Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited

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

WE ARE BUILDING ON OUR STRENGTH

Interim Report 2012

Contents

Corporate Information

Directors

Executive Directors

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

Independent Non-Executive Directors

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

Registered Office

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

Company Secretary

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

Audit Committee

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

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

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Shiji Town
511450 Panyu District
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Guangdong Province
The PRC

Principal Place of Business in Hong Kong

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China Hong Kong City
33 Canton Road
Tsim Sha Tsui, Kowloon
Hong Kong

Auditor

Ernst & Young

Stock Code

1938

Company's Website

www.pck.com.cn

Legal Advisers as to Hong Kong Law

Pang & Co.

Principal Bankers

In Hong Kong:

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

In the People's Republic of China:

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

Achieving Success in Stability

Dear Shareholders,

On behalf of the board of directors (the "Board") of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company", together with its subsidiaries hereinafter referred to as the "Group"), I would like to present to you the unaudited interim results of the Group for the six months ended 30 June 2012.

In the first half of the year, although the global economy was haunted by the sluggish economic recovery due to the lingering Europe debt crisis, the Group successfully captured the demand for high-quality steel pipes in the local and overseas markets with its high-quality steel pipe products and its leading position as China's largest and world's top longitudinal submerged arc welded ("LSAW") steel pipes manufacturer. Leveraging on its strategies to promote product diversification and to progress in a prudent manner, the Group recorded steady growth in results during the period under review.

For the six months ended 30 June 2012, the Group recorded a turnover of approximately RMB2,057.5 million, up approximately 26.0% compared with that for the same period of 2011 (1H2011: RMB1,633.1 million). Profit attributable to owners of the Company surged 50.5% to approximately RMB170.3 million (1H2011: RMB113.2 million). Earnings per share totaled approximately RMB0.17 (1H2011: RMB0.11). The Board will not declare payment of an interim dividend for the six months ended 30 June 2012.

During the period under review, the Group recorded stable growth in terms of orders for its diversified products, of which coal slurry pipeline products marked a remarkable contribution. Under the Group's strategy to promote product diversification, Panyu Chu Kong Steel Pipe Company Limited ("PCKSP"), a wholly owned subsidiary of the Group, successfully entered into a sales contract with Shaanxi Coal Industry Joint Stock Ltd* ("陝西煤業股份有限公司") to provide coal slurry pipeline for Shenwei Coal Slurry Project* ("神渭管道輸煤項目"), which is expected to be the longest and largest of its kind in China. The said order pioneered the building of the first long distance coal slurry pipeline in China and marked a significant development of coal slurry pipeline construction in China. It also manifested that the pipeline is the most efficient, environmental friendly and economical way for coal slurry transmission. With the said order, the Group once again demonstrated its strengths attributed by its quality products, technology and diversification, building a solid foundation for expanding its coal slurry pipeline operation.

In the first half of 2012, the Ministry of Industry and Information Technology promulgated the "Medium to Long Term Development Plan of Offshore Engineering Equipment Industry"* (《海洋工程裝備製造業中長期發展規劃》) and the "12th Five-Year Development Plan of the High-end Equipment Manufacturing Industry"* (《高端裝備製造

* *for identification only*

業「十二五」發展規劃》), which served as new guidelines and future projections for steel pipeline industry. As the first and sole enterprise in China that manufactured deep sea welded pipes for use at a depth of 1,500m, the Group has grasped this opportunity by actively pursuing R&D and production in order to meet the demand for high efficiency LSAW steel pipes resulted from exploration of deep sea oil and gas reserves. In addition, the Group has fully exploited its R&D strength through its Academician Workstation (院士工作站) to tackle technical issues such as resisting high pressure under deeper water, with an aim to pilot the development of deep sea oil and gas transmission steel pipes industry in China to attain further growth.

Being China's largest and the world's top-class manufacturer and exporter of LSAW steel pipes, the Group has sustained its efforts to explore overseas markets with sustainable orders related to overseas projects as compared to last year. During the period under review, the Group delivered orders which are related to overseas projects including projects in Turkmenistan and Canada. Furthermore, the Group will continue in developing its regional operations in South America, Middle East, Middle Asia and Africa, by actively involved in bidding for orders, and further upgraded the Group's international brand image.

During the period under review, the Group made good progress with its capacity upgrade project. The production base of the Group, located at Zhuhai Gaolan Port Economic Zone in Guangdong Province, officially commenced operation in June 2012. The overall project construction plan of the production base was divided into two phases. The first phase of the project was completed on schedule and a LSAW steel pipe production line equipped with JCOE technology with an annual production capacity of 300,000 tonnes is already in operation. The second phase of the project has commenced constructions, which planned to establish a spiral submerged arc welded ("SSAW") steel pipe production line with an annual production capacity of 300,000 tonnes that will widen the Group's product range. Such project allowed the Group to exploit its inherent strengths in pioneer technology and products so as to further enlarge its market coverage. The Zhuhai production base will be a critical production site for the Group to satisfy the enormous demand for high efficiency steel pipe products by domestic and overseas petroleum and gas markets, and to contribute to the economic development in the Zhuhai region.

