Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited

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

ENHANCING INTEGRATED STRENGTHS

ANNUAL REPORT 2012





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CORPORATE PROFILE

Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company", together with its subsidiaries hereinafter referred to as the "Group") is the largest manufacturer and exporter of longitudinal welded steel pipes in China. The Company has been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock Code: 1938) since February 2010. Our steel pipes are mainly for energy transmission that includes oil and gas transmission pipelines, deep sea pipelines, city gas networks, petrochemicals, mining and infrastructure.

The Group's production bases are located in Panyu, Zhuhai, Jiangyin, Lianyungang and Saudi Arabia (under construction), with 6 Longitudinal Submerged Arc-Welded ("LSAW"), 1 Spiral Submerged Arc-Welded ("SSAW") and 1 Electric Resistance Welded ("ERW") production lines with a combined annual production capacity of 2,410,000 tonnes as at 31 December 2012.

The Group is an industry pioneer, strong in research and development, holding 51 registered utility patents including 5 registered invention patents, and has a long standing international and nationwide track record. Furthermore, the Group is the first and only steel pipe manufacturer in China to manufacture deep sea welded steel pipes for the use at a water depth of under 1,500m and also the core supplier of Shell and qualified supplier of Petrobras. The Group is the only welded pipe manufacturer in China that has received four national honours and awards, including "Gold Cup Prize for Actual Qualify of Metallurgical Products", "China Well-known Trademark", "National-recognised Enterprise Technology Centre" and "High and New Technology Enterprise", and we are the main drafter of the national standard for welded steel pipes.

CORPORATE INFORMATION

DIRECTORS

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

Independent Non-Executive Directors
Mr. CHEN Ping
Mr. LIANG Guo Yao
Mr. SEE Tak Wah

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

COMPANY SECRETARY
Ms. WONG Pui Shan *FCCA, CPA, ACIS, ACS, MSc (Fin)*

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

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

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

AUTHORISED REPRESENTATIVES
Mr. CHEN Chang
Ms. CHEN Zhao Nian

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC
Qinghe Road
Shiji Town
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Guangzhou City
Guangdong Province
The PRC

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Suite Nos 1, 2 and 19
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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
www.pck.todayir.com

LEGAL ADVISERS AS TO HONG KONG LAW
Cheung & Lee in association with Locke Lord Bissell & Liddell (HK) LLP

PRINCIPAL BANKERS

In Hong Kong:
Bank of China (Hong Kong) Limited
Cathay United Bank
China Development Bank Corporation
China Citic Bank International Limited
DBS Bank (Hong Kong) Limited
Deutsche Bank AG

In the PRC:
Industrial and Commercial Bank of China
China Construction Bank
Bank of China Limited
The Export-Import Bank of China
Ping An Bank Co Ltd
HSBC Bank (China) Company Limited
Bank of Communications
China Everbright Bank
China Guangfa Bank
China Merchants Bank
Hua Xia Bank
Shanghai Pudong Development Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Royal Bank of Canada Trust Company (Cayman) Limited
4/F., Royal Bank House
24 Shedden Road
George Town
Grand Cayman
KY1-1110
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

ENHANCING INTEGRATED STRENGTHS

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 (the "Board") of directors (the "Directors") 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 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 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 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

CHAIRMAN'S STATEMENT

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.

Chen Chang
Chairman

Panyu, Guangdong Province, China
22 March 2013

AWARDS AND RECOGNITIONS

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

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

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

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

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

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

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

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

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

* Unofficial transliteration from Chinese name for identification purposes only

AWARDS AND RECOGNITIONS

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

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

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

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

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

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

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

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

*　Unofficial transliteration from Chinese name for identification purposes only.

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

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

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

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

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

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

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

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

* Unofficial transliteration from Chinese name for identification only.

AWARDS AND RECOGNITIONS

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

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

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

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

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

2011
Academician Workstation
(The People's Government of Guangdong Province*)

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

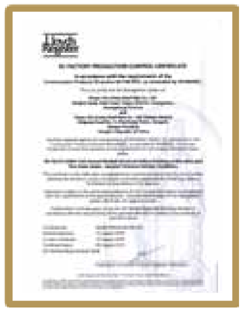
2012
Government Quality Award of Guangdong Province*
(The People's Government of Guangdong Province*)

* Unofficial transliteration from Chinese name for identification purposes only.

QUALITY CERTIFICATIONS

The Group has achieved numerous international certifications.




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

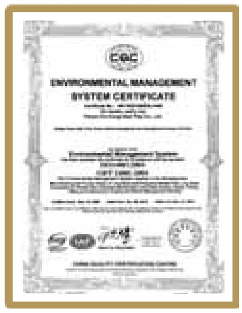
1996/Renewed in 2011
API
(American Petroleum Institute)

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

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

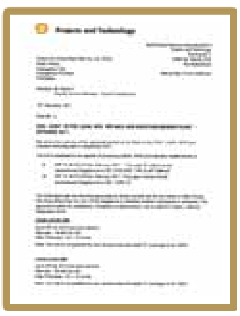
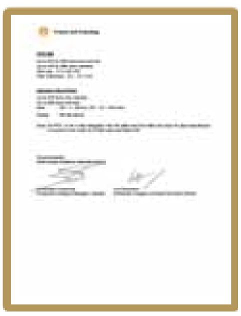
2006/Renewed in 2010
DNV
(Det Norske Veritas)




2002/Renewed in 2009
BV
(Bureau Veritas)

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


2009/Renewed in 2011
Shell
(Shell Global Solutions)

