CHU KONG PETROLEUM AND NATURAL GAS STEEL PIPE HOLDINGS LIMITED
珠江石油天然氣鋼管控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1938)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2012	2011	**Change**
Revenue *(RMB'000)*	**3,925,995**	3,376,865	16.3%
Profit attributable to owners of the Parent *(RMB'000)*	**310,078**	230,727	34.4%
Earnings per share attributable to ordinary equity holders of the Parent *(RMB)*			
Basic and diluted	**0.31**	0.23	34.8%
Dividends *(HK cents per share)*			
– Final	**7.6**	5.7	33.3%
– Interim	**–**	–	–

AUDITED FINANCIAL RESULTS

The board ("the Board") of directors ("the Directors") of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company") announces the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012 (the "Consolidated Financial Statements") together with the comparative figures for the previous financial year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	**2012 RMB'000**	2011 RMB'000
REVENUE	4	**3,925,995**	3,376,865
Cost of sales		**(3,259,406)**	(2,866,517)
Gross profit		**666,589**	510,348
Other income and gains	4	**108,341**	68,972
Selling and distribution costs		**(88,493)**	(71,023)
Administrative expenses		**(217,285)**	(165,925)
Other expenses		**(5,566)**	(3,087)
Finance costs	5	**(77,361)**	(65,196)
Changes in fair value of derivative financial instruments		**(3,784)**	–
Exchange (loss)/gain, net		**(1,717)**	5,413
PROFIT BEFORE TAX	6	**380,724**	279,502
Income tax expense	7	**(70,646)**	(48,775)
PROFIT FOR THE YEAR		**310,078**	230,727
Profit attributable to:			
Owners of the parent		**310,078**	230,727
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	**RMB0.31**	RMB0.23
OTHER COMPREHENSIVE INCOME:			
Exchange differences on translation of foreign operations		**(719)**	(2,578)
Income tax relating to component of other comprehensive income		**–**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(719)**	(2,578)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**309,359**	228,149
Total comprehensive income attributable to:			
Owners of the parent		**309,359**	228,149

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,211,264**	1,420,346
Investment properties		**1,765**	1,813
Long term prepayments and deposit		**209,114**	174,973
Prepaid land lease payments		**506,725**	339,776
Goodwill		**4,075**	4,075
Deferred tax assets		**7,806**	4,394
Pledged deposits		**5,904**	165
Total non-current assets		**2,946,653**	1,945,542
CURRENT ASSETS			
Inventories		**807,872**	1,190,235
Trade and bills receivables	10	**1,385,829**	803,321
Prepayments, deposits and other receivables		**480,712**	462,357
Pledged deposits		**120,380**	47,483
Cash and bank balances		**1,039,348**	981,779
Total current assets		**3,834,141**	3,485,175
CURRENT LIABILITIES			
Trade and bills payables	11	**863,623**	666,583
Interest-bearing bank loans and other borrowings	12	**862,126**	1,434,816
Other payables and accruals		**484,219**	323,443
Tax payable		**71,093**	39,512
Derivative financial instruments		**3,784**	–
Short-term notes	13	**301,216**	–
Total current liabilities		**2,586,061**	2,464,354
NET CURRENT ASSETS		**1,248,080**	1,020,821
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,194,733**	2,966,363
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	12	**1,636,096**	732,289
Government grants		**96,082**	34,153
Deferred tax liabilities		**2,265**	2,265
Total non-current liabilities		**1,734,443**	768,707
Net assets		**2,460,290**	2,197,656
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**88,856**	88,856
Reserves		**2,309,123**	2,062,075
Proposed final dividend	8	**62,311**	46,725
Total equity		**2,460,290**	2,197,656

NOTES TO FINANCIAL STATEMENTS

31 December 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 year.

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), and the International Accounting Standards and Standing Interpretations Committee Interpretations 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, except for derivative financial instruments, which have been measured at fair value. 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 2012. 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 revised IFRSs for the first time for the current year's financial statements.

IFRS 1 Amendments	Amendment 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*

The adoption of the revised IFRSs has had no significant financial effect on these financial statements.

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, 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 – Government Loans* [2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* [2]
IFRS 9	*Financial Instruments* [4]
IFRS 10	*Consolidated Financial Statements* [2]
IFRS 11	*Joint Arrangements* [2]
IFRS 12	*Disclosure of Interests in Other Entities* [2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance* [2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities* [3]
IFRS 13	*Fair Value Measurement* [2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* [1]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits* [2]
IAS 27 (Revised)	*Separate Financial Statements* [2]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures* [2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* [3]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine* [2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012 [2]

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

4. REVENUE AND SEGMENT INFORMATION

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.

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.

4. REVENUE AND SEGMENT INFORMATION (continued)

Information about products

The revenue of the major products is analysed as follows:

	2012 RMB'000	2011 RMB'000
Manufacture and sale of steel pipes:		
LSAW steel pipes	**3,495,594**	3,186,043
ERW steel pipes	**319,502**	135,728
Steel pipe manufacturing services:		
LSAW steel pipes	**25,342**	19,258
ERW steel pipes	**9,084**	3,270
Others*	**76,473**	32,566
	3,925,995	3,376,865

* Others mainly included the manufacture and sale of steel fittings, trading of anti-corrosion equipment and sale of scrap materials.

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

	2012 RMB'000	2011 RMB'000
Revenue		
Manufacture and sale of welded steel pipes and the provision of related manufacturing services	**3,925,995**	3,376,865
Other income and gains		
Bank interest income	**7,519**	7,029
Subsidy income from the PRC government	**95,079**	59,048
Rental income	**4,145**	2,438
Others	**1,598**	457
	108,341	68,972

The subsidy income represented subsidies granted by the local finance bureaus to Panyu Chu Kong Steel Pipe (Lianyungang) Co Ltd.* (番禺珠江鋼管（連雲港）有限公司), Lianyungang Kaidi Heavy Equipment Technology Company Limited* ("Kaidi") and Panyu Chu Kong Steel Pipe Company Limited ("PCKSP") as awards for their investments and products. There are no unfulfilled conditions or contingencies relating to such subsidies.

* Unofficial transliteration from Chinese name for identification only.