As at 30 June 2012, a total of five LSAW steel pipe production lines and one electric resistance welded ("ERW") steel pipe production line are in operation. As Zhuhai production base completed its capacity upgrade project and the Lianyungang production base is scheduled to conduct preliminary production run in the second half of 2012, the Group's production capacity is likely to reach an annual production capacity of approximately 2,410,000 tonnes by late 2012. The Group plans to construct a steel plate processing production line with an annual production capacity of 2,000,000 tonnes to manufacture steel plates for internal use in order to cope with the fluctuating steel industry and reinforce cost and quality control, further increase the Group's competitiveness and product quality. Most importantly, we aim to further enlarge the Group's economies of scale and multiply our sales based on our current foundation.

Chairman's Statement

The Group believes that under the encouraging measures provided in the 12th Five-Year Plan, large scale oil and gas engineering and offshore pipeline projects will commence. As the State Grid Corporation of China planned to invest RMB500 billion in the construction of ultra-high voltage power grids, the Group has a competitive edge in securing the Eastward Transmission of Anhui Electric Power project, the first ultra-high voltage project by the State Grid, with confidence to take advantage of the growth in infrastructure steel pipes market. There are many ongoing deep sea exploration works and domestic large scale pipe network construction works, amongst which South Sea oil and gas exploration project and West-East Gas Pipeline Project Phase III have caught much attention, which illustrate domestic demand for LSAW steel pipe.

The Group has currently a leading position in China in the field of technology research and development, product innovation and production in the steel pipe industry. In future, with the completion of the upstream production plant of steel plates for internal use, the Group will be able to achieve the business model as an "integrated plate and pipe producer" which will further underpin the leading position of the Group in the steel industry and strengthen our unrivaled product quality.

Due to persistingly high oil price, overseas countries, in particular countries in Latin America and Middle East, have been increasing their investment in developing oil and gas pipeline. Driven by the extensive gas pipeline development projects throughout the world, demand for high-quality steel pipe, in particularly LSAW steel pipe, has become burgeoning. Looking ahead, the Group will strive to perform better than ever before, leverage on its competitive strengths and innovative technology, along with the policies launched under the 12th Five-Year Plan in China, focusing on, toward a few, the development of high efficiency steel pipe, smart power grid and coal slurry pipeline projects. The Group also provides state-of-the-art products and services to the massive overseas customers and strives to satisfy the complicated and changing orders and demands. Looking forward, the Group expects to explore more new markets to implement its product diversification strategy, with an aim to further enlarge the market shares of its products, and to become a leading world class manufacturer of high-tech equipment and technologies.

Appreciation

On behalf of the Group, I would like to express my gratitude to all staff members for their valuable contribution to the Group's development. I would also like to thank our shareholders for their continuous support to the Group. In the future, the Group will work hard with all of our staff members and to leverage our strengths brought by our industry position, products, technologies and customer base, so as to capture the market demand and to use every effort in securing project orders, with an aim to rationalise our production capacity and resources allocation, as well as to enhance our operation efficiency, making us to become China's leading and an international first class manufacturer of LSAW steel pipes, and to generate satisfactory returns for our shareholders.

Chen Chang
Chairman

Panyu, Guangdong Province, China
17 August 2012

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 categorized into LSAW steel pipes and ERW steel pipes. We are one of the largest LSAW steel pipes manufacturers in China who are capable of manufacturing LSAW steel pipes that meet the X80 standard, and also accredited eleven international certifications such as Det Norske Veritas ("DNV") and American Petroleum Institute ("API"). In addition, we are the first and sole Chinese manufacturer that has successfully developed deep sea pipelines for use at a depth of 1,500m. 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 pipes for offshore projects and is classified as one of the companies in Offshore Engineering Equipment Industry (海洋工程裝備製造業) during the 12th Five-Year Plan. We benefited and were supported by China's strategic policies. We were supported by policy banks and insurance institution in China 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.

The Group has received new orders of 174,300 tonnes for the period under review. Adding to the total orders of 381,100 tonnes brought forward from last year, the Group has orders to supply in aggregate 555,400 tonnes of steel pipes in the first half of 2012. Among the new orders obtained during the period under review, the Group successfully won the bid for the Shenwei Coal Slurry Project of 71,700 tonnes. Shenwei Coal Slurry Project is expected to be the longest and largest coal slurry pipeline in China and marks a remarkable development of coal slurry pipeline construction in the region. This also manifests that pipeline is the most efficient, environmental friendly and economical way of transmission.

Financial Review

During the period under review, the turnover of the Group was approximately RMB2,057.5 million (2011: RMB1,633.1 million), representing an increase of approximately 26.0% as compared with that for the corresponding period in 2011; gross profit amounted to approximately RMB355.0 million (2011: RMB269.9 million), representing an increase of approximately 31.5% as compared with that for the corresponding period in 2011; net profit attributable to the owners of the Company was approximately RMB170.3 million (2011: RMB113.2 million), representing an increase of approximately 50.5% as compared with that for the corresponding period in 2011; earnings per share were RMB0.17 (2011: RMB0.11) representing an increase of approximately 54.5% as compared with that for the corresponding period in 2011.