2011
CNAS
(China National Accreditation Service for Conformity Assessment)

2011
ASME
(American Society of Mechanical Engineers)

2012
CMS
(China Conformity for Measurement Management Systems)

TRACK RECORDS

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

Partial Onshore Projects for LSAW Pipe

Projects	Quantity sold (MT)	Year
Uzbekistan Gas Project, Uzbekistan	16,100	2012
Haerbin Nuclear power Transmission Project, China	180	2012
TieLing – JinXi Crude Oil Double Pipeline Project, CNPC, China	13,600	2012–2013
West-to-East Phrase III Ji An – Fu Zhou Section, CNPC, China	13,400	2012–2013
Cheng Du Citygas Project, China	2,100	2012
Zhejiang Gas Project, China	27,000	2012–2013
Zhejiang Province Gas Project, China	3,300	2012–2013
An Hui Province Natural Gas Project, China	5,100	2012–2013
Syncrude, Canada	4,225	2012
Canada Shell Oil Sand Project, Canada	11,028	2012
NIMR-G Development and Karim West Water Flood Project, Oman	700	2012–2013
West-East Gas Pipeline Project (Nanning-Baise Section), Phase II CNPC, China	13,273	2012
Shenwei Coal Slurry Pipeline Project, Shaanxi Coal Industry Co., Ltd., China	71,729	2012
ShanXi Gas Industry Group Co., Ltd. (Taiyuan Section), China	7,282	2012
Huainan-Shanghai Ultra High Voltage Power Grids, State Grid Corporation of China (SGCC), China	42,610	2012
Yunnan China Resources Gas Co., Limited, China	8,565	2012
Guangdong Natural Gas Pipe Network, CNOOC, China	48,274	2010–2011
Gas Pipeline Project, Southeast Asia	49,928	2010–2011
Syncrude, Canada	24,352	2010–2011
Zhejiang Gas Company, China	6,904	2011
Shell Nigeria	9,304	2011
Jingbian-XiAn Gas Pipeline Project, Phase III, CNPC, China	4,575	2011
ShangXi Guolin Coal Seam Gas Development Company Limited, China	7,957	2011
Turkmengas, Tukemenistan	12,048	2011
KOC/Petrofac, Kuwait	1,250	2011
Halfaya Project, CNPC, China	3,237	2011
KOC/ABB, Kuwait	3,650	2011
West – East Gas Pipeline Project, Phase II, CNPC, Hong Kong	55,946	2011
Crude Oil Pipeline SINOPEC, China	10,523	2010–2011
Inner Mongolia Gas, China	14,412	2010–2011
Columbia Gas Pipeline Project, Ecopetrol, Columbia	144,669	2010–2011
Shell Canada, Canada	27,000	2008–2011
China-Russia Oil Pipeline Project Phase II, CNPC, China	12,182	2010
Hangzhou Gas, China	7,000	2010
Anglo American, Brazil	4,017	2010
Guangdong Gas, China	55,000	2010
Foshang City Natural High Pressure Pipe Network Company, China	6,272	2010
Guangzhou Natural Gas Project Phase III, China	5,387	2010
East Siberia – Pacific Ocean, Russia	10,078	2010
Ampliacion Red Principal de Distribucion de Gas en Lima y Callao Project, Peru	11,350	2010
Kinteroni MIPAYA Pipeline Project, Repsol, Peru	17,831	2010
Syncrude, Canada	13,968	2010
West – East Gas Pipeline Project, Phase II, CNPC, China	47,282	2010
Guangdong Natural Gas Pipe Network, CNOOC, China	61,855	2009–2010
Guangdong LNG Company, CNOOC, China	18,234	2009
Guangdong Gas, China	12,076	2009
Guangdong LNG Company, CNOOC, China	16,925	2009
Shenzhen Gas Group Corporation Limited, China	13,750	2009
Yulin-Jinan Gas Pipeline, SINOPEC, China	14,006	2009
GTCL, Bangladesh	35,000	2009
Shell Canada, Canada	20,000	2009
Kazakhstan-China Pipeline, CNPC, China	77,400	2009
ESPERANZA Project, CNPC, Chile	36,000	2008
Yulin-Jinan Gas Pipeline, SINOPEC, China	14,000	2008
Southwest Oil and Gas Pipeline, CNPC, China	40,398	2007–2008
Kurdistan Gas Pipeline Network, The Middle East	23,000	2007
NGC, Nigeria	16,000	2007
Guangzhou Gas Company, China	15,603	2007
Sichuan-East Gas Pipeline Project, SINOPEC, China	200,000	2007
GNL Quintero Project, Chile	11,000	2007

Partial Onshore Projects for LSAW Pipe (continued)

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

Partial Offshore Projects for LSAW Pipe

Projects	Quantity sold (MT)	Year
Mexico Pemex Platform Project, Mexico	4,640	2012–2013
South China Sea Deep Water Gas Development PMT, CNOOC, China	66,238	2011
Liwan Deep Water Gas Development Project, Saipem/Husky/CNOOC, China	51,000	2011
West-East Gas Pipeline Project, Phase II, Hong Kong Branch, CNPC, China	14,665	2011
West Kowloon to Sai Ying Pun, WSD, Hong Kong	1,057	2010
Offshore & Onshore Pipeline Project-Feed, Total, Southeast Asia	15,500	2009
SBM Project, Pakistan	5,000	2008
SEPC-BOS C2 Jetty & Interconnecting Project, Shell Singapore	1,600	2008
Shuqaiq II Independent Water and Power Project, Saudi Arabia	3,100	2008
Pekerjaan Pembangunan TTU Dan Pipanisasi Jawa Project, Indonesia	1,700	2008
Manifa Field Causeway Project, Saudi Arabia	10,113	2007
Terminal Transit Utama Tuban & Pipanisasi Jawa Timur, Indonesia	2,050	2007
Permanent Aviation Fuel Facility, Hong Kong International Airport, Hong Kong	1,700	2007
Malaysia Angsi-TCOT Crude Oil Offshore Pipeline Project, PETRONAS, Malaysia	43,000	2007
Ledong Gas Fields Engineering PMT, CNOOC, China	27,000	2007
Jamnagar Refinery Complex/Bechtel, India	36,000	2006
Panyu/Huizhou Natural Gas Development Project, CNOOC, China	58,881	2005
CNOOC & Shell Petro Chemicals Company Ltd., China	12,149	2004
Chunxiao Gas Complex Development Project, CNOOC, China	68,645	2003
Shengli Oil Field, SINOPEC, China	1,552	2000

TRACK RECORDS

Partial Projects for ERW Pipe

Projects	Quantity sold (KM)	Year
Ecuador Repso Project, Ecuador	8	2012–2013
OGDCL, Oil/Gas Pipeline, Pakistan	378	2012–2013
Flow line Pipes, PDO, Oman	550	2012–2013
Kuwait Sour Crude Oil Pipeline, Kuwait	232	2012–2013
ZhongHua Quanzhou Petrochemical Ltd, Oil Refinery Project, China	7	2012
JiangXi Copper Metallurgy Factory Natural Gas Project, China	15	2012
Pearl River Delta Oil Pipeline, Phrase II, China	36	2012
Jiangxi Product Oil Pipeline Project, Phase II, SINOPEC, China	270	2012
Huanan Product Oil Project, SINOPEC, China	72	2012
Peru Project, Peru	31	2012
OGDCL, Pakistan	145	2012
Huainan-Shanghai Ultra High Voltage Power Grids, State Grid Corporation of China (SGCC), China	24,763 (MT)	2012
KOC, Kuwait	531	2011
Shanxi Gas City Network, China	20	2011
Chongqing Gas, China	67	2010
Shanxi Gas, China	42	2010
Takreer Re-routing of existing Inter-Refineries Pipelines, NPCC/Takreer, UAE	50	2010
OMV, Pakistan	44	2010
Sui Northern Gas Pipeline Limited, Pakistan	143	2009
Betara Complex Development Pipeline Project, Indonesia	91	2009
ONGC, India	300	2009
Electricity Network, China	960	2009
Flowline Pipes, PDO, Oman	1,602	2008
Gasoducto Gibraltar Project, Columbia	151	2008
Esperanza Project, Chile	150	2008
Sui Northern Gas Pipeline Limited, Pakistan	250	2008
Fuliang Product Oil Pipeline, SINOPEC, China	83	2007
Sui Northern Gas Pipeline Limited, Pakistan	170	2007
Shengli Oil Field, SINOPEC, China	255	2007
Sui Northern Gas Pipelines Limited, Pakistan	195	2006
Gas Natural, Columbia	18	2006
Shengli Oil Field, SINOPEC, China	39	2005
Guizhou Kailin Mineral Slurry Pipeline, China	48	2005
Copergas, GDK, Brazil	126	2005
Henan Product Oil Pipeline, SINOPEC, China	191	2005
Pearl River Delta Product Oil Pipeline, SINOPEC, China	1,200	2004–2005
Singapore HG Metal Manufacturing Limited, Singapore	50	2005
Southwest Oil Pipeline, SINOPEC, China	379	2003–2004
GAIL, India	67	2003
Xinjiang Oil Equipment Corporation, CNPC, China	71	2002
Wuxi Town Gas Co., Limited, China	134	2002
Gas Authority India Limited (GAIL), India	141	2002
Zhongyuan Oil Field, SINOPEC, China	13	2002
Jingzhou-Jingmen Product Oil Pipeline, SINOPEC, China	153	2002
Maoming Petro-chem, SINOPEC, China	28	2001
Lan-Cheng-Yu Oil Pipeline Project, CNPC, China	220	2001
Sawah Trading Company Limited, UAE	63	2000
National Oil Company Limited, The Middle East	130	2000
Shantou Stadium, China	41	2000
Zhejiang Product Oil Storage Transport Co., Ltd, SINOPEC, China	55	1999
Texas Oil Field, USA	153	1998
Xinjiang Hua Wu Oil Company, CNPC, China	80	1998
Xinjiang Oil Field, CNPC, China	85	1998
Jidong Oil Field, CNPC, China	54	1997
Zhongyuan Oil Field, SINOPEC, China	76	1997
Changqing Oil Field, CNPC, China	290	1996
Kelamayi Oil Field, CNPC, China	150	1996
Thailand TK Co., Thailand	52	1996

