2010	**2011**	2010
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Cash and bank balances		**981,779**	599,178	**218**	45
Pledged bank deposits	(a)	**47,648**	56,307	**–**	–
		1,029,427	655,485	**218**	45
Less:					
Pledged deposits with original maturity of over three months when acquired		**(47,648)**	(56,307)	**–**	–
Cash and cash equivalents	(b)	**981,779**	599,178	**218**	45

24. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS (continued)

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 2011, the Group's cash and cash equivalents denominated in RMB amounted to RMB895,337,000 (2010: RMB524,354,000). 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 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	
	2011	2010
	RMB'000	RMB'000
Within 90 days	**135,249**	138,355
91 to 180 days	**1,014**	9,429
181 to 365 days	**4,468**	16,881
1 to 2 years	**7,774**	854
2 to 3 years	**552**	6,868
Over 3 years	**2,051**	–
	151,108	172,387
Bills payable	**515,475**	31,596
	666,583	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.

26. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	Effective interest rate	Maturity	Group 2011	2010
	%		RMB'000	RMB'000
Current				
Finance lease payables (note 27)	7.16	2012	**29,972**	–
Bank loans				
– secured	5.93–6.89	2012	**115,000**	85,300
– unsecured	2.56–7.93	2012	**1,189,844**	442,187
Government loans				
– unsecured	3.76–4.76	2012	**100,000**	199,530
			1,434,816	727,017
Non-current				
Finance lease payables (note 27)	7.16	2013 – 2015	**102,533**	–
Bank loans				
– secured	5.50–6.65	2013 – 2014	**629,756**	240,000
			732,289	240,000
			2,167,105	967,017

	Group 2011	2010
	RMB'000	RMB'000
ANALYSED INTO :		
Bank loans repayable:		
Within one year	**1,304,844**	527,487
In the second year	**304,756**	–
In the third to fifth years, inclusive	**325,000**	240,000
	1,934,600	767,487
Government loans repayable:		
Within one year	**100,000**	199,530
Finance lease repayable:		
Within one year	**29,972**	–
In the second year	**31,844**	–
In the third to fifth years, inclusive	**70,689**	–
	132,505	–
	2,167,105	967,017

Certain of the Group's bank loans are secured by:

(a) certain property, plant and equipment of the Group with a net carrying amount of approximately RMB51,113,000 (2010:RMB52,781,000) as at the end of the reporting period; and

(b) certain leasehold lands of the Group with a net carrying amount of approximately RMB79,563,000 (2010: RMB81,638,000) as at the end of the reporting period.

Except for the unsecured bank loans of RMB32,428,000 (2010: RMB97,854,000) and RMB417,007,000 (2010: nil) as at 31 December 2011, which are denominated in Hong Kong dollars and United State dollars, respectively, all borrowings are in RMB.

26. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (continued)

The Group has the following undrawn banking facilities:

	Group 2011 RMB'000	2010 RMB'000
FLOATING RATE		
– expiring within one year	**1,095,264**	1,516,268
– expiring in the second to third years, inclusive	**115,000**	–
	1,210,264	1,516,268

27. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its steel pipe manufacturing business. These leases are classified as finance leases and have remaining lease terms of 48 months.

On 1 March 2011, PCKSP entered into an equipment transfer contract and a finance lease contract (collectively the "finance lease arrangement"), with China Huarong Financial Leasing Co., Ltd. (「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. Rent is calculated on the leasing cost and lease rate which was decided based on the interest rate for a five-year loan designated in RMB quoted by the People's Bank of China ("PBOC").

According to the finance lease agreement, if no default occurs during the lease term, the ownership of the equipment shall be automatically transferred to the Group at a price of RMB1.

At 31 December 2011, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 2011 RMB'000	Minimum lease payments 2010 RMB'000	Present value of minimum lease payments 2011 RMB'000	Present value of minimum lease payments 2010 RMB'000
Amounts payable:				
Within one year	**38,174**	–	**29,972**	–
In the second year	**38,174**	–	**31,844**	–
In the third to fifth years, inclusive	**76,346**	–	**70,689**	–
Total minimum finance lease payments	**152,694**	–	**132,505**	–
Future finance charges	**(20,189)**	–		
Total net finance lease payables	**132,505**	–		
Portion classified as current liabilities (note 26)	**(29,972)**	–		
Non-current portion (note 26)	**102,533**	–		

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits received and receipts in advance	**239,060**	356,894	**–**	–
Other payables*	**48,680**	16,613	**–**	–
Payroll payables	**16,680**	7,620	**–**	–
Accruals and other liabilities	**13,488**	10,629	**351**	28
Other tax payables	**5,535**	2,743	**–**	–
	323,443	394,499	**351**	28

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

29. GOVERNMENT GRANTS

As at 31 December 2011, government grants represented funds of RMB3,500,000 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.