Revenue

Sales by geography

	Six months ended 30 June			
	2012		2011	
	RMB'000 (unaudited)	**% of revenue**	RMB'000 (unaudited)	% of revenue
Domestic sales	**1,312,755**	**63.8%**	691,684	42.4%
Overseas sales	**744,768**	**36.2%**	941,385	57.6%
Total	**2,057,523**	**100.0%**	1,633,069	100.0%

Sales by products

	Six months ended 30 June			
	2012		2011	
	RMB'000 (unaudited)	**% of revenue**	RMB'000 (unaudited)	% of revenue
Manufacture and sale of steel pipes				
LSAW steel pipes	**1,913,977**	**93.0%**	1,565,458	95.9%
ERW steel pipes	**102,142**	**5.0%**	34,224	2.1%
Sub total	**2,016,119**	**98.0%**	1,599,682	98.0%
Steel pipes manufacturing services				
LSAW steel pipes	**3,257**	**0.2%**	16,859	1.0%
ERW steel pipes	**2,666**	**0.1%**	2,378	0.1%
Sub total	**5,923**	**0.3%**	19,237	1.1%
Others	**35,481**	**1.7%**	14,150	0.9%
Total	**2,057,523**	**100.0%**	1,633,069	100.0%

During the period under review, our overseas sales was approximately RMB744.8 million, accounted for approximately 36.2% of our total revenue, as compared with that of approximately RMB941.4 million, accounted for approximately 57.6% for the corresponding period in 2011. Our domestic sales was approximately RMB1,312.8 million, accounted for 63.8% of our total revenue, as compared with that of approximately RMB691.7 million, accounted for 42.4% of our total revenue for the corresponding period in 2011. The decrease in overseas sales but increase in domestic sales was mainly due to the fact that the outstanding orders delivered by the Group during the period under review, which were brought forward from last year, were mainly domestic orders. During the period under review, we delivered orders for domestic projects such as the West-to-East II – HK and Shenzhen branch, the Husky Deep Sea Project, the Liwan Offshore Project and partial of the State Grid Corporation of China ("SGCC") Project.

Gross Profit and Gross Profit Margin

	Six months ended 30 June			
	2012		2011	
	RMB'000 (unaudited)	**%**	RMB'000 (unaudited)	%
Manufacture and sale of steel pipes				
LSAW steel pipes	**327,710**	**17.1%**	260,579	16.6%
ERW steel pipes	**2,966**	**2.9%**	422	1.2%
Sub total	**330,676**	**16.4%**	261,001	16.3%
Steel pipes manufacturing services				
LSAW steel pipes	**1,910**	**58.6%**	9,283	55.1%
ERW steel pipes	**337**	**12.6%**	(1,133)	(47.6)%
Sub total	**2,247**	**37.9%**	8,150	42.4%
Others	**22,055**	**62.2%**	704	5.0%
Total	**354,978**	**17.3%**	269,855	16.5%

During the period under review, the gross profit of the Group was approximately RMB355.0 million (2011: RMB269.9 million), representing an increase of approximately 31.5% as compared to that for the corresponding period in 2011. The increase was primarily attributable to the increase in sales as compared with that for the corresponding period in 2011. The overall gross profit margin was approximately 17.3% which was higher than that of approximately 16.5% for the same period in 2011. Increase in gross profit margin was mainly due to the delivery of high profit margin project, e.g. Husky Liwan Deep Sea Project, and contribution of other income which mainly attributable to the sale of anti-corrosion equipment.

Other income and gains were approximately RMB55.7 million (2011: RMB8.8 million), representing an increase of approximately 529.9% as compared with that for the corresponding period in 2011. Significant increase was due to the increase in subsidy from the PRC government for the period under review as compared with that for the corresponding period in 2011. Government subsidies were in relation to awards for investment in Lianyungang and high product quality of the Group.

Selling and distribution expenses were approximately RMB46.7 million (2011: RMB28.0 million), representing an increase of approximately 66.8% as compared with that for the corresponding period in 2011. The percentage of selling and distribution expenses to our revenue was approximately 2.3%, which was higher than that of 1.7% for the same period in 2011. The increase in selling and distribution expenses was mainly due to the increase in freight charges and commission as compared with that for the same period in 2011.

Management Discussion and Analysis

Administrative expenses were approximately RMB95.1 million (2011: RMB87.1 million), representing an increase of approximately 9.2% compared with that for the corresponding period in 2011. The slight increase in administrative expenses was mainly due to the increase in office expenses for the new production bases in Zhuhai and Lianyungang. However, the percentage of administrative expenses to our revenue was approximately 4.6% which was lower than that of 5.3% for the same period in 2011.

Finance costs were approximately RMB50.8 million (2011: RMB20.9 million), representing an increase of 142.8% as compared with that for the corresponding period in 2011. The increase was due to the increase in average bank loan balance to finance both the working capital and capital expenditure of the Group and the increase in average interest rate as compared with that for the corresponding period in 2011.

The Group entered into a cross currency swap contract with a financial institution to manage the exchange rate exposure of the 3-year term loan of RMB300,000,000. Unrealised change in fair value of such derivative instrument of approximately RMB7.7 million (2011: nil) was recorded as expense for the period under review.