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group mainly manufactures and sells longitudinal welded steel pipes, as well as provides manufacturing service for processing raw materials into steel pipes. Our 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.

* Unofficial transliteration from Chinese name for identification purposes only.

MANAGEMENT DISCUSSION AND ANALYSIS

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 (國家發展和改革委員會) and National Energy Administration (國家能源局), 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 into 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 Gross profit RMB'000	2012 Sales volume tonnes	2012 Average gross profit RMB/tonne	2011 Gross profit RMB'000	2011 Sales volume tonnes	2011 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. Panyu Chu Kong Steel Pipe Company Limited ("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%).

MANAGEMENT DISCUSSION AND ANALYSIS

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 連雲港艾可新型建材有限公司 (Lianyungang Aike New Construction Materials Limited*) 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.

* Unofficial transliteration from Chinese name for identification purposes only.

MANAGEMENT DISCUSSION AND ANALYSIS

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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr Chen Chang (陳昌)

Mr Chen Chang (陳昌), age 67, is a chief executive officer ("CEO") and the chairman of the Company and also a member of the nomination committee and remuneration committee of the Company. Mr Chen is the father of Ms Chen Zhao Nian and Ms Chen Zhao Hua (both being the executive Directors). Being the founder of the Group, Mr Chen is primarily responsible for the overall management and strategic planning and business development of the Group. Mr Chen has over 30 years in the areas related to woodwork, machine tool equipment and lift/ escalator equipment and accumulated abundant experience and knowledge on mechanical and electrical industry. Mr Chen graduated from the graduate school of 中山大學 (Sun Yat-Sen University*) in Guangdong Province in October 1995 majoring in decision management. Mr Chen was appointed by several steel pipe related associations and organisations for various positions, including the member of 第四屆焊接鋼管學術委員會 (The Fourth Session of Welded Steel Pipe Academic Committee*) by 中國金屬學會軋鋼分會 (The Steel Rolling Branch Association of the Chinese Society for Metals*) in 2001, the vice president of 中國鄉鎮企業協會 (China Township Enterprises Association*), and the vice chairman of 第四屆理事會 (The Fourth Session of Board of Directors*) and 第五屆理事會 (The Fifth Session of Board of Directors*) by China Steel Construction Society, Steel Pipe Branch Association in 2004 and 2008 respectively. He served as the vice chairman of the fourth, fifth and sixth consecutive council of the 冷彎型綱分會 (Cold-formed Steel Sub-committee) of 中國綱結構協會 (China Steel Structure Association) in 2004, 2005 and 2010. In 2006, he was the vice president of the 冶金商會 (Metallurgical Chamber of Commerce) of 中華全國工商業聯合會 (All-China Federation of Industry & Commerce). Mr Chen was awarded with various honours and obtained different qualifications. In 2004, he was honoured by Ministry of Commerce, Industry and Energy of Republic of Korea for his contribution to Korean economic development through trade revitalisation, and was also elected as 中國優秀民營科技企業家 (Excellent Entrepreneur in Chinese Private Technology Enterprises*) by All-China Federation of Industry & Commerce. In 2007, he was elected as the winner of 科學技術獎一等獎 (The First Prize of Science and Technology Awards*) by 廣州市人民政府 (Guangzhou Municipality People's Government*), and as authority expert of welded pipe industry by 中國國際權威專家協會 (Chinese International Authority Expert's Association*). In 2008, Mr. Chen was awarded the gold prize for his invention, 三輥成型工藝及設備 (Three-roller forming technology and equipment*), in 第六屆國際發明展覽會 (The Sixth Session of International Exhibition of Inventions*), and was awarded an outstanding award by 廣東省人事廳 (Guangdong Provincial Bureau of Personnel*) and 廣東省知識產權局 (Guangdong Province Intellectual Property Department*). In the same year, Mr. Chen was honored as 抗震救災先進個人 (Outstanding Individual in Earthquake Relief*) in Guangzhou. In 2009, he was granted 第四屆發明創業獎 (The Fourth Invention and Entrepreneur Award*) by the China Steel Association and recognized as a Guangzhou Model Labor. In 2010, Mr Chen, by leading the research and development in manufacturing process of and technology in Large Diameter Longitudinal Two-End Submerged Arc Welded Steel Pipes and its series of products, won the 科學技術獎一等獎 (First Prize of Science and Technology Awards*) in Guangdong Province. In 2011, Mr. Chan was granted a 廣州市優秀企業家 (Guangzhou Outstanding Entrepreneur*) honors. In 2012, a number of honours, including the 全國優秀企業家 (Nationwide Outstanding Entrepreneur*), 廣州市科學技術突出貢獻獎 (Guangzhou Outstanding Contribution Award for Science and Technology*), the 中國鋼鐵工業優秀科技工業者 (Outstanding Industrial Province of Science and Technology in the PRC's iron and steel industry*) and 羊城光彩人物 (Guangzhou Figure of Focus*), were awarded to Mr. Chen.

As at the date of this annual report, Mr Chen is the sole director and sole shareholder of Bournam Profits Limited ("Bournam"), which was interested in 701,911,000 shares of the Company. Together with Mr Chen's personal interest of 1,638,000 shares of the Company, Mr Chen has total interest in 703,549,000 shares of the Company.