30. ISSUED CAPITAL

	2011	2010
	RMB'000	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

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

31. 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)
At 31 December 2010	**954,765**	**1,712,731**	**(49,312)**	**(30,064)**	**2,588,120**
Total comprehensive income for the year	**–**	**–**	**(8,544)**	**(42,246)**	**(50,790)**
Final 2010 dividend declared	**(21,510)**	**–**	**21,510**	**–**	**–**
Proposed final 2011 dividend	**(46,725)**	**–**	**–**	**–**	**(46,725)**
At 31 December 2011	**886,530**	**1,712,731**	**(36,346)**	**(72,310)**	**2,490,605**

32. 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 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group 2011 RMB'000	Group 2010 RMB'000
Within one year	**1,795**	225

32. OPERATING LEASE ARRANGEMENTS (continued)

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

	Group	
	2011	2010
	RMB'000	RMB'000
Within one year	**2,127**	2,385
In the second to fifth years, inclusive	**121**	2,091
	2,248	4,476

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32(b) above, the Group had the following capital commitments:

	Group	
	2011	2010
	RMB'000	RMB'000
Contracted, but not provided for:		
Land and buildings	**193,884**	–
Plant and machinery	**288,219**	53,722
	482,103	53,722
Contracted, but not provided for:		
capital contributions payable to a jointly-controlled entity	**333,948**	–
	816,051	53,722

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

34. 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.

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

		Group	
Name of party	**Nature of transaction**	**2011 RMB'000**	2010 RMB'000
GZFLD	Purchases of spare parts	**172**	1,269
GZMT	Purchases of spare parts	**9,182**	12,817

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

(b) Compensation of key management personnel of the Group:

	2011 RMB'000	2010 RMB'000
Salaries, allowances and benefits in kind	**11,435**	9,376
Retirement benefit scheme contributions	**112**	97
Total compensation paid to key management personnel	**11,547**	9,473

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

35. 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	
	2011	2010
	RMB'000	RMB'000
Trade and bills receivables (note 22)	**803,321**	355,025
Financial assets included in prepayments, deposits and other receivables (note 23)	**62,870**	27,889
Pledged deposits (note 24)	**47,648**	56,307
Cash and bank balances (note 24)	**981,779**	599,178
	1,895,618	1,038,399

Financial liabilities

	Financial liabilities at amortised cost	
	2011	2010
	RMB'000	RMB'000
Trade and bills payables (note 25)	**666,583**	203,983
Financial liabilities included in other payables and accruals (note 28)	**48,680**	144,613
Interest-bearing bank loans and other borrowings (note 26)	**2,167,105**	967,017
	2,882,368	1,315,613

Company

Financial assets

	Loans and receivables	
	2011	2010
	RMB'000	RMB'000
Financial assets included in prepayments, deposits and other receivables (note 23)	**68**	72
Due from subsidiaries (note 19)	**846,261**	919,661
Cash and bank balances (note 24)	**218**	45
	846,547	919,778

Financial liabilities

	Financial liabilities at amortised cost	
	2011	2010
	RMB'000	RMB'000
Financial liabilities included in other payables and accruals (note 28)	**351**	28

36. FAIR VALUE

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

Group

	Carrying amounts		Fair values	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
FINANCIAL ASSETS				
Cash and bank balances	**981,779**	599,178	**981,779**	599,178
Pledged deposits, current portion	**47,483**	51,897	**47,483**	51,897
Pledged deposits, non-current portion	**165**	4,410	**165**	4,410
Trade and bills receivables	**803,321**	355,025	**802,541**	353,709
Financial assets included in prepayments, deposits and other receivables	**62,870**	27,889	**62,870**	27,889
	1,895,618	1,038,399	**1,894,838**	1,037,083
FINANCIAL LIABILITIES				
Trade and bills payables	**666,583**	203,983	**666,583**	203,983
Financial liabilities included in other payables and accruals	**48,680**	144,613	**48,680**	144,613
Interest-bearing bank loans and other borrowings	**2,167,105**	967,017	**2,165,986**	964,916
	2,882,368	1,315,613	**2,881,249**	1,313,512