Future Plan and Prospects

Domestically, China intends to develop a low-carbon economy for sustainable development, with natural gas and other renewable energy being the major focus. The Chinese government mandated in its 12th Five-Year Plan to increase the proportion of gas consumption to total energy consumption in the PRC from 3.8% in 2010 to 8% in 2015. This bodes well for us as pipelines are the most economical, environmental friendly and efficient way of transmission of gas. Around 75% of the pipelines are used for transporting natural gas. China targets to double its oil and gas pipelines from 77,000km in 2010 to 150,000km in 2015. Major oil and gas national projects such as the West-East Pipelines III, the Xinjiang-Guangdong-Zhejiang Pipeline and the Xinjiang-Shandong Pipeline are expected to commence construction during the duration of the 12th Five-Year Plan. Construction of branch lines and city-gas networks to connect gas wellheads to trunk line stations will further boost the demand for our pipes.

Furthermore, given that oil fields of Daqing and Shengli are depleting, China has to explore oil and gas reserves offshore to secure energy supply. China National Offshore Oil Corporation ("CNOOC") has launched a deepwater exploration programme with 2 to 3 deepwater wells and targets to construct 15,000km of transmission network from offshore wells to the coastal LNG terminals during the duration of the 12th Five-Year Plan. As the Group is the only domestic LSAW supplier approved by CNOOC for deep sea oil and gas exploration projects at water depth of 1,500 meters, we expect robust demand for the Group's products from offshore projects.

Following the development of coal-bed methane and shale gas projects in China, we expect more pipelines will be constructed to transmit the gas.

Apart from oil and gas transmission pipelines, our business is also diversified into the construction of ultra-high voltage transmission towers and coal slurry pipelines. As most of the angle steel towers collapsed after the snow storm in the winter of 2009, SGCC decided to use LSAW steel pipes and ERW steel pipes to construct the ultra-high voltage transmission towers. They are more stable than that made of angle steel. According to SGCC, they planned to spend around RMB500 billion on smart grid investment and we expect the demand for steel pipes will be around 2,670,000 tonnes during the duration of the 12th Five Year Plan. We are in a good position as we have successfully received an order to deliver 50% of the total steel pipes used under SGCC's first project of Huainan-Shanghai Ultra High Voltage Power Grid last year.

The Group has received the order of China's first long distance coal slurry project – the Shenwei Coal Slurry Project* ("神渭管道輸煤項目") during the period under review. We have received an order to deliver 70% of the total LSAW steel pipes for use in the Shenwei Coal Slurry Project from ShaanXi Coal Industry Joint Stock Co Ltd* ("陝西煤業股份有限公司"). This coal slurry pipeline is the first long distance coal slurry pipeline in China and marks a remarkable development of coal slurry pipeline construction. The said project also manifests that the pipeline is the most efficient, environmental friendly and economical way for coal transmission. The Group expects that demands of the Group's pipelines in the area of ultra-high voltage transmission towers and coal slurry pipelines will remain high.

For overseas market, given the rising volume in natural gas pipeline construction in South America, the Middle East, Australia and Russia, the Group expects that capital expenditure will continue to be spent on pipeline projects by oil and gas companies as the current oil prices remain high, which will result in a strong demand for the Group's steel pipes.

In order to meet the increasing demand for welded steel pipes for both domestic and international markets, the Group has scheduled to construct three new LSAW production lines and two new SSAW production lines during 2012-2013. One new LSAW production line of 300,000 tonnes annual capacity in Zhuhai has commenced production in June 2012. One pre-welding and precision welding SSAW production line with an annual production capacity of 360,000 tonnes in Lianyungang has commenced trial production in July 2012. The Group is in the progress of constructing one LSAW production line with an annual production capacity of 300,000 tonnes in Lianyungang, commercial production is expected to commence in the fourth quarter of 2012. The SSAW production line in Zhuhai is expected to operate in the first quarter of 2013. The LSAW production line at Saudi Arabia, in the form of joint venture, where the Group has 50% stake of the joint venture, is expected to commence production in mid-2013. Total annual production capacity at end of 2012 and 2013 will reach 2,410,000 tonnes and 3,010,000 tonnes, respectively.

* *for identification only*

Management Discussion and Analysis

Apart from the steel pipes production lines, the Group is constructing a steel plate processing production line with a planned annual capacity of 2,000,000 tonnes at Lianyungang, which is expected to be completed by the end of 2013. This steel plate processing production line is capable of producing API-grade steel plate and is expected to meet our own consumption requirement. As this is a vertical integration of our supply chain, it will improve our steel pipe profitability and enable us to secure stable supply of quality steel plates for production.

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

The Group strives to be the leading manufacturer of high quality steel pipes in both domestic and international markets 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.

Other Information

Employees

As at 30 June 2012, the Group had 3,824 full time employees in total (at 31 December 2011: 2,958). The Group provides competitive remuneration package to retain its employees including salaries, medical insurance, discretionary bonuses, other benefits as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

Exchange Risk Exposure

During the period under review, most of the Group's operating transactions are settled in RMB except for the export sales which are mostly denominated in US dollar. Most of the Group's assets and liabilities are denominated in RMB. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. Apart from cross currency swap contract to manage the exchange rate exposure of the 3-year term loan of RMB300,000,000 entered by the Group during the period under review, the Group did not adopt other hedging policies nor instruments of foreign currency for hedging purposes during the period under review.