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PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Ms Chen Zhao Nian (陳兆年)

Ms Chen Zhao Nian (陳兆年), aged 36, a daughter of Mr Chen Chang and also sister of Ms Chen Zhao Hua (being executive Director), is an executive Director. Ms Chen is primarily responsible for the daily management and operations of the Group. Ms Chen joined the Group in October 2002 as vice general manager after her graduation. Ms Chen obtained her bachelor's degree in arts from the University of Central Lancashire in the United Kingdom in June 2000 and obtained her master's degree in accounting from Leeds Metropolitan University in United Kingdom in October 2002. In 2010, Ms Chen was a Vice President of 廣州市番禺區大龍街商會 (Chamber of Da Long Street in Panyu District of Guangzhou City*), Vice President of 廣州市番禺區女企業家協會 (Panyu District Association of Women Entrepreneurs in Guangzhou City*) and was awarded as 番禺區巾幗獻才建功先進個人 ("Pioneering Lady with Great Contribution to Community in Panyu District*") by 廣州市番禺區巾幗獻才建功領導協調小組 ("Leading Committee for Selection of Lady with Great Contribution to Community in Panyu District of Guangzhou City"). In 2011, Ms Chen was a Member of the Standing Committee of Sixteenth Session of NPC in Panyu, Guangzhou, the Vice President of 廣州市女企業家協會 (the Guangzhou Association of Women Entrepreneur*) and an executive member of 廣州市番禺區中小企業投融資促進會 (SMEs Investment and Finance Promotion Association of Panyu, Guangzhou*). Ms Chen was awarded as the "March 8th Flag Bearer" of Guangzhou City in 2010-2011. In 2012, Ms Chan was an executive member of 廣州市光彩事業促進會 (the Guangzhou Glory Society*), a vice chairwoman of 廣州市番禺區工商業聯合會 (the Federation of Industry & Commerce in Panyu District of Guangzhou*), president of 番禺區禺商創業青年協會 (the Youth Association of Panyu Merchants and Entrepreneurs in Panyu District*), a vice chairwoman of 廣州市各界知識分子聯誼會 (the Guangzhou Association of Intellectuals from All Sectors*), a member of 廣州市婦女第十二屆執行委員會 (the 12th Executive Committee for Guangzhou Women*), a vice chairwoman of 廣州市番禺區青年企業家協會 (the Association of Young Entrepreneurs in Panyu District of Guangzhou City*) and an executive director of the fifth board of directors of 廣州市番禺海外聯誼會第五屆理事會 (the Guangzhou Panyu Association of Overseas Friendship*). In 2012, Ms Chan was awarded 廣州市優秀女企業家榮譽 (the Guangzhou Outstanding Woman Entrepreneur Honors*) by 廣州市女企業家協會 (Guangzhou Association of Women Entrepreneurs*) and 第八屆五好文明家庭 (the Eighth Civilized Family with Five Distinctive Merits*) by 中華全國婦女聯合會 (All-China Women's Federation). In 2013, she was elected as 感動廣州60年最具魅力女性 (a Most Charismatic Woman in 60 years of Guangzhou Loving Hearts).

Ms Chen Zhao Hua (陳兆華)

Ms Chen Zhao Hua (陳兆華), aged 34, a daughter of Mr. Chen Chang and also sister of Ms Chen Zhao Nian (being executive Director), is an executive Director. Ms Chen is primarily responsible for handling sales, business relationship with overseas customers and sales and bidding agents as well as overseas marketing activities. Ms Chen joined the Group in December 2002 as vice general manager after her graduation. Ms. Chen obtained a bachelor's degree in International Business from the University of Lancashire, England in June 2001, and a master's degree in International Business Law from the University of Nottingham, England in December 2002. Ms. Chen is the vice president of the Chamber of Commerce, Panyu District, Guangzhou of China Chamber of International Commerce.

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INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Chen Ping (陳平)

Mr Chen Ping (陳平), aged 47. Mr Chen was appointed as an independent non-executive Director on 23 January 2010. Mr Chen is also the chairman of the nomination committee, a member of the audit committee and remuneration committee of the Company. Mr Chen graduated from the Jinan University, the PRC, in 1984 majoring in international finance and later obtained a doctoral degree in international finance in Nankai University, the PRC, in December 1990. Commencing from January 1991, Mr Chen began lecturing at the Lingnan College, Sun Yat-Sen University in Guangdong Province, the PRC, teaching international finance, and is currently the vice president of the Lingnan College. Mr Chen also assumed various posts in societies and clubs concerning economics and finance, such as council member at 中國國際金融學會 (International Finance Society of China*) and 中國世界經濟學會 (China Society of World Economics*). Mr Chen is also engaged in academic research which mainly focuses on finance theory and policy, global economics and so forth, and has published a number of essays and publications. As an experienced professor, Mr Chen has won various awards for the lecture materials used and also for the essays published. In 1997, Mr Chen's teaching materials entitled 《國際金融》 (International finance*) was awarded as 國家教學成果二等獎 (National Educational Achievement Award – Second Class*) by Committee of Education of the PRC. In May 2002, Mr Chen's paper entitled 《上市公司兼併與收購的財富效應研究》 (Study on the effect of merger and acquisition of listed companies on wealth*) was selected for the Best Paper Award of the 9th Global Finance Association Annual Conference by the 9th GFA Annual Conference Program Committee. In 2005, Mr Chen's teaching materials entitled 《教學國際化的探索與實踐》 (Exploration and practice of educational internationalisation*) was awarded as 廣東省教學成果一等獎 (Guangdong Province Educational Achievement Award – First Class*). In 2006, Mr Chen was selected as nominee for 教育部新世紀優秀人才支持計劃 (Ministry of Education New Century Outstanding Person Support Scheme*). In 2007, Mr Chen received 寶鋼優秀教師獎 (Bao Steel Outstanding Teacher Award*). Mr Chen acted as an independent director of 深圳市中金嶺南有色金屬股份有限公司 (Shenzhen Zhongjin Lingnan Nonfemet Company Limited*), a company listed on the Shenzhen Stock Exchange, for six years until June 2008. Since January 2009, Mr Chen has been acting as an independent director of 廣晟有色金屬股份有限公司 (Rising Nonferrous Metals Share Co., Ltd.*), a company listed on the Shanghai Stock Exchange. Mr Chen was appointed as an independent director of 廣東湯臣倍健生物科技股份有限公司 (Guangdong By-health Biotechnology Co., Ltd*) ("Guangdong By-health Biotechnology"), a company listed on the Shenzhen Stock Exchange on 15 December 2010.

Mr Liang Guo Yao (梁國耀)

Mr LIANG Guo Yao (梁國耀), aged 55. Mr Liang was appointed as an independent non-executive Director on 23 January 2010. Mr Liang is also the chairman of the remuneration committee of the Company, a member of the audit committee and nomination committee of the Company. Mr Liang completed professional courses specialising in economics in 中共廣東省委黨校 (Zhongong Guangdong Province Wei Dang Xiao*) in July 1992. In March 1996, Mr Liang was appointed as Mayor of Dagang, Panyu in the 1st Meeting of the 14th People's Representative Congress of Dagang town, Panyu, responsible for the overall planning and implementation for the social and economical development of Dagang, as well as considering and if thought fit granting approvals for major infrastructure proposals at Dagang. From June 2003 to July 2006, Mr Liang worked as Committee Secretary and National People's Congress Chairman of Shiji Town, Panyu, Guangzhou. Mr Liang was then responsible for the strategic planning for major matters of Shiji Town, such as those in relation to economics, laws and politics, social order and human resources arrangement. Having been a government official serving at the local government in the PRC for over 31 years since 1975 until his retirement in 2006, Mr Liang has gained profound management experience in the public sector.