4. REVENUE AND SEGMENT INFORMATION (continued)

Geographical information

The revenue information base on the locations of the customers is as follows:

	2012 RMB'000	2011 RMB'000
Sales to external customers:		
Mainland China	**2,862,763**	1,626,016
America	**623,841**	1,390,057
European Union	**44,354**	97,785
Middle East	**324,831**	91,073
Other Asian countries	**67,320**	98,418
Others	**2,886**	73,516
	3,925,995	3,376,865

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2012 RMB'000	2011 RMB'000
Interest on bank loans and government loans	**85,096**	68,064
Interest on finance leases	**7,462**	10,527
Total interest expense on financial liabilities not at fair value through profit or loss	**92,558**	78,591
Less: Interest capitalised	**(15,197)**	(13,395)
	77,361	65,196

6. PROFIT BEFORE TAX

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

	Notes	2012 RMB'000	2011 RMB'000
Cost of inventories sold		**2,894,614**	2,552,006
Depreciation		**52,123**	38,869
Amortisation of prepaid land lease payments		**8,563**	3,478
Minimum lease payments under operating leases in respect of buildings		**4,937**	2,159
Auditors' remuneration		**2,460**	2,099
Exchange loss/(gain), net		**1,717**	(5,413)
Finance costs	5	**77,361**	65,196
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		**204,564**	122,220
Retirement benefit scheme contributions		**18,606**	13,258
Impairment/(reversal of impairment) of trade receivables	10	**329**	(1,131)
Reversal of impairment of deposits and other receivables		**(57)**	(33)
Fair value loss of derivative instruments-transactions not qualifying as hedge		**3,784**	–
Bank interest income	4	**(7,519)**	(7,029)
Loss on disposal of items of property, plant and equipment, net		**–**	684
Research and development costs		**41,615**	45,938

7. 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 Enterprises Limited ("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.

PCKSP, as a High and New Technology Enterprise ("HNTE") qualified on 16 December 2008 and renewed in 2011, was 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 the years 2008 and 2009, and are entitled to a 50% tax exemption for the years 2010 to 2012.

Guangzhou Panyu Chu Kong Hualong Petroleum Steel Pipe Anti-Corrosion Co., Ltd. ("Hualong Anti-Corrosion") is subject to the income tax rate of 25%.

Panyu Chu Kong Steel Pipe (Lianyungang) Co., Ltd. ("PCKSP (Lianyungang)"), Panyu Chu Kong Steel Pipe (Zhuhai) Co., Ltd. ("PCKSP (Zhuhai)"), Kaidi, Guangdong Pearl Steel Investment Management Co., Ltd, ("Pearl steel Investment") and Lianyungang Pearl River Petro-Fittings Co., Ltd. ("GPR Petrol-Fittings (Lianyungang)") which were established in 2009, 2010, 2011 and 2012, respectively, are subject to income tax at a rate of 25%.

Lianyungang Aike New Construction Materials Limited ("Aike") which was acquired from two independent third parties on May 2012, is 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:

	2012 **RMB'000**	2011 RMB'000
Current – Mainland China charged for the year	**73,240**	51,908
Deferred	**(2,594)**	(3,133)
Total tax charge for the year	**70,646**	48,775

8. DIVIDENDS

	2012	2011
	RMB'000	RMB'000
Proposed final – HK7.6 cents (2011: HK5.7 cents) per ordinary share	**62,311**	46,725

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

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 year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,011,142,000 (2011: 1,011,142,000) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2011 and 2012 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these years.

10. TRADE AND BILLS RECEIVABLES

	Group	
	2012	2011
	RMB'000	RMB'000
Trade receivables	**1,369,152**	798,595
Impairment	**(6,603)**	(6,274)
Trade receivables, net	**1,362,549**	792,321
Bills receivable	**23,280**	11,000
	1,385,829	803,321

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, is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Within 60 days	**1,052,706**	587,844
61 to 90 days	**85,426**	46,850
91 to 180 days	**48,475**	84,349
181 to 365 days	**94,378**	23,626
1 to 2 years	**71,737**	40,401
2 to 3 years	**8,870**	7,732
Over 3 years	**957**	1,519
	1,362,549	792,321

10. TRADE AND BILLS RECEIVABLES (continued)

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

	Group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**6,274**	7,472
Impairment losses recognised (note 6)	**329**	618
Amount written off as uncollectible	**–**	(67)
Impairment losses reversed (note 6)	**–**	(1,749)
At 31 December	**6,603**	6,274

The above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB6,603,000 (2011: RMB6,274,000) with a carrying amount before provision of RMB7,560,000 (2011: RMB7,792,000).

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

	Group	
	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	**1,178,008**	653,583
Past due but not impaired		
1 to 180 days	**122,294**	86,264
181 to 365 days	**43,820**	38,585
Over 365 days	**18,427**	13,889
	1,362,549	792,321

The Group's neither past due nor impaired trade and bills 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.

11. 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:

	2012 **RMB'000**	2011 RMB'000
Within 90 days	**169,427**	135,249
91 to 180 days	**7,895**	1,014
181 to 365 days	**6,771**	4,468
1 to 2 years	**6,870**	7,774
2 to 3 years	**641**	552
Over 3 years	**4,580**	2,051
	196,184	151,108
Bills payable	**667,439**	515,475
	863,623	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.

12. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	Effective interest rate %	**Maturity**	**Group** **2012** **RMB'000**	2011 RMB'000
Current				
Finance lease payables	7.02	2013	**31,970**	29,972
Bank loans				
– secured	6.6-7.59	2013	**41,000**	115,000
– unsecured	1.24-7.93	2013	**689,156**	1,189,844
Government loans				
– unsecured	4.2-4.76	2013	**100,000**	100,000
			862,126	1,434,816
Non-current				
Finance lease payables	7.02	2014-2015	**70,878**	102,533
Bank loans				
– secured	6.4-7.59	2014-2016	**537,000**	330,000
– unsecured	4.03-5.5	2014-2015	**698,218**	299,756
Government loan				
– unsecured	4.2	2014	**330,000**	–
			1,636,096	732,289
			2,498,222	2,167,105

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

	Group	
	2012	2011
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**730,156**	1,304,844
In the second year	**35,000**	304,756
In the third to fifth years, inclusive	**1,200,218**	325,000
	1,965,374	1,934,600
Government loans repayable:		
Within one year	**100,000**	100,000
In the second year	**330,000**	–
	430,000	100,000
Finance lease repayable:		
Within one year	**31,970**	29,972
In the second year	**33,964**	31,844
In the third to fifth years, inclusive	**36,914**	70,689
	102,848	132,505
	2,498,222	2,167,105

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 RMB141,765,000 (2011: RMB51,113,000) as at the end of the reporting period; and

(b) certain leasehold lands of the Group with a net carrying amount of approximately RMB114,981,000 (2011: RMB79,563,000) as at the end of the reporting period.