Interim Dividend

The Board will not declare the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: nil) to the shareholders.

Contingent Liabilities

As at 30 June 2012, the Group did not have any material contingent liabilities or guarantees.

Pledge of Assets

As at 30 June 2012, the Group pledged certain property, plant and equipment, land use rights and trade receivables with an aggregate net book value of RMB213,319,000 (at 31 December 2011: RMB51,113,000), RMB132,443,000 (at 31 December 2011: RMB79,563,000) and RMB3,287,000 (at 31 December 2011: nil) respectively, to secure bank loans granted to the Group.

Liquidity and Financial Resources

As at 30 June 2012, the cash and cash equivalents and current ratio of the Group, as a ratio of current assets to current liabilities, were approximately RMB429.3 million (at 31 December 2011: RMB981.8 million) and 1.44 (at 31 December 2011: 1.41) respectively.

As at 30 June 2012, the Group's aggregate borrowings was approximately RMB2,201.3 million (at 31 December 2011: approximately RMB2,167.1 million), of which approximately RMB2,083.3 million (at 31 December 2011: RMB2,034.6 million) was bank borrowings and approximately RMB118.0 million (at 31 December 2011: RMB132.5 million) was for obligations under finance leases.

Other Information

The gearing ratio, expressed as a percentage of the summation of interest-bearing borrowings and finance lease over total assets of approximately RMB5,899.0 million (at 31 December 2011: RMB5,430.7 million) is approximately 37.3% (at 31 December 2011: 39.9%).

The maturity profile of the Group's total borrowings as at 30 June 2012 was spread over a period of 5 years, with approximately 48.5% (at 31 December 2011: 66.2%) of the total borrowings repayable within one year, and the remaining 51.5% (at 31 December 2011: 33.8%) repayable between two to five years. The Group has to finance its working capital by short term borrowings as around 90% of the cost of sales was incurred on the procurement of steel plate and steel coils. High level of short term borrowings was an indicator of high sales level. Once the Group receives sales proceeds from its customers, it will repay the short term borrowings. Taking into account cash held at the balance sheet date, and available banking facilities, the Group has sufficient liquidity and strong financial position to repay its short term borrowings.

As at 30 June 2012, approximately 63% (at 31 December 2011: 50%) of total borrowings were denominated in RMB which carried interest rates linked to the benchmark lending rate published by the People's Bank of China, approximately 19% (at 31 December 2011: 20%) of total borrowings were denominated in RMB which carried fixed interest rate and approximately 18% (at 31 December 2011: 30%) of total borrowings as at 30 June 2012 were denominated in US dollar and HK dollar with interest rates linked to the London Interbank Offered Rate for US dollar loans and Hong Kong Interbank Offered Rate for HK dollar loans.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries and Associated Companies

The Group acquired a 100% interest in Aike New Construction Materials Limited (艾可新型建材有限公司 "Aike") from two independent third parties on 22 May 2012. Aike is engaged in the manufacture and sales of tubular pile. The purchase consideration for the acquisition was RMB10,000,000 in the form of cash. The acquisition was mainly for construction of our new production plant at Lianyungang. In view of ensuring our quality of the piling pipes of our new production plant, fastening our construction process, and lowering cost of construction of production plant, the Group acquired Aike during the period under review.

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

Use of Net Proceeds from the Global Offering

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

	Net proceeds from the global offering	
Use of proceeds	**Available (RMB million)**	Utilized up to 30 June 2012 (RMB million)
Establishment of a new production base in Lianyungang	**684.4**	684.4
Construction of new LSAW steel pipes production line and modification of an ancillary production line into a completed LSAW steel pipes production line	**97.7**	97.7
Repayment of bank loans	**48.9**	48.9
Expansion of overseas distribution network	**19.6**	19.6
Enhancement of our research and development capabilities	**29.3**	29.3
Working capital	**97.8**	97.8
Total	**977.7**	977.7

Directors' Interests in a Competing Business

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

Other Information

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

As at 30 June 2012, the interests or short positions of the Directors and chief executive of the Company in the shares or underlying shares or, as the case may be, the percentage in the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571) (the "SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Shares of the Company

Name of Director	Capacity	Position	Number of shares held	Percentage of shareholding in the Company
Chen Chang	Interest of controlled corporation (note 1)	Long	701,911,000	69.42%
	Personal interest	Long	1,638,000	0.16%

Note:

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

Shares of Associated Corporation

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

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

As at 30 June 2012, 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%
Bournam Profits Limited	Beneficial owner (note 2)	Long	701,911,000	69.42%

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

Share Option and Share Award Schemes

We adopted a share option scheme on 23 January 2010 and a share award scheme on 22 March 2012 (together, the "Schemes") for the purpose of providing incentives and rewards to eligible participants who contribute to the growth of the Group. Eligible participants of the Schemes include, without limitation, employees, Directors and any other eligible persons as defined in the Schemes. As at 30 June 2012, no share option or share has been granted or awarded or agreed to be granted or awarded to any person under the Schemes.