Mr See Tak Wah (施德華)

Mr SEE Tak Wah (施德華), aged 49. Mr See was appointed as an independent non-executive Director on 23 January 2010. Mr See is also the chairman of the audit committee of the Company. Mr See graduated from the Management School of Waikato University in New Zealand with a first class honours in Bachelor of Management Studies and is a member of the Institute of Chartered Accountants of New Zealand and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr See has over 21 years' experience in financial and general management where he previously worked as the regional business controller of Nokia Mobile Phones Asia Pacific, the managing director of Nokia Mobile Phones Hong Kong, the chief operating officer of First Mobile Group Holdings Limited and held key management position in the North Asia offices of Philips and Siemens. Mr See is currently running his own strategic consultancy business. In addition, he currently serves as an independent non-executive director of Sun East Technology (Holdings) Limited (Stock Code: 0365).

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PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr Wang Lishu (王利樹)

Mr WANG Lishu (王利樹), aged 55. Mr Wang joined PCKSP in June 1994 as deputy director in charge of production and now serves as its chief engineer and director responsible for technical research and development at PCKSP. Prior to his promotion to serve as PCKSP's chief engineer, Mr Wang had previously assumed various posts at PCKSP such as its engineer, vice director at its branch factory for the manufacturing of welded steel pipes and its assistant chief engineer. At PCKSP, Mr Wang has been in charge of the installation, tuning and testing of the ERW steel pipes production line, JCOE production line and UOE production line. In 1982, he graduated from 西安礦業學院 (Xi'an Mining Institution*), the PRC, and majored in mechanisation of coal mine, and was recognised as senior mechanical engineer by 廣東省人事廳 (Guangdong Provincial Bureau of Personnel*) in 1998. In 1996, "Pressure ERW Steel Pipe Products" in which Mr Wang participated in designing was awarded as 廣東省優秀新產品獎 (Outstanding New Product Award of Guangdong Province*). In 1997, "Research & Manufacturing of Pressure ERW Steel Pipes" in which Mr Wang participated in designing was awarded the 2nd class prize by 廣東省重化工廳 (Guangdong Provincial Bureau of Heavy Chemical Industry*) and 廣東省市科技局 (Guangzhou Municipal Bureau of Science and Technology*). Mr Wang was appointed as member of 全國標準化技術委員會委員 (National Standardization Technology Committee*) in 2003. In 2004, Mr Wang was granted the qualification by the People's Government of Panyu District to enjoy special governmental subsidy. In 2006, he was accepted as member of 中國金屬學會軋鋼分會第五屆焊接鋼管學術委員會 (the 5th Academy Committee of Welded Steel Pipes under Steel Rolling Branch of China Metal Association*). In 2006, Mr Wang acted as member of the editorial board of the magazine 《鋼管》 (Steel Pipe*). In 2007, Mr Wang was granted the silver award at 第十六屆全國發明展覽會 (the 16th China Invention Exhibition*) for recognition of his welded pipes production technique patent in 2006, and was elected as the winner of 科學技術獎一等獎 (The First Prize of Science and Technology Awards*) by 廣州市人民政府 (Guangzhou Municipality People's Government*). In 2007, Mr Wang was employed as deputy director of 廣東省鄉鎮企業協會 (the Committee on The Teaching of Science under the Guangdong Township Enterprises Association*) and was honoured as 番禺區科技創新帶頭人 (Technology Innovation Pioneer in Panyu District*) by 廣州市番禺區科技工作領導小組 (Guangzhou City Panyu District Technology Work Leading Committee*). In 2008, Mr Wang was appointed as a committee member of the assistant supervisor of 全國鋼標準化技術委員會鋼管分會技術委員會 (Technical Association of Steel Pipe Branch of National Technical Committee for Steel Standardization*). In 2010, Mr Wang was awarded 廣東省科學技術獎一等獎 (the First Prize of Science and Technology Awards of Guangdong Province*) by 廣東省人民政府 (Guangdong People's Government*). In 2012, Mr Wang was awarded 廣州市標準化創新貢獻獎 (the Guangzhou Contribution Award for Standardization and Innovation*) 冶金科學技術一等獎 (the First Prize of Metallurgical Science and Technology*) by 中國鋼鐵工業協會 (the Chinese Association of Steel and Iron*) and 中國金屬學會 (the Chinese Society for Metals*).

Mr Wong Yu May (黃耀楣)

Mr WONG Yu May (黃耀楣), aged 60, joined the Group in August 2010 as a Vice President of Finance. Mr Wong is responsible for overseeing the treasury and corporate finance functions of the Group and the relationship with banks. Mr Wong graduated from the HEC business school of University of Montreal in Canada in year 1975 and also obtained a Master of Business Administration degree at Concords University in Canada in year 1981. Mr Wong is an experienced international banker having worked in Canada, France, China, Taiwan and Hong Kong. Mr Wong has over 31 years of experience in the financial field.

Mr Li Junqiang (李軍強)

Mr LI Junqiang (李軍強), aged 40. Mr Li joined PCKSP in July 1995 as a technician and thereafter acted as research engineer and manager of general planning. He is now the vice general manager of PCKSP in charge of procurement and logistic management. In 1995, he graduated from 北京科技大學 (University of Science and Technology Beijing*), the PRC, and majored in ferrous metallurgy, and was recognised as a mechanical engineer by 廣州市人事局 (Guangzhou Municipality Bureau of Personnel*) in 2005. In 2007, Mr Li was elected as the winner of 科學技術獎一等獎 (The First Prize of Science and Technology Awards*) by 廣州市人民政府 (Guangzhou Municipality People's Government*). Mr Li has over 17 years of experience in the ferrous metallurgy industry.

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Ms Wong Pui Shan (王珮珊)

Ms Wong Pui Shan (王珮珊), aged 36, joined the Group in April 2011 as the chief financial officer and company secretary of the Company. She is responsible for corporate finance management and company secretary of the Group. Ms. Wong received her Master of Science in Finance from the Chinese University of Hong Kong and Bachelor of Arts Degree (Hons) in Accountancy from the Hong Kong Polytechnic University. She is a fellow member of the Association of Chartered Certified Accountants, member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. Prior to joining the Company, she had served with an international audit firms for four years and listed companies as financial controller and company secretary for more than 9 years.

Ms Liu Yonghe (劉咏荷)

Ms LIU Yonghe (劉咏荷), aged 44, joined PCKSP in June 1994 and had worked as accounting staff and financial manager. Ms Liu has built up profound experience in financial management, accounting and auditing during her employment with PCKSP for over 10 years. Ms Liu is now the vice general manager and a director of PCKSP, responsible for cash flow and working capital control. She completed her professional accounting education at Lanzhou University of Finance and Economics, the PRC, in 1990 with a bachelor's degree in Economics and obtained the professional qualification as assistant accountant in 1991. Ms Liu has over 21 years of experience in the accounting and finance industry. She was awarded as the "March 8th Flag Bearer" in 1999 and 2002, respectively, and the post she held was awarded as the Women's Exemplary Post by the Guangzhou Women's Union in March 2005. In October 2009, Ms Liu obtained a master's degree in the Executive Master of Business Administration (EMBA) programme at the Asia International Open University (Macau).