In addition, the Company has guaranteed certain of the Group's bank loans up to RMB1,028,218,000 (2011: RMB299,756,000) as at the end of the reporting period.

Except for the unsecured bank loans of RMB32,434,000 (2011: RMB32,428,000) and RMB821,900,000 (2011: RMB417,007,000) as at 31 December 2012, which are denominated in Hong Kong dollars and United State dollars, respectively, all borrowings are in RMB.

The Group had the following undrawn banking facilities:

	Group	
	2012	2011
	RMB'000	RMB'000
Floating rate		
– expiring within one year	**4,531,613**	1,095,264
– expiring in the second to third years, inclusive	**–**	115,000
	4,531,613	1,210,264

13. SHORT-TERM NOTES

The carrying amount of the Group's short-term notes is as follows:

	2012	2011
	RMB'000	RMB'000
The First Tranche Notes – unsecured 5.6% fixed rate notes maturing in November 2013 – unsecured	**301,216**	–

In September 2012, PCKSP completed the registration with National Association of Financial Market Institutional Investors for a RMB500 million unsecured short-term notes facility issuable in two years from the date of registration. In December 2012, PCKSP issue the First Tranche Notes of RMB300 million in PRC with a tenor of one year, and carrying interest at a fixed rate of 5.6% per annum.

CHAIRMAN'S STATEMENT

Dear Shareholders,

Thanks for your enduring support and tremendous trust. Despite the challenging business environment caused by the slumping economy, this is a progressive year for the Company as our management has maintained their performance in leading the Company to achieve an outstanding result. On behalf of the Board of the Company, I would like to present the audited annual results of the Group for the year ended 31 December 2012.

In 2012, the Group achieved a turnover of approximately RMB3,926.0 million, up by approximately 16.3% as compared with 2011 (2011: RMB3,376.9 million). Profit attributable to equity holders of the Company surged by approximately 34.4%, to approximately RMB310.1 million (2011: RMB230.7million). Earnings per share totalled approximately RMB0.31, surged by approximately 34.8% as compared with 2011 (2011: RMB0.23). The Board recommended a final dividend of HK7.6 cents per ordinary share for the year ended 31 December 2012, which represents approximately 33.3% growth over 2011 (2011: HK5.7 cents).

Looking back at 2012, the Group continued to drive forward and prepared for the needs in coping with the overall development and the ever growing market demand. The Group has committed in enhancing integrated strengths, adhering to a strategy of product diversification, further expanding the scale of the enterprise and strengthening our well entrenched leading position in the industry.

PROGRESSIVE ENHANCEMENT OF SCALE

In June 2012, the production base of the Group located at the Zhuhai Gaolan Port Economic Zone in Guangdong Province officially commenced operation. The first phase of the project was completed with a JCOE technology equipped longitudinal submerged arc-welded ("LSAW") steel pipe production line with an annual production capacity of 300,000 tonnes and a coating production line in operation. The plans for the second and the third phases of the project include a spiral submerged arc-welded ("SSAW") steel pipe production line and a dedicated wharf built to provide logistics and storage facilities. The wharf in Gaolan Port Economic zone is easily accessible with the nearly transportation network and will be equipped with comprehensive supporting facilities and complete wharf functionality, with an aim to become a distribution centre for bulk cargo and oil and gas chemical, a regional logistics port and a gateway between Mainland China and the world. With the construction of the wharf, the Group will enjoy a competitive edge in terms of logistics, warehousing and cost effectiveness which would help to further satisfy demand from customers. Our projects in Zhuhai is classified in the "12th Five-Year Plan" under the industry that is highly encouraged by the local government, thus it was deemed by the Group as a key base for capturing the huge market demand on high performance steel pipes from the domestic and international oil and gas markets, as well as a complete set of products for supporting the energy infrastructure development in China and the strategic exploitation in South China Sea.

In September 2012, the production line in Lianyungang production base for producing X80 pre-welding and precision welding SSAW commenced operation. The Group is now one of the three manufacturers in China which owns a production line of pre-welding and precision welding SSAW. This production line adopted Danieli SSAW technology from Germany (德國達涅利螺旋焊預精焊技術), a reliable and cutting-edge technology complemented with sound quality management system and complied with relevant environmental standards. The commencement of this production line marked the success of the Group in realising its product diversification strategy and opens up a wider steel pipe market.

For the year ended 31 December 2012, the Group owned a total of six LSAW steel pipe production lines, one SSAW steel pipe production line and one electric resistance welded ("ERW") steel pipe production line with an aggregate annual production capacity of 2.41million tonnes.

WORLD'S LEADING R&D TECHNOLOGY AND PRODUCT STRENGTHS

The Group is the first and the only steel pipe manufacturer in China who successfully developed the deep sea welded pipes that can be used at a water depth of under 1,500m. With our solid R&D capabilities, the Group proactively takes part in the bidding for high-end steel pipe projects worldwide and strives to become a leading world class LSAW steel pipe manufacturer. In the reviewing year, the Group delivered a deep-sea welded pipes order for the Liwan Offshore Project that jointly operated by China National Offshore Oil Corporation ("CNOOC") from China and Husky from Canada. Moreover, the Group is recognised by Petrobras, an oil company in Brazil, as its qualified supplier, which will increase our confidence in driving for more business opportunities from the deep sea steel pipe market in the future.

The Group's diversified products are widely used by onshore and offshore oil and gas projects, city gas network and other pipeline transmission projects and infrustructures, such as stadiums and bridges building. The Group has developed business relationships with over 800 companies in about 50 countries worldwide. "PCK" has become a brand name astonishing the world.

Furthermore, the Group has continued to innovate and bring forth surprises and pride to the market by successfully launching its pipeline products in coal slurry transportation and ultra-high voltage power transmission tower. In June 2012, the Group entered a sales contract with ShaanXi Coal Industy Joint Stock Co Ltd (陝西煤業股份有限公司), pursuant to which the Company shall deliver in aggregate approximately 71,700 tonnes of LSAW steel pipes for the Shenwei Coal Slurry Project (神渭管道輸煤項目). Pipe transportation has been widely recognised by the industry as the most economical, efficient and environmental friendly way for the transportation of coal slurry. As the industry development of coal slurry pipeline is still in its early stage of development, the success of Shenwei Coal Slurry Project will be considered a breakthrough for long distance transportation of coal slurry in PRC.