Other Information

Corporate Governance

Save as disclosed below, the Company complied with all the code provisions set out in the Code on Corporate Governance Practices (the "CG Code", effective before 31 March 2012) and the Corporate Governance Code and Corporate Governance Report (the "Revised Code", effective after 1 April 2012), as set out in Appendix 14 to the Listing Rules the CG Code throughout the six months ended 30 June 2012.

CG Code A.2.1

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

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

Compliance with Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code throughout the six months ended 30 June 2012.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities for the six months ended 30 June 2012.

Audit Committee

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

The Audit Committee has reviewed the Group's unaudited consolidated interim results for the six months ended 30 June 2012 in conjunction with the Company's external auditor.

The Audit Committee reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed and reviewed the adequacy and effectiveness of the Company's internal control system and financial reporting system of the Group.

Report on Review of Interim Condensed Consolidated Financial Statements

ERNST & YOUNG
安永

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2012, comprising of the interim condensed consolidated statement of financial position as at 30 June 2012 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The directors are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

Ernst & Young

Certified Public Accountants
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

17 August 2012

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	Notes	Six months ended 30 June 2012 (Unaudited) RMB'000	 2011 (Unaudited) RMB'000
REVENUE	5	**2,057,523**	1,633,069
Cost of sales		**(1,702,545)**	(1,363,214)
Gross profit		**354,978**	269,855
Other income and gains	5	**55,655**	8,835
Selling and distribution costs		**(46,715)**	(28,010)
Administrative expenses		**(95,118)**	(87,069)
Other expenses		**(1,765)**	(1,169)
Finance costs	6	**(50,756)**	(20,908)
Changes in fair value of derivative financial instrument		**(7,676)**	–
Exchange loss, net		**(375)**	(1,349)
PROFIT BEFORE TAX	7	**208,228**	140,185
Income tax expense	8	**(37,891)**	(26,978)
PROFIT FOR THE PERIOD		**170,337**	113,207
Other comprehensive income:			
Exchange differences on translating foreign operations		**(1,973)**	(4,545)
Income tax relating to component of other comprehensive income		**–**	–
Other comprehensive income for the period, net of tax		**(1,973)**	(4,545)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**168,364**	108,662
Profit attributable to:			
Owners of the parent		**170,337**	113,207
Total comprehensive income attributable to:			
Owners of the parent		**168,364**	108,662
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	**RMB0.17**	RMB0.11

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	Notes	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**1,741,402**	1,420,346
Investment properties		**1,799**	1,813
Deposits paid		**412,704**	174,973
Prepaid land lease payments		**350,653**	339,776
Goodwill		**4,075**	4,075
Deferred tax assets		**6,605**	4,394
Pledged deposits		**5,955**	165
Total non-current assets		**2,523,193**	1,945,542
CURRENT ASSETS			
Inventories	11	**1,453,656**	1,190,235
Trade and bills receivables	12	**1,045,232**	803,321
Prepayments, deposits and other receivables		**322,075**	462,357
Pledged deposits		**125,510**	47,483
Cash and bank balances		**429,306**	981,779
Total current assets		**3,375,779**	3,485,175
CURRENT LIABILITIES			
Trade and bills payables	13	**779,469**	666,583
Interest-bearing loans and other borrowings	14	**1,068,366**	1,434,816
Other payables and accruals		**428,148**	323,443
Tax payable		**65,928**	39,512
Derivative financial instrument	15	**7,676**	–
Total current liabilities		**2,349,587**	2,464,354
NET CURRENT ASSETS		**1,026,192**	1,020,821
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,549,385**	2,966,363

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	Notes	**30 June 2012 (Unaudited) RMB'000**	31 December 2011 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing loans and other borrowings	14	**1,132,913**	732,289
Deferred tax liabilities		**2,265**	2,265
Government grants		**94,912**	34,153
Total non-current liabilities		**1,230,090**	768,707
Net assets		**2,319,295**	2,197,656
EQUITY			
Equity attributable to owners of the parent			
Issued capital	16	**88,856**	88,856
Reserves		**2,230,439**	2,062,075
Proposed final dividend		**–**	46,725
Total equity		**2,319,295**	2,197,656

Director

Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Attributable to Owners of the parent								
	Issued capital RMB'000 (Note (b))	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 2012	**88,856**	**829,408**	**224,589**	**57,607**	**104,225**	**850,436**	**46,725**	**(4,190)**	**2,197,656**
Total comprehensive income for the period	–	–	–	–	–	170,337	–	(1,973)	168,364
Final 2011 dividends declared	–	–	–	–	–	–	(46,725)	–	(46,725)
At 30 June 2012 (unaudited)	**88,856**	**829,408***	**224,589***	**57,607***	**104,225***	**1,020,773***	**–**	**(6,163)***	**2,319,295**

* These reserve accounts comprise the consolidated reserves of RMB2,230,439,000 (31 December 2011: RMB2,062,075,000) in the interim condensed consolidated statement of financial position as at 30 June 2012.