Mr Xu Qilin (徐啟林)

Mr XU Qilin (徐啟林), aged 55, joined PCKSP in January 2001 and had worked as mechanical engineer and vice production manager. Prior to joining PCKSP, Mr Xu worked at 荊州機床廠 (Jingzhou Machine Tool Factory*) for about 18 years during which he took up several posts, including vice department head of the craftsmanship department, department head of the technical department and branch factory director. With his experience in machinery construction, Mr Xu received awards for his performance. With PCKSP, Mr Xu has participated in the refinement project of the UOE production line, and also led the construction project of PCKSP in connection with the JCOE production line in Zhangjiagang, Jiangsu Province, the PRC in 2006 and 2007 as well as the construction project of the JCOE production line in Jiangyin, Jiangsu Province, the PRC in 2008 and 2009. From 2011 to 2012, Mr Xu was responsible for the construction of production lines in Lianyungang and Zhuhai. Mr Xu is now the vice general manager of PCKSP, responsible for production management. He completed his bachelor's degree in machinery manufacturing at Wuhan Polytechnic University, the PRC, in 1982 and became a senior engineer in March 1995. Mr Xu has over 31 years of experience in machinery manufacturing. He was awarded as Excellent Non-local Worker in Panyu, Guangzhou in October 2006.

Mr Wang Zhiming (王志明)

Mr WANG Zhiming (王志明), aged 50, joined PCKSP in 1997 and had worked as quality engineer, quality manager and quality controller. Mr Wang has participated in the construction project of the JCOE (Panyu) production line and UOE production line of PCKSP, and is primarily responsible for the manufacturing, installation and testing of quality control device for the production lines in PCKSP. In 2003, Mr Wang was appointed as an assistant to the general manager of the PCKSP and has gained experience for the sales and marketing of PCKSP's products in the PRC. Mr Wang is now the vice general manager of PCKSP, responsible for quality control and domestic sales. He completed his professional non-destructive testing education at Kunming University, the PRC, in 1987 and obtained a Grade III qualification in aerospace non-destructive ultrasonic testing in 1989. Mr Wang was elected as the winner of 科學技術獎一等獎 (The First Prize of Science and Technology Awards*) by 廣州市人民政府 (Guangzhou Municipality People's Government*) in 2007, and was awarded 科技進步獎三等獎 (The Third Prize of Technology Advancement Award*) by 中國石油和化學工業協會 (China Petroleum and Chemistry Industry Society*) in 2009. Mr Wang has over 22 years of experience in non-destructive testing and quality control.

COMPANY SECRETARY

Ms Wong Pui Shan (王珮珊)

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

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REPORT OF THE DIRECTORS

The directors hereby present their report and the audited financial statements of the Group for the year ended 31 December 2012.

CORPORATE REORGANISATION

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

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

The shares of the Company were listed on the Main Board of the Stock Exchange on 10 February 2010.

PRINCIPAL ACTIVITIES

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

Details of the company's principal subsidiaries as at 31 December 2012 are set out in note 21 to the financial statements.

RESULTS AND DIVIDEND

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 48 to 102.

The Directors recommended a final dividend of HK7.6 cents per share for the year ended 31 December 2012 payable to Shareholders of the Company (the "Shareholders") whose names appear on the Register of Members of the Company on 20 June 2013. Subject to the passing of the relevant resolution at the forthcoming annual general meeting ("AGM") of the Company, the final dividend will be payable on or about 11 July 2013.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 103. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year are set out in note 34 to the financial statements.

DISTRIBUTABLE RESERVES

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

At 31 December 2012, the Company's reserves available for distribution to the Shareholders in accordance with the Articles of Association were RMB810,204,000.

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

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling RMB3,771,000.

TAX RELIEF

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, sales to the Group's five largest customers accounted for 42.5% of the total revenue of the Group, and sales to the largest customer included therein amounted to 10.0%. Purchases from the Group's five largest suppliers accounted for 43.4% of the total cost of sales of the Group, and purchases from the largest supplier included therein amounted to 14.6%. None of the Directors of the Company or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and five largest suppliers.

DIRECTORS

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

Executive directors:

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

Independent non-executive directors:

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

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

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out in the section headed "Profile of Directors and Senior Management" on pages 24 to 28 of this annual report.

In accordance with article 105(A) of the Articles of Association, Mr. Chen Chang and Mr. See Tak Wah will retire and, being eligible, will offer themselves for re-election at the forthcoming AGM of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of our executive directors has renewed the service contract with the Company for a term of three years on 1 February 2013. Each of our independent non-executive directors has renewed the letter of appointment with the Company for a term of two years commencing from 1 February 2012 and is subject to termination by either party giving not less than one month's written notice.

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

DIRECTORS' REMUNERATION

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

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

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

As at 31 December 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 pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors (the "Model Code") of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Shares of the Company

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

Note:

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

Shares of Associated Corporation

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance, to which the Company, or any of its holding companies, subsidiaries and fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2012.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

MANAGEMENT CONTRACTS

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

SHARE OPTION SCHEME

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

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

2. Participants of the Scheme include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

From the date of adoption of the Scheme and up to 31 December 2012, no share option has been granted or agreed to be granted to any person under the Scheme.

SHARE AWARD SCHEME

On 22 March 2012, the Board approved the adoption of the share award scheme ("Share Award Scheme").

1. Purpose of the Share Award Scheme: The purpose of the Share Award Scheme, is to recognise the contributions by certain eligible persons and to give incentives thereto in order to retain them for the continuing operation, growth and development of the Group and to attract suitable personnel for further development of the Group.

2. Operation of the Share Award Scheme: The Share Award Scheme shall be administered by the Board in accordance with the rules of the Share Award Scheme. The trustee shall hold the shares and the income derived therefrom in accordance with the terms of the trust deed.

   The Board may select any grantee for participation in the Share Award Scheme as a selected grantee ("Selected Grantee") and determine the number of awarded shares and inform the trustee and the Selected Grantee(s) accordingly.

   The Board shall either before or after identification of the Selected Grantee(s) (i) cause the Company to directly instruct a licensed securities dealer to purchase the awarded shares and settle payment for the awarded shares and deliver the awarded shares to the trustee subsequently; or (ii) cause to be paid to the trustee (either by way of contribution or loan from the Company's funds) (a) the sum of purchasing the shares and the related purchase expenses or (b) the nominal or such other amount required for the subscription of the awarded shares by the trustee as soon as practicable to purchase the awarded shares required (the "Reference Amount").

   Within 30 business days on which the trading of the shares has not been suspended (or such longer period as the Trustee and the Board may agree from time to) after receiving the reference amount, the Board shall instruct the trustee to apply the same towards the subscription of shares at the benchmarked price as stipulated in the Listing Rules from time to time or the purchase of the awarded shares from the market during a specific period and at a specific price range as instructed by the Company.