Our steel pipes are also used in the building of ultra-high voltage power transmission tower. A major part of pipe used in the world's tallest ultra-high voltage power transmission tower – "Eastward Transmission of Anhui Electric Power project" was supplied by the Group. It is a great pride for the Group to participate in this representative construction project. All of these achievements showcased our superior product quality, and our advanced and diversified manufacturing equipment and processes.

In view of the Group's successful product and application diversification strategies, we will further explore the opportunities to introduce our pipes to some other new areas, such as for the uses of nuclear power, wind power, sewage disposal, insulation and oil platform construction. For new and upcoming products under research and development, the Company is now developing LSAW that can be used at a water depth of under 3,000m, to compete with other international deep sea pipes peers. The Company is also developing clad pipes for the use of transmission of crude gas and pipes for steam transmission for nuclear reactors. These products required advanced technology and technical expertise, which garner a hope of leading the Group to leap forward and become the most successful pipe manufacturer in the world.

GEAR UP FOR GROWTH

Year 2012 was the second year of the "12th Five-Year Plan". The Ministry of Industry and Information Technology of the PRC has published its latest "Development Plan for Offshore Engineering Equipment Industry" and the "12th Five-Year Development Plan for High-end Equipment Manufacturing Sector", which indicated a new direction and provided future prospects for the industry. Deep sea pipes manufacturers are expected to benefit from more encouraging policy and support from the government. During the reviewing year, the Group received supports from the government such as subsidies and bank loans of favourable interest rates provided by policy banks from China Development Bank and The Export-Import Bank of China, as well as export policy support from the China Export & Credit Insurance Corporation. Year 2012 was also an opening year for deep sea project development during which CNOOC had been strenuously developing deep-sea oil and gas projects specifically oil and gas exploitation in South China Sea and it gives rise to an enormous market opportunity for the deep-sea pipe industry. Benefiting from the government policies and market opportunities, it is foreseen that the Group will achieve a leap-up of growth. The National Development and Reform Commission has officially released the "12th Five-Year Plan for Natural Gas Development" which stated the need to expand the scale of usage of natural gas in China. As the transmission of natural gas mainly confined to the mode of pipeline transmission, we believe it would stimulate the demand for steel pipes. With the recovery of the global economy, global oil companies will resume oil exploitation activities to a higher level which could also create stimulus to the industry demand for steel pipes.

In addition to the traditional energy sector, there is a new growth driver in the steel pipes industry. In 2012, the National Energy Board released "Shale Gas Development Plan (2011-2015)", which has introduced a series of supporting policies for the industry. In general, the market believes that "12th Five-Year Plan" will provide a leap-up in development of shale gas under which related resources explorations and equipment manufacturing enterprises will benefit. Recently, there was a number of tenders for shale gas projects opened which have further facilitated the industry development. Contributed to the large scale exploitation of shale gas in China, the corresponding growth from demand for logistics and storage facilities will also increase considerably.

Other than shale gas, coal seam gas is also highly regarded by the country as another important source of clean energy. In 2012, the country launched the "12th Five-Year Plan for Coal Seam Gas Development and Utilisation" under which the target production volume of coal seam gas is 30 billion metre square by 2015. It clearly stated that coal seam gas will mainly rely on pipeline transportation to transmit remaining gas to outer regions after the demand in local region is fulfilled. Therefore, coal seam gas industry development underpinned the future development of steel pipes industry. The Group is confident to capture these market opportunities with our integrated strengths.

Eyeing on the prospect of steel pipes industry, the Group is optimistic and has been aggressively bidding for related projects and to obtain more orders, in order to capture the growth in the industry. Progressively, the Group has also been ramping up its production capacity simultaneously in order to complete all of the received orders. By the end of 2014, the Group has plans to expand production facilities to a total of seven LSAW steel pipe production lines, two SSAW steel pipe production lines and one ERW steel pipe production line with an aggregate annual production capacity of over 3 million tonnes.

The whole development plan of Lianyungang plant in Jiangsu Province consists of one pre-welding & precision welding SSAW, one self-developed and patented LSAW-COE and a steel plate processing production line with an annual production capacity of 2 million tonnes to manufacture steel plate for the Group's internal use. The Group named the combined development of steel plate and pipes as "Integration of Steel Plates and Pipes" strategy. The implementation of this strategy will enhance the cost and quality control when pursuing further improvement of our product competitive strengths. As the industry's leading enterprise, we have been looking for continuous growth by innovation and aiming to further entrench our role model image in the industry with our principled business strategies and brilliant results.

The Group has established a joint venture in Saudi Arabia with a plan to set up an additional LSAW production line with an annual production capacity of 300,000 tonnes. This production base will be in a position to provide LSAW steel pipe to the Middle East market with a view to bridge up the supply-demand gap. It will help the Group to further expand its market share in both Saudi Arabia and other neighboring countries and also to strengthen its presence in the overseas markets.

In the face of the enormous potential in the steel pipes industry, the Group has laid a solid foundation, formulated definite development strategies and improved our competitive strengths perpetually. Going forward, the Group will adhere to its product diversification and "Integration of Steel Plates and Pipes" strategies and attain to be a leading world class LSAW steel pipe manufacturer.

APPRECIATION

On behalf of the Group, I wish to express my gratitude to all employees and Shareholders. I sincerely look forward to all your continuing support to the Group's future development. The Group is full of confidence in reaching new heights of success in the brand-new year, further realising the mutual growth of both the enterprise and employees and to share our brilliant success with our Shareholders.

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 welded steel pipe products can be broadly categorised into LSAW steel pipes, SSAW steel pipes and ERW steel pipes. We are the largest LSAW steel pipe manufacturer and exporter in the PRC who are capable of producing LSAW steel pipes that meet the X80 standard, and we are 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.

The Group is capable of manufacturing subsea 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 from and supported by PRC strategic policies, e.g. government subsidies and preferential interest rate. During the year, we were supported by PRC policy banks and insurance institution and we have maintained good relationship with and have obtained medium-term loan and credit facilities from China Development Bank, The Export-Import Bank of China and China Export & Credit Insurance Corporation.