For the six months ended 30 June 2011

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

Notes:

(a) Capital reserve represents the excess capital paid over the registered capital of 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.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash inflow/(outflow) from operating activities	**86,265**	(344,734)
Net cash outflow from investing activities	**(568,972)**	(219,440)
Net cash (outflow)/inflow from financing activities	**(69,741)**	268,150
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(552,448)**	(296,024)
Exchange realignment	**(25)**	147
Cash and cash equivalents at beginning of period	**981,779**	599,178
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**429,306**	303,301

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

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 period.

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

2. Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and International Accounting Standards ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "IASB").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2011.

3. Accounting Policies

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the adoption of the standards, amendments and interpretations issued by the IASB effective for annual periods beginning 1 January 2012, noted below:

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*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

3. Accounting Policies (Continued)

The effect of the adoption of these standards, amendments and interpretations was not material to the Group's results of operations or financial position.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4. Operating Segment Information

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

Information about products

The revenue of the major products is analysed as follows:

	Six months ended 30 June	
	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Manufacture and sale of steel pipes:		
LSAW steel pipes	**1,913,977**	1,565,458
ERW steel pipes	**102,142**	34,224
Steel pipe manufacturing services:		
LSAW steel pipes	**3,257**	16,859
ERW steel pipes	**2,666**	2,378
Others*	**35,481**	14,150
	2,057,523	1,633,069

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

4. Operating Segment Information (Continued)

Information about geographical areas

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

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

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sales to external customers:		
Mainland China	**1,312,755**	691,684
America	**202,230**	872,565
European Union	**20,792**	40,167
Middle East	**171,190**	1,859
Other Asian countries	**347,671**	26,453
Others	**2,885**	341
	2,057,523	1,633,069

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

Information about major customers

For the six months ended 30 June 2012, revenue from two customers of the Group amounting to RMB318,746,000 and RMB311,451,000 had individually accounted for over 10% of the Group's total revenue.

5. Revenue, Other Income and Gains

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

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

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Manufacture and sale of seam welded steel pipes and the provision of related manufacturing services	**2,057,523**	1,633,069
Other income and gains		
Bank interest income	**3,178**	4,687
Subsidy income from the PRC government	**51,205**	4,000
Compensation	**47**	22
Others	**1,225**	126
	55,655	8,835

The subsidy income represented subsidies granted by the local finance bureau to Panyu Chu Kong Steel Pipe (Lianyungang) Co Ltd. (番禺珠江鋼管(連雲港)有限公司) and PCKSP as awards for their investment and high product quality, respectively. There are no unfulfilled conditions or contingencies relating to such subsidies.

6. Finance Costs

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans and government loans	**52,580**	22,418
Interest on finance lease	**4,615**	5,203
Total interest expense on financial liabilities not at fair value through profit or loss	**57,195**	27,621
Less: Interest capitalised	**(6,439)**	(6,713)
	50,756	20,908

7. Profit Before Tax

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

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	**1,506,840**	1,247,074
Depreciation	**22,174**	19,127
Impairment of trade receivables recognised/(reversed)	**185**	(593)

8. Income Tax

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

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

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

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – Mainland China		
Charge for the period	**39,284**	23,252
Deferred	**(1,393)**	3,726
Total tax charge for the period	**37,891**	26,978

As at 30 June 2012, the aggregated amount of temporary differences associated with investments in the PRC subsidiaries for which deferred tax liabilities have not been recognized totally approximately RMB82 million (31 December 2011: RMB62 million), as management considered that it is not probable that the PRC subsidiaries will distribute such earnings in the foreseeable future.

9. 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 period attributable to ordinary equity holders of the parent of RMB170,337,000 (2011: RMB113,207,000), and the weighted average number of ordinary shares of 1,011,142,000 (2011: 1,011,142,000) in issue during the period.

No adjustment has been made to the basic earnings per share amounts presented for the periods ended 30 June 2012 and 2011 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those periods.

10. Property, Plant and Equipment

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
At beginning of the period/year	**1,420,346**	1,071,197
Additions	**325,642**	388,863
Acquisition of a subsidiary (Note 17)	**17,568**	–
Disposals	**–**	(689)
Depreciation	**(22,174)**	(38,819)
Exchange realignment	**20**	(206)
At end of the period/year	**1,741,402**	1,420,346

11. Inventories

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Raw materials	**709,293**	407,572
Work in progress	**334,480**	192,506
Finished goods	**409,883**	590,157
	1,453,656	1,190,235

12. Trade and Bills Receivables

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Trade receivables	**1,049,391**	798,595
Impairment	**(6,459)**	(6,274)
Trade receivables, net	**1,042,932**	792,321
Bills receivable	**2,300**	11,000
	1,045,232	803,321

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

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

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Within 60 days	**863,184**	587,844
61 to 90 days	**29,837**	46,850
91 to 180 days	**19,111**	84,349
181 to 365 days	**97,584**	23,626
1 to 2 years	**27,696**	40,401
2 to 3 years	**4,151**	7,732
Over 3 years	**1,369**	1,519
	1,042,932	792,321

13. Trade and Bills Payables

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

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Within 90 days	**377,495**	135,249
91 to 180 days	**18,483**	1,014
181 to 365 days	**8,027**	4,468
1 to 2 years	**956**	7,774
2 to 3 years	**491**	552
Over 3 years	**1,851**	2,051
	407,303	151,108
Bills payable	**372,166**	515,475
	779,469	666,583

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

All the bills payable bear maturity dates within 180 days.