   Awarded shares and related income held by the trustee upon the trust and which are referable to a Selected Grantee shall vest to that Selected Grantee on the Vesting Date. The Board may also, in its absolute discretion, determine the performance, operating and financial targets and other criteria, if any, to be satisfied by the Selected Grantee before the awarded shares can vest.

3. Participants of the Share Award Scheme: any Employee or director (including, without limitation, any executive, non-executive or independent non-executive directors) of any member of the Group ("Eligible Persons").

4. Share Award Scheme limit: The Board shall not make any further award of awarded shares which will result in the number of shares awarded by the Board under the Share Award Scheme would represent in excess of ten per cent. of the issued share capital of the Company as at first date of each financial year during the term of the Share Award Scheme.

5. Maximum entitlement of each participant under the Share Award Scheme: The maximum number of shares which may be awarded to an award or awards to a Selected Grantee who is an independent non-executive director of the Company at any one time shall not in aggregate exceed 0.1% of the issued share capital of the Company as at the first date of the relevant financial year of the Company and the aggregate value of which shall not exceed HK$5,000,000 (based on the closing price of the shares on the business day immediately preceding the vesting date) as at the vesting date.

   The maximum number of shares which may be subject to an award or awards to any selected grantee at any one time shall not in aggregate exceed 1% of the issued share capital of the Company as at the first date of the relevant financial year of the Company.

6. The duration of the Share Award Scheme: Subject to any early termination of the Share Award Scheme as may be determined by the Board, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the 22 March 2012.

From the date of adoption of the Share Award Scheme and up to 31 December 2012, no share has been awarded or granted to any person under the Share Award Scheme.

REPORT OF THE DIRECTORS

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As at 31 December 2012, so far as the Directors are aware, save as disclosed above, no persons nor 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.

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

During the year ended 31 December 2012, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report section set out in pages 38 to 45.

PRE-EMPTIVE RIGHTS

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

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2012.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Group constituted non-exempt continuing connected transactions ("Continuing Connected Transactions") for the Company during the financial year ended 31 December 2012 under the Listing Rules.

(1) Purchase of Spare Parts from 廣州市珠江機床廠有限公司 (Guangzhou City Pearl River Machine Tool Works Co., Ltd*)

As disclosed in the prospectus of the Company dated 28 January 2010, the Group had entered into the spare parts purchase agreement ("GZMT Spare Parts Purchase Agreement") with 廣州市珠江機床廠有限公司 (Guangzhou City Pearl River Machine Tool Works Co., Ltd.*) ("GZMT") pursuant to which the Group agreed to purchase spare parts of the machines used for the manufacturing and processing of steel pipes from GZMT, with annual cap for each of the three years ending 31 December 2012 not exceeding RMB16.1 million, RMB29.4 million and RMB33.4 million respectively. During the year ended 31 December 2012, the Group purchased spare parts from GZMT a total of RMB17,326,000, which was within the annual cap. The spare parts purchase transactions with GZMT ("GZMT Spare Parts Purchase Transactions") were conducted in the ordinary and usual course of business of the Group and on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties and in accordance with the GZMT Spare Parts Purchase Agreement. Details of the Continuing Connected Transactions are set out in note 39 to the financial statements.

On 4 December 2012, the Group entered into the new spare parts purchase agreement ("New GZMT Spare Parts Purchase Agreement") with GZMT to renew the terms of the Spare Parts Purchase Agreement for a term of three years commencing on 1 January 2013 and ending on 31 December 2015, with the annual cap for each of the three years ending 31 December 2015 would not exceed RMB28 million, RMB30 million and RMB32 million respectively.

GZMT is a limited liability company incorporated in the PRC and is principally engaged in the manufacture and sales of machine tools. GZMT is ultimately, wholly and beneficially owned by Mr. Chen Chang, the controlling Shareholder and chairman of the Company, and is therefore an associate of Mr. Chen Chang and a connected person (as defined in the Listing Rules) of the Company.

(2) Purchase of Spare Parts from 廣州富菱達電梯有限公司 (Guangzhou Fulingda Elevator Company Limited*)

As disclosed in the prospectus of the Company dated 28 January 2010, the Group had entered into the spare parts purchase agreement ("GZFLD Spare Parts Purchase Agreement") with 廣州市富菱達電梯有限公司 (Guangzhou Fulingda Elevator Company Limited*) ("GZFLD") pursuant to which the Group agreed to purchase spare parts of the machines used for the manufacturing and processing of steel pipes from GZFLD, with annual cap for each of the three years ending 31 December 2012 would not exceed RMB6.7 million, RMB12.3 million and RMB13.9 million respectively. During the year ended 31 December 2012, the Group purchased spare parts from GZFLD a total of RMB1,000, which was within the annual cap. The spare parts purchase transactions with GZFLD ("GZFLD Spare Parts Purchase Transactions") were conducted in the ordinary and usual course of business of the Group and on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties and in accordance with the GZFLD Spare Parts Purchase Agreement. Details of the Continuing Connected Transactions are set out in note 39 to the financial statements.

GZFLD is a limited liability company incorporated in the PRC and is principally engaged in the manufacture and sales of machine tools. GZFLD is ultimately, wholly and beneficially owned by Mr. Chen Chang, the controlling Shareholder and chairman of the Company, and is therefore an associate of Mr. Chen Chang and a connected person (as defined in the Listing Rules) of the Company.

* Unofficial transliteration from Chinese name for identification purposes only.

REPORT OF THE DIRECTORS

As the Group is involved in the manufacture and sales of welded steel pipes and the provision of related manufacturing services, it purchases spare parts of the machines used for the manufacturing and processing of steel pipes. Such spare parts were and will be used by the Group as components for (i) the repair and maintenance of machines and/or production lines; and (ii) the installation of new production lines and new production facilities. Some of the spare parts are general accessory items and some of them are required to be tailor-made, thus ancillary processing work on the spare parts is required. The design of the spare parts is provided by the Group. In view of the considerably long history of purchasing spare parts from GZMT and GZFLD, GZMT and GZFLD have been a reliable source of supply which is capable of providing spare parts with the required technical and quality requirements that suit the Group's needs and for the sake of keeping confidentiality of the design for the spare parts provided by the Group.

The purchase of spare parts transactions above constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. In accordance with Rule 14A.34 of the Listing Rules, as one or more of the applicable percentage ratios based on the Proposed Annual Caps for the Spare Parts Purchase Transactions are more than 0.1% but all are less than 5%, the spare parts purchase transactions are only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules but are exempt from the independent Shareholders' approval requirements and are subject to the annual review requirement under Rules 14A.37 to 14A.38 of the Listing Rules.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out in note 39 to the financial statements and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

The Directors had received a letter from Ernst & Young, the auditors of the Company confirming that the continuing connected transactions (i) had received the approval of the Board of the Directors; (ii) were in accordance with the pricing policies of the Company; (iii) had been entered into in accordance with the relevant agreements governing the transactions; and (iv) had not exceeded the cap amount for the financial year ended 31 December 2012 as set out in the Prospectus dated 28 January 2010.

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

There are no significant events subsequent to 31 December 2012 which would materially affect the Group's operating and financial performance as of the date of consolidated financial statements.