LSAW Steel Pipes

The Group is the largest LSAW steel pipe manufacturer and exporter in the PRC. LSAW steel pipe is the largest revenue contributor to the Group and accounted for approximately 89.7% of our total revenue for the year ended 31 December 2012. For the year ended 31 December 2012, revenue from the sales and manufacturing service of LSAW steel pipes amounted to approximately RMB3,495.6 million and RMB25.3 million, respectively, representing an increase of approximately 9.7% and 31.6%, respectively, as compared to that for the year ended 31 December 2011. The increase in sales of LSAW steel pipes was mainly due to the robust demand for pipeline under China's 12th Five-Year Plan which resulted that the Group has obtained numerous domestic orders during the year. The Group has received total orders for steel pipes amounted to 377,000 tonnes during 2012. Among the new orders received, the Group obtained a sales contract which worths more than RMB530 million with ShaanXi Coal Industry Joint Stock Ltd* (陝西煤業股份有限公司) to deliver steel pipes for the Shenwei Coal Slurry Project* (神渭管道輸煤項目) in June 2012. Pursuant to the said sales contract, PCKSP shall supply in aggregate approximately 71,700 tonnes of LSAW steel pipes which shall account for about 70% of the total LSAW steel pipes usage under the said project to ShaanXi Coal Industry Joint Stock Co Ltd* ("陝西煤業股份有限公司") .

Shenwei Coal Slurry Project* (神渭管道輸煤項目) involves the construction of a coal slurry pipeline, which is expected to be the longest and largest of its kind in the PRC. The total length of the coal slurry pipeline is estimated to be 748 kilometres with an annual transmission capacity of 10 million tonnes of coal. The pipeline shall be the first long distance coal slurry pipeline in the PRC and marks a remarkable development of coal slurry pipeline construction. This project also manifests that the pipeline is the most efficient, environmental friendly and economical way for coal transmission.

Revenue from the manufacturing service of LSAW steel pipes increased as compared with 2011 but the percentage of manufacturing service of LSAW in 2012 to total sales was similar as compared with that of 2011.

SSAW Steel Pipes

The Group has commenced the production of SSAW steel pipes since September 2012. Our SSAW steel pipes are produced using pre-welding and precision welding SSAW technique, of which is the most advanced standard among all SSAW technologies. No revenue was recorded from the sale of SSAW steel pipes during the year ended 31 December 2012. We expect robust demand for SSAW steel pipes for oil and gas transmission under China's 12th Five-Year Plan.

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 small proportion of the total sales of the Group. For the year ended 31 December 2012, revenue from the sales and manufacturing service of ERW steel pipes amounted to approximately RMB319.5 million and RMB9.1 million, respectively. The total revenue from ERW steel pipes accounted for approximately 8.3% of the total revenue for the year ended 31 December 2012.

2012 was the second 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. South Sea will be one of the four major sources of natural gas and the major exploration focus during the duration of the 12th Five-Year Plan. CNOOC has launched a deepwater exploration programme and targets to construct 15,000km of transmission network from offshore wells to the coastal LNG terminals. 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 metres, we expect robust demand for the Group's products from offshore projects; (ii) growth of China's natural gas industry in light of China's attempt to maintain a low carbon economy. China's natural gas production and consumption recorded significant growth while natural gas consumption still only occupies a small proportion of China's energy consumption, around 4.6% of total energy consumption as compared with the international level (around 23.8% of total energy consumption). It is estimated that China's natural gas consumption in 2015 will reach 230 billion cubic metres, which is 2.6 times that of 2010, with compound annual growth rate of approximately 21%. Pipeline transmission is the most economical, efficient and environmental friendly way for transmitting gas. Demand for steel pipes for transmission of gas will increase accordingly. It is expected that the total length of China's pipelines will reach 150,000 km by 2015, which will almost double that of 2010. According to the 12th Five-Year Natural Gas Development Plan ≪天然氣發展"十二五" 規劃≫ implemented by National Development and Reform Commission (國家發展改革委員會) and National Energy Administration (國家能源局組織), demand for steel pipes will reach 50,000 km during 2013 to 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. This can benefit the Group for both LSAW and SSAW steel pipes; (iii) China continued to upgrade its technology and extend the scale of exploring coalbed methane during the 12th Five-Year Plan. 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) exploration of shale gas. China has the largest shale gas reserve in the world. Policies for shale gas development are in place and is encouraging non state-owned enterprises to participate into the exploration activities. Pipeline however is the most economical, efficient and environmental friendly means to transmit such energy. Although shale gas exploration is on elementary stage, we expect demand for our steel pipes will further increase following the mass scale production of shale gas; and (v) construction of ultra-high voltage grid projects. Apart from oil and gas transmission pipelines, our business is also diversified into the construction of ultra-high voltage transmission towers. As most of the angle steel towers collapsed after the snow storm in the winter of 2009, State Grid Corporation of China ("SGCC") decided to use a combination of LSAW steel pipes and ERW steel pipes to construct the ultra-high voltage transmission towers for its higher stability. 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 delivered 50% of the total steel pipes used under SGCC's first project of Huainan-Shanghai Ultra High Voltage Power Grid this year.

For overseas market, given the rising volume in natural gas pipeline construction in South America, the Middle East, Australia and Europe, the Group expects that capital expenditure will continue to be allocated onto pipeline projects by oil and gas companies to cope with the global increasing demand for oil and gas, which will result in a strong demand for the Group's steel pipes.

Zhuhai and Lianyungang Production Bases in operation

Due to expected growth in demand of our products in coming years, the Group has increased its production capacity to capture the growth potentials and continue to be the largest LSAW steel pipe manufacturer in the PRC. The LSAW production line with 300,000 tonnes in Zhuhai has commenced production in the second quarter of 2012. The pre-welding and precision welding SSAW production line with 360,000 tonnes in Lianyungang, which utilises the most advanced technology among all SSAW standards, with us being one of the few manufacturers in PRC possess such SSAW production technology, was set up in the third quarter of 2012. The new LSAW production line uses the COE method (the advanced technology which the Group has obtained invention patent) with 300,000 tonnes in Lianyungang has been set up at the end of 2012.

Change of Land Use in Panyu

On 7 December 2012, the Group entered into a contract with the Guangzhou Land Bureau for the change of land use ("Contract"). The land is situated at the east of intersection of Changsha Road and Qinghe Road, Shiji Town, Panyu, Guangzhou, the PRC (中國廣州番禺區石基鎮清河路與長沙路交滙處以東) with a total site area of approximately 125,000 square metres, at the premium of approximately RMB425.5 million (the "Land"). The Land will be changed from industrial uses to commercial uses upon completion of the Contract.