14. Interest-Bearing Loans and Other Borrowings

	Effective interest rate %	Maturity	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Current				
Finance lease payables	7.02	2012 – 2013	**30,974**	29,972
Bank loans				
– secured	6.16~7.59	2012 – 2013	**66,910**	115,000
– unsecured	2.65~7.93	2012 – 2013	**770,482**	1,189,844
Government loans				
– unsecured	3.76~4.76	2012	**200,000**	100,000
			1,068,366	1,434,816
Non-current				
Finance lease payables	7.02	2013 – 2015	**87,059**	102,533
Bank loans				
– secured	5.93~7.59	2014 – 2016	**572,799**	330,000
– unsecured	4.03~5.50	2014	**473,055**	299,756
			1,132,913	732,289
			2,201,279	2,167,105

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

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**837,392**	1,304,844
In the second year	**5,000**	304,756
In the third to fifth years, inclusive	**1,040,854**	325,000
	1,883,246	1,934,600
Government loans repayable:		
Within one year	**200,000**	100,000
Finance lease payables:		
Within one year	**30,974**	29,972
In the second year	**32,909**	31,844
In the third to fifth years, inclusive	**54,150**	70,689
	118,033	132,505
	2,201,279	2,167,105

The Group's bank loans are secured by:

(a) a charge over certain property, plant and equipment of the Group with a net carrying amount of approximately RMB213,319,000 (31 December 2011: RMB51,113,000) as at the end of the reporting period;

(b) a charge over certain leasehold lands of the Group with a net carrying amount of approximately RMB132,443,000 (31 December 2011: RMB79,563,000) as at the end of the reporting period; and

(c) certain trade receivable of the Group with a net carry amount of approximately RMB3,287,000 (31 December 2011: nil) as at the end of the reporting period.

15. Derivative Financial Instrument

	30 June 2012	
	Assets (Unaudited) RMB'000	**Liabilities (Unaudited) RMB'000**
Cross Currency Swap	**–**	**7,676**

The Group has entered into a cross currency swap contract to manage its exchange rate exposures. The cross currency swap contract is not designated for hedge purpose and is measured at fair value through profit or loss. Changes in the fair value of non-hedging currency derivatives amounting to RMB7,676,000 were charged to the statement of comprehensive income during the six months ended 30 June 2012 (six months ended 30 June 2011: nil).

16. Share Capital

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Authorised: 10,000,000,000 (31 December 2011: 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 2011: 1,011,142,000) ordinary shares of HK$0.10 each	**88,856**	88,856

17. Business Combination

On 22 May 2012, the Group acquired 100% equity interests in Aike New Construction Materials Co., Ltd. (艾可新型建材有限公司, "Aike") from two independent third parties. Aike is engaged in the manufacture and sales of tubular pile. The purchase consideration for the acquisition was RMB10,000,000 in the form of cash which was fully paid at the acquisition date.

The fair values of the identifiable assets and liabilities of Aike as at the date of acquisition were as follows:

	Fair value recognized on acquisition RMB'000
Property, plant and equipment (note 10)	17,568
Prepaid land premiums	12,866
Deferred tax assets	818
Deposit paid for purchase of property, plant and equipment	499
Inventories	2,024
Prepayment, deposits and other receivables	2,746
Cash and bank balance	6,042
Other payables and accruals	(32,563)
Total identifiable net assets at fair value	10,000
Satisfied by cash	10,000

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(10,000)
Cash and bank balance acquired	6,042
Net outflow of cash and cash equivalents included in cash flows from investing activities	(3,958)

18. Operating Lease Arrangements

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

As at 30 June 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Within one year	**1,160**	2,127
In the second to fifth years, inclusive	**25**	121
	1,185	2,248

19. Commitments

In addition to the operating lease commitments detailed in note 18 above, the Group had the following capital commitments:

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Contracted, but not provided for:		
Purchase of land and buildings	**108,663**	193,884
Purchase of plant and machinery	**208,087**	288,219
Investment in a jointly-controlled entity	**335,220**	333,948
	651,970	816,051

20. Related Party Transactions

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

Name of party	Relationship
Guangzhou City Pearl River Machine Tool Works Co., Ltd. ("GZMT") 廣州市珠江機床廠有限公司	GZMT is a party controlled by Group's ultimate controlling shareholder.

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

(a) Recurring transactions

		Six months ended 30 June	
Name of party	Nature of transaction	**2012 (Unaudited) RMB'000**	2011 (Unaudited) RMB'000
GZMT	Purchases of spare parts	**3,769**	1,411

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

(b) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Salaries, allowances and benefits in kind	**3,527**	3,690
Retirement benefit scheme contributions	**88**	73
Total compensation paid to key management personnel	**3,615**	3,763

21. Approval of Interim Condensed Consolidated Financial Statements

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 17 August 2012.