Company

	Carrying amounts		Fair values	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
FINANCIAL ASSETS				
Cash and bank balances	**218**	45	**218**	45
Financial assets included in prepayments, deposits and other receivables	**68**	128	**68**	128
Due from subsidiaries	**846,261**	919,661	**846,261**	919,661
	846,547	919,834	**846,547**	919,834
FINANCIAL LIABILITIES				
Financial liabilities included in other payables and accruals	**351**	28	**351**	28
	351	28	**351**	28

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:

36. FAIR VALUE (continued)

The fair values of cash and cash equivalents, non-current portion of pledged deposits, the current portion of pledged deposits, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and amounts due from subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the trade and bills receivables, interest-bearing bank loans and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and other borrowings, 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 other borrowings 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 other borrowings 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 RMB10.4 million for the year ended 31 December 2011 (2010: RMB3.9 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.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales by operating units in currencies other than the units' functional currency. Approximately 52% (2010: 42%) 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

		2011	2010
		RMB'000	RMB'000
Increase in the US dollar rate	+3%	**22,254**	20,548
Decrease in the US dollar rate	-3%	**(22,254)**	(20,548)

(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 finance lease 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 banks of up to an amount of RMB2,514 million as at 31 December 2011, of which an amount of approximately RMB1,304 million has been utilised.

37. 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 2011		
	On demand	**Less than 1 year**	**Over 1 year**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Trade and bills payables	**–**	**666,583**	**–**	**666,583**
Other payables	**–**	**48,680**	**–**	**48,680**
Interest-bearing bank loans and other borrowings	**–**	**1,434,816**	**732,289**	**2,167,105**
	–	**2,150,079**	**732,289**	**2,882,368**

		31 December 2010		
	On demand	Less than 1 year	Over 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

37. 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, government loans, finance lease payables, and government grants. The gearing ratios as at the end of the reporting periods are as follows:

	2011	2010
	RMB'000	RMB'000
Interest-bearing bank loans and other borrowings (note 26)	**2,167,105**	967,017
Government grants	**34,153**	37,224
Total debts	**2,201,258**	1,004,241
Total assets	**5,430,717**	3,615,338
Gearing ratio	**40.5%**	27.8%

38. EVENTS AFTER THE REPORTING PERIOD

There are no significant events subsequent to 31 December 2011 which would materially affect the Group's operating and financial performance as of the date of the consolidated financial statements.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2012.

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				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**3,376,865**	1,681,473	2,825,736	2,624,639	1,458,028
Cost of sales	**(2,866,517)**	(1,417,097)	(2,183,831)	(2,087,689)	(1,191,977)
Gross profit	**510,348**	264,376	641,905	536,950	266,051
Other income and gains	**68,972**	11,466	35,574	6,430	3,253
Selling and distribution costs	**(71,023)**	(42,765)	(87,628)	(57,172)	(63,106)
Administrative expenses	**(165,925)**	(115,984)	(79,940)	(90,033)	(48,616)
Other expenses	**(3,087)**	(3,807)	(827)	(4,000)	(2,876)
Finance costs	**(65,196)**	(22,731)	(41,893)	(65,186)	(45,439)
Exchange gain/(loss), net	**5,413**	(1,576)	(1,784)	(9,021)	(10,692)
Profit before tax	**279,502**	88,979	465,407	317,968	98,575
Income tax expense	**(48,775)**	(18,742)	(64,389)	(42,504)	(28,224)
Profit for the year	**230,727**	70,237	401,018	275,464	70,351
Other comprehensive income for the year	**(2,578)**	(8,867)	(18)	1,925	2,897
Total comprehensive income for the year	**228,149**	61,370	401,000	277,389	73,248
Earnings per share (RMB) – basic	**0.23**	0.07	0.53	0.37	0.09

Assets and Liabilities

	31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**1,945,542**	1,270,794	880,325	634,136	574,744
Current assets	**3,485,175**	2,344,544	1,453,896	1,344,639	1,199,030
Current liabilities	**(2,464,354)**	(1,344,832)	(999,519)	(1,263,457)	(1,422,358)
Non-current liabilities	**(768,707)**	(279,489)	(382,771)	(114,681)	(28,168)
Total Equity	**2,197,656**	1,991,017	951,931	600,637	323,248

The financial information for each of the three 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 two years ended 31 December 2008, and the assets and liabilities as at 31 December 2007 and 2008 have been extracted from the Prospectus dated 10 February 2010.