The total permitted construction area of the Land is approximately 401,000 square metres. The Land, which comprises 3 parcels of land, is part of the 11 parcels of adjourning land on which the Group's factory complex and headquarters in Shiji Town, Panyu, Guangdong, the PRC were built. The Land accounts for approximately 27% of the total site area of approximately 461,000 square metres of these 11 parcels of land owned by the Group. There are no buildings erected on the Land as at 31 December 2012. The Land has been used by PCKSP for temporary storage of its products. The Land is free from any assignments, leases or encumbrances as at 31 December 2012.

The premium will be funded by the net proceeds from the bank borrowings and/or internal resources of the Group.

The Group has engaged RHL Appraisal Limited, an independent valuer, to undertake the valuations of the Land immediately before and after the change of land use. According to the valuations of RHL Appraisal Limited as at 31 December 2012, the market value of the Land immediately before the change of land use is approximately RMB120 million. The market value of the Land immediately after the completion of the Contract and upon full payment of the premium will be approximately RMB2,000 million.

The Group has no specific plan in developing the Land immediately after the change of land use. The Group will make an announcement immediately once specific plan is confirmed.

FINANCIAL REVIEW

Revenue and gross profit

For the year ended 31 December 2012, our revenue was approximately RMB3,926.0 million, representing an increase of approximately RMB549.1 million or 16.3% as compared with that of 2011. The increase in revenue was mainly attributable to the increase in both sales volume of LSAW steel pipes and increase in average selling price of higher profit margin products.

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:

	2012		2011	
	Revenue RMB'000	**% to total**	Revenue RMB'000	% to total
Sales of steel pipes				
LSAW steel pipes	**3,495,594**	**89.0**	3,186,043	94.3
ERW steel pipes	**319,502**	**8.1**	135,728	4.0
Subtotal	**3,815,096**	**97.1**	3,321,771	98.3
Manufacturing services				
LSAW steel pipes	**25,342**	**0.7**	19,258	0.6
ERW steel pipes	**9,084**	**0.2**	3,270	0.1
Subtotal	**34,426**	**0.9**	22,528	0.7
Others	**76,473**	**2.0**	32,566	1.0
Grand total	**3,925,995**	**100.0**	3,376,865	100.0

		2012			2011	
	Gross profit RMB'000	**Sales volume tonnes**	**Average gross profit RMB/tonne**	Gross profit RMB'000	Sales volume tonnes	Average gross profit RMB/tonne
Sales of steel pipes						
LSAW steel pipes	**590,011**	**448,656**	**1,315**	500,712	415,680	1,205
ERW steel pipes	**27,824**	**57,650**	**483**	(3,135)	21,951	(143)
Subtotal	**617,835**	**506,306**		497,577	437,631	
Manufacturing services						
LSAW steel pipes	**14,036**	**13,853**	**1,013**	10,207	15,577	655
ERW steel pipes	**194**	**8,176**	**24**	23	4,197	5
Subtotal	**14,230**	**22,029**		10,230	19,774	
Others	**34,524**	**N/A**	**N/A**	2,541	N/A	N/A
Grand total	**666,589**	**528,335**		510,348	457,405	

The revenue generated from the sales of steel pipes accounted for approximately 97.1% of our total revenue in 2012 as compared with approximately 98.3% in 2011. Steel pipe manufacturing services accounted for approximately 0.9% of our total revenue in 2012 as compared with approximately 0.7% in 2011. The revenues denoted by "Others" mainly represented the sales of steel fittings, trading of anticorrosion equipment and sales of scrap materials which accounted for approximately 2.0% of our total revenue in 2012 as compared with 1.0% in 2011.

Gross profit for 2012 was approximately RMB666.6 million, representing an increase of approximately 30.6% or RMB156.2 million as compared with approximately RMB510.3 million in 2011. Gross profit margin for 2012 was approximately 17.0% which was higher than approximately 15.1% of last year as the Group has delivered deep sea welded steel pipes with higher profit margin this 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 increased by approximately 9.1% from approximately RMB1,205 in 2011 to approximately RMB1,315 in 2012. This was attributable to sale of deep see welded pipes with higher profit margin during the year.

The average gross profit per tonne for ERW steel pipes of approximately RMB483 in 2012 as compared with gross loss of approximately RMB143 in 2011 as the Group delivered ERW pipes for the SGCC Project and other overseas projects this year to cover its fixed costs.

As to the manufacturing services, the average gross profit per tonne for manufacturing services of LSAW steel pipes increased by approximately 54.7% as compared with last year. The gross profit margin in 2012 was similar to that of last year.

Our domestic sales accounted for approximately 72.9% of our total revenue in 2012, but only approximately 48.2% in 2011. This was mainly attributable to the fact that 2012 was the second year of 12th Five-Year Plan. The Group benefited from the construction of gas transmission pipelines during the 12th Five-Year Plan. In addition, exploration of deep sea wells further benefited the Group through the increased demand for deep sea welded steel pipes where the Group is the only PRC manufacturer to produce deep sea LSAW steel pipes. Furthermore, construction of ultra-high voltage power grids also stimulated the demand for our steel pipes for infrastructural use. Lastly, the construction of the first long distance coal slurry pipeline in Shenwei, PRC also boosted our sales.

SALES BY GEOGRAPHICAL AREAS

	2012		2011	
	RMB'000	**%**	RMB'000	%
Overseas sales	**1,063,232**	**27.1**	1,750,849	51.8
Domestic sales	**2,862,763**	**72.9**	1,626,016	48.2
Total	**3,925,995**	**100.0**	3,376,865	100.0

OTHER INCOME AND GAINS

Other income in 2012 mainly represents bank interest income and subsidy income from the PRC government. Other income and gains increased by approximately 57.1% or RMB39.4 million from approximately RMB69.0million in 2011 to approximately RMB108.3 million in 2012. Increase in other income was mainly due to the increase in government subsidies as compared with 2011. Government subsidies were in relation to awards for the Group's investment in Lianyungang and high product quality of the Group. The investment in Lianyungang was encouraged by PRC government policies and thus enjoying government subsidies.

SELLING AND DISTRIBUTION COSTS

Selling and distribution costs increased by approximately 24.6% or RMB17.5 million from approximately RMB71.0 million in 2011 to approximately RMB88.5 million in 2012. The selling and distribution costs as a percentage of our total revenue were approximately 2.3% in 2012 and 2.1% in 2011. The increase was mainly due to the increase in transportation expenses resulted from the significant increase in domestic sales of the Group as compared with last year.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by approximately 31.0% or RMB51.4 million from approximately RMB165.9 million in 2011 to approximately RMB217.3 million in 2012. The increase was primarily due to the increase in salaries and wages and office expenses for the newly set up production bases in Zhuhai and Lianyungang.

FINANCE COSTS

Finance costs increased by approximately 18.7% or RMB12.2 million from approximately RMB65.2 million in 2011 to approximately RMB77.4 million in 2012. The effective interest rate in 2012 was approximately 2.8% (2011: 3.0%). The increase in finance costs was mainly due to the increase in bank loans as compared with last year. However, decrease in effective interest rate was mainly due to the Group was supported by PRC policy banks with preferential lending rates offered to us.

CHANGES IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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 million. Unrealised change in fair value of such derivative instrument of approximately RMB3.7 million (2011: nil) was charged to profit or loss in 2012.

The Group also entered into an interest rate swap contract with a financial institution to manage the floating interest rate exposure of the six-month revolving loan of approximately USD31 million. Unrealised change in fair value of this derivative instrument of approximately RMB0.06 million (2011: nil) was charged to profit or loss in 2012.

EXCHANGE (LOSS) / GAIN, NET

Exchange (loss) / gain has changed from approximately RMB5.4 million gain in 2011 to approximately RMB1.7 million loss in 2012. The exchange loss was resulted from the exchange loss arising from our overseas sales denominated in US dollar and offset by the exchange gain arising from the foreign currency loans during the year.

INCOME TAX EXPENSES

Income tax expenses increased by approximately 44.8% or RMB21.9 million from approximately RMB48.8 million in 2011 to approximately RMB70.6 million in 2012. The increase was mainly due to the increase in our profit before tax. PCKSP, the wholly-owned subsidiary of the Company, was qualified as High Technology Enterprise and entitled to a reduced tax rate of 15% in 2012 (2011: 15%). The Group's effective tax rate for 2012 was approximately 18.6% which was at similar level than that of 2011 (2011: 17.5%).

PROFIT FOR THE YEAR

As a result of the factors discussed above, our profit increased by 34.4% or RMB79.4 million from approximately RMB230.7 million in 2011 to approximately RMB310.1 million in 2012. Net profit margin increased from 6.8% in 2011 to 7.9% in 2012.

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 2011 and 2012:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Net cash flows from operating activities	**586,888**	1,332
Net cash flows used in investing activities	**(1,021,648)**	(686,295)
Net cash flows from financing activities	**493,050**	1,070,950
Net increase in cash and cash equivalents	**58,290**	385,987

NET CASH FLOWS FROM OPERATING ACTIVITIES

The Group's net cash flows from operating activities significantly improved from approximately RMB1.3 million in 2011 to approximately RMB586.9 million in 2012. The net cash inflows from operating activities were primarily due to the combined effect of (i) operating profit before changes in working capital of approximately RMB515.3 million, (ii) decrease in inventories, and (iii) increase in trade and bills receivables, trade and bills payables and prepayments of approximately RMB390.2 million resulted from the increase in sales for the year ended 2012 as compared with that of 2011.

NET CASH FLOWS USED IN INVESTING ACTIVITIES

The Group's net cash flows used in investing activities increased by approximately 48.9% or RMB335.4 million from approximately RMB686.3 million in 2011 to approximately RMB1,021.6 million in 2012. 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 approximately 54.0% or RMB577.9 million from approximately RMB1,071.0 million in 2011 to approximately RMB493.1 million in 2012. The net cash inflows were mainly resulted from the combined effect of (i) borrowing of new bank loans and government loans of approximately RMB3,346.4 million and (ii) repayment of bank loans and government loans and finance lease of approximately RMB2,690.2 million.

EXCHANGE RISK EXPOSURE

The Group mainly operates in the PRC and most of its operating transactions are settled in Renminbi except for export sales which are mostly denominated in US dollar. Most of its assets and liabilities are denominated in Renminbi. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect that future currency fluctuations 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 million entered by the Group during the year, the Group did not adopt formal hedging policies nor instruments of foreign currency for hedging purposes during the year ended 31 December 2012.

CAPITAL EXPENDITURE

For the year ended 31 December 2012, the Group invested approximately RMB1,021.6 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.

CONTINGENT LIABILITIES

As at 31 December 2012, 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 RMB141,765,000 (2011: RMB51,113,000) and RMB114,981,000 (2011: RMB79,563,000) as at 31 December 2012 respectively, to secure bank loans granted to the Group.

FINANCIAL INSTRUMENTS

The Group has the cross currency swap contract to manage the exchange rate exposure of the 3-year term loan of RMB300 million and the interest rate swap contract to manage the interest rate exposure of the six month revolving loan of approximately USD31 million outstanding for the year ended 31 December 2012.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group's gearing ratio is calculated based on the summation of bank loans, other borrowings and short term notes divided by total assets. The gearing ratio of the Group as at 31 December 2012 and 2011 were 41.3% and 39.9%, respectively.

On 31 October 2012, the Group entered into a facility agreement for a 3 year team loan of USD36 million with a syndicate of banks. The loan is on a LIBOR basis and repayable by 4 semi-annual installments starting 18 months after the date of the facility agreement. The purpose of this loan to finance the construction cost of the new production base at Lianyungang. Under the terms of the facility agreement, Mr. Chen Chang, is required to remain as Chairman of the Group; and he and his family collectively are required to maintain at least 60% of the voting right in the Company free from any security, otherwise it will constitute as default.

As at 31 December 2012, total borrowings of the Group amounted to approximately RMB2,799.4 million, of which approximately 58% (2011: 34%) were long term borrowings and approximately 42% (2011: 66%) were short term borrowings. And approximately 63% of total borrowings of the Group were financing working capital of the Group, and approximately 37% of total borrowings of the Group were financing capital expenditure of the Group. 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 received sales proceeds from its customers, it will then repay the short term borrowings. Taking into account of the 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 31 December 2012, approximately 33% (2011: 50%) 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, approximately 37% (2011: 20%) of total borrowings were denominated in Renminbi which carried fixed interest rate and approximately 30% (2011: 30%) of total borrowings as at 31 December 2012 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 22 May 2012, the Group acquired a 100% interest in Aike from two independent third parties. Aike is engaged in the manufacture and sales of tubular pipe. The purchase consideration for the acquisition was RMB10 million in the form of cash. The acquisition was mainly made for construction of our new production plant at Lianyungang with a 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.

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 2012 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 2012 (RMB' million)
Use of proceeds		
Establishment of a new production base in Lianyungang	684.4	684.4
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 R&D capabilities	29.3	29.3
Working capital	97.8	97.8
Total	977.7	977.7

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2012, the Group had a total of 3,964 dedicated full time employees (2011: 2,958 employees). The following set forth the total number of our staff by functions:

	2012	2011
Management	**193**	168
Production and logistics	**2,302**	1,586
Sales and marketing	**42**	37
Finance	**35**	29
Quality control	**567**	513
R&D	**302**	231
Procurement	**57**	42
General administration and others	**466**	352
Total	**3,964**	2,958

For the year ended 31 December 2012, staff cost (including directors' remuneration in the form of salaries and other benefits) was RMB223.2 million (2011: RMB135.5 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, on-job training, 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. Pursuant to the Company's share option scheme and share award scheme, options to subscribe for shares in the Company or share awards of the Company respectively may be granted to eligible employees. No share option nor share award was granted under the share option scheme or share award scheme respectively during the year ended 31 December 2012.

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 and qualified supplier of Petrobras, Brazil. We were approved by the Guangdong Provincial Government to set up the Academician Workstation (院士工作站). 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 in Lianyungang

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 2015. This steel plate processing production line will 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 to secure stable supply of high-quality steel plates for production even when market conditions are tight.

(2) Construction of New SSAW Steel Pipe Production Line in Zhuhai

In order to meet the demand for SSAW steel pipes of some customers and to widen our product range, the Group intends to further construct one SSAW steel pipe production line with annual capacity of 300,000 tonnes as an auxiliary base in Zhuhai and is expected to be completed by mid-2013. The SSAW steel pipe production line in Zhuhai is mainly for producing steel pipes used for oil and gas transmission and infrastructure.

(3) Formation of Joint Venture

On 13 June 2011, PCKSP entered into an agreement with Abdel Hadi Abdullah Al Qahtani & Sons. Co ("AHQ") to establish a joint venture company ("JV Company") with a registered capital of SR106 million (equivalent to approximately USD26.5 million). The JV Company will be owned as to 50% by PCKSP and 50% by AHQ. The proposed principal business of the JV Company is the manufacturing and sales of LSAW steel pipes and ERW steel pipes. The JV Company is expected to commence operation in first quarter 2014. 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 financial results.

The Group intends to fund the capital expenditure of the above projects by the proceeds from the internally generated funds and bank borrowings.

Looking forward, although there are uncertainties in the world economy, especially in Europe and the United States and the slowing down of economic growth in China, we still foresee an increase in our turnover for 2013. Oil prices have continued to remain high and the differences in gas prices between regions and hubs will continue to create investment and capital expenditures opportunities to shift these gases to higher profitability region. There will be a continuous growth of pipeline projects being approved such that we will benefit from these growths. We have also moved towards higher technological products after the experience gained from the successful supply of deepwater pipelines to the Liwan Deep Sea Project. As an example, we are now approved by Petrobras, Brazil, a frontrunner for exploration and production in deepwater and ultra deep water projects as its qualified supplier. Going forward, projects in the pipelines that we are pursuing include projects in South America, Europe, Asia including Phase II of Liwan Deepwater project, Middle East and Australia. We are confident that we are well placed to pursue these projects as we have greater flexibility in scheduling and prices with the commissioning of new production lines and our expanded range of product offerings.

We expect a slowdown of economic growth in the economy of China. However, with 2013 being the third year of the 12th Five-Year Plan, we expect to see a spurt in construction of national pipelines, city gas networks and offshore projects. It is expected that pipelines for transmission of oil and gas of around 50,000 km will be constructed during 2013 to 2015, which will drive up the demand for our pipes. On the offshore exploration side, South Sea is another major focus under the 12th Five-Year Plan. We are the only PRC manufacturer who can produce deep sea LSAW steel pipes and we benefit from the increasing demand for deep sea LSAW steel pipes. 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 the largest shale gas reserve in the world. Policies for shale gas development are in place and is encouraging non state-owned enterprises to participate into the exploration activities. Pipeline however is the most economical, efficient and environmental friendly way to transmit 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.

CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices ("the CG Code") effective before 1 April 2012 and as set out in the former Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules") and the code provisions set out in the revised Corporate Governance Code ("the Revised CG Code") as set out in the revised Appendix 14 to the Listing Rules for the financial year ended 31 December 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 CG Code that the roles of chairman and chief executive 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". 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. The Board is of the view that this structure provides the Group with strong and consistent leadership, facilitates effective and efficient planning and implementation of business decisions and strategies, and ensures the generation of shareholders' benefits.

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

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.

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. Mr. See Tak Wah is the Chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and the internal control procedures of our Group. The Audit Committee has reviewed the Company's financial statements and the Group's consolidated financial statements for the year ended 31 December 2012 and the condensed interim financial statements for the six months ended 30 June 2012, including the accounting principles and practices adopted by the Company and the Group.

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

During the year ended 31 December 2012, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

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 year ended 31 December 2012.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK7.6 cents per Share for the year ended 31 December 2012 ("Final Dividend") to Shareholders whose names appear on the register of members of the Company on 20 June 2013. The proposed Final Dividend is subject to approval by the shareholders at the annual general meeting ("AGM") to be held on Tuesday, 11 June 2013. If the resolution for the proposed Final Dividend is passed at the AGM, the proposed Final dividend will be payable on or about Thursday, 11 July 2013.

The register of members of the Company will be closed from Tuesday, 18 June 2013 to Thursday, 20 June 2013, both days inclusive, during which no transfer of Shares will be registered. In order to qualify for the proposed Final Dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 17 June 2013.

CLOSURE OF REGISTER OF MEMBERS FOR AGM

The register of members of the Company will be closed from Thursday, 6 June 2013 to Tuesday, 11 June 2013, both days inclusive, during which no transfer of Shares will be registered. In order to qualify for attending and voting at the AGM or any adjournment thereof, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 5 June 2013.

PUBLICATION OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The results announcement is required to be published on the websites of the Stock Exchange at www.hkexnews.hk under "Listed Company Information" and the designated website of the Company at http://www.pck.com.cn or http://www.pck.todayir.com, respectively. The annual report of the Company for the year ended 31 December 2012 will be dispatched to the shareholders and published on the Stock Exchange's and the Company's websites in due course.

By Order of the Board
Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited
Chen Chang
Chairman and Executive Director

Hong Kong, 22 March 2013

As at the date of this announcement, the executive directors of the Company are Mr. Chen Chang, Ms. Chen Zhao Nian and Ms. Chen Zhao Hua. The independent non-executive directors of the Company are Mr. Chen Ping, Mr. Liang Guo Yao and Mr. See Tak Wah.