AUDITORS

The Company has appointed Ernst & Young as auditors of the Company for the year ended 31 December 2012. A resolution will be proposed for approval by Shareholders at the forthcoming AGM to re-appoint Ernst & Young as auditors of the Company.

ON BEHALF OF THE BOARD

Chen Chang
Chairman
Hong Kong
22 March 2013

CORPORATE GOVERNANCE REPORT

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

The Company has adopted the Code Provisions in the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board considers that up to the date of this annual report, in the opinion of the Board, saved as disclosed below, the Company has complied with the CG Code.

CG CODE PROVISION A.2.1

The Company is aware of the requirement under paragraph A.2.1 of the CG Code that the roles of chairman and chief executive 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 arises.

BOARD OF DIRECTORS

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

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

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

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

The Board has delegated various responsibilities to the Board committees including the Audit Committee, the Nomination Committee and the Remuneration Committee. Further details of these Committees are set out below on pages 40 to 41.

The Company had arranged insurance cover in respect of legal action against the Directors.

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

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

Agenda and Board papers together with all appropriate, complete and reliable information will be provided to all the Directors at least 3 days before meetings. All the Directors will be provided with sufficient resources to discharge their duties, and, upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expenses. All Directors will have the opportunity to include matters in the agenda for Board meetings. The company secretary of the Company is responsible to keep the minutes of Board meetings and meetings of Board committees. All minutes are open for inspection by any Director at reasonable time on reasonable notice.

For the financial year ended 31 December 2012, four Board meetings were held.

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

Appointments, Re-election and Removal of Directors

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

Each of the executive Directors has renewed their service contract with the Company for a period of three years commencing from 1 February 2013. All of their appointments are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

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

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

Training Induction and Continuing Development of Directors

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

Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Each of the Directors confirmed that they have attended continuing professional development during the financial year ended 31 December 2012. During the year ended 31 December 2012, Mr. Chen Chang, Ms. Chen Zhao Nian, Mr. Chen Ping, Mr. Liang Guo Yao and Mr. See Tak Wah attended seminars and training courses in relation to accounting standards or corporate governance or internal control and risk management arranged by professional firms/ institutions, and Ms. Chen Zhao Hua attended the EMBA programme organized by university. Records of continuing professional development have been maintained by the company secretary. Besides, the Company Secretary also conducted briefings on corporate governance and provided materials for Listing Rules amendments to all directors for their reference.

BOARD COMMITTEES

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

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

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

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Mr. Chen Ping, Mr. Liang Guo Yao and Mr. See Tak Wah. All of them are independent non-executive Directors. Mr. See Tak Wah is the Chairman of the Audit Committee, who has appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors. The primary duties of the Audit Committee are to review and supervise the financial reporting process and the internal control procedures of our Group. The Audit Committee has reviewed the Company's financial statements and the Group's consolidated financial statements for the year ended 31 December 2012 and the interim financial statements for the six months ended 30 June 2012, including the accounting principles and practices adopted by the Company and the Group.

The main duties of the Audit Committee include the following:

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

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

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

The Audit Committee held four meetings during the year ended 31 December 2012, of which two meetings with external auditors' presence, and all members of the Committee attended all meetings. At the meetings, it reviewed the financial reporting and compliance procedures, the report of the internal auditor on the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors.

The Company had established a whistleblowing policy and system for employees to raise concerns of possible improprieties where all concerns are addressed to the Audit Committee.

The Company's annual results for the year ended 31 December 2012 and interim results for the six months ended 30 June 2012 have been reviewed by the Audit Committee.

Nomination Committee

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

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

The Nomination Committee held one meeting during the year ended 31 December 2012 and all members of the Committee attended the meeting.

Remuneration Committee

The Remuneration Committee consists of three members, namely Mr. Chen Ping, Mr. Liang Guo Yao and Mr. Chen Chang. Mr. Liang Guo Yao is the Chairman of the Remuneration Committee. The majority of them are independent non-executive Directors. The primary functions of the Remuneration Committee are to make recommendations to the Board on the remuneration of our Directors and senior management and determine on behalf of the Board specific remuneration packages and conditions of employment for our Directors and senior management. Remuneration will be determined by reference to the duties and level of responsibilities as well as market practice and conditions. None of the Directors themselves approve their own remuneration.

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

For the financial year ended 31 December 2012, one meeting was held and all members attended the meeting of the committee.

The attendance of individual members of the Board and other Board Committees meetings for the financial year ended 31 December 2012 is set out in the table below:

	Meeting attended/held			
	Board	Audit Committee	Nomination Committee	Remuneration Committee
Executive Directors				
Mr. Chen Chang (Chairman of the Board)	4/4	N/A	1/1	1/1
Ms. Chen Zhao Nian	4/4	N/A	N/A	N/A
Ms. Chen Zhao Hua	2/4	N/A	N/A	N/A
Independent non-executive Directors				
Mr. Chen Ping	4/4	4/4	1/1	1/1
Mr. Liang Guo Yao	4/4	4/4	1/1	1/1
Mr. See Tak Wah	4/4	4/4	N/A	N/A

Chairman of the Board had a meeting with non-executive Directors during the year ended 31 December 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2012.

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial Reporting

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

Independent Auditors

During the year ended 31 December 2012, the remuneration paid or payable to the independent auditors, Ernst & Young, for services rendered is broken down below:

	2012 HK$'000
Audit services	2,460
Non-audit services	–
Total	2,460

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

Company Secretary

The Board appoints its Company Secretary in accordance with the Company's Articles of Association and in compliance with the requirements of the Listing Rules. Biographical details of the current Company Secretary is set out in the section headed "Directors and senior management" on page 24 to 28 of this annual report. The Company Secretary complied with the professional training requirement as set out in the Listing Rule 3.29 during the year ended 31 December 2012.

Internal Controls

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

The Board has reviewed the internal audit report on quarterly basis and assessed the effectiveness (according to its magnitude and significance) of the Group's internal control system which covered all material controls, including financial, operational and compliance controls as well as risk management functions during the year ended 31 December 2012. No major issue was raised which may affect Shareholders but certain areas for improvement had been identified and considered for appropriate actions.

The Company has internal procedures on reporting and disseminating inside information and maintaining confidentiality.

Directors' Responsibility on the Financial Statements

The Directors are responsible for overseeing the preparation of financial statements for the year ended 31 December 2012 with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and suitable accounting standards.

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

Management had provided monthly updates to Directors for giving a balanced and understandable assessment of the Company's performance, position and projects to enable the Directors to discharge their duties.

CORPORATE GOVERNANCE REPORT

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.

COMMUNICATION WITH SHAREHOLDERS

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

To promote effective communication, the Company maintains a website at http://www.pck.com.cn or http://www.pck.todayir.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted. A Shareholder Communication Policy is in place to ensure that Shareholders are provided with ready, equal and timely access to information of the Company. The policy is posted on the Company's website.

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

The forthcoming AGM of the Company will be held on 11 June 2013. The notice of AGM will be sent to Shareholders at least 20 clear business days before the AGM.

The Company attended conferences/roadshows/media interviews to keep Shareholders or potential investors the latest development of the Group. The head of investor relation will be the primary contact point for communications with investors and analysts.

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

SHAREHOLDER RIGHTS

The Board welcomes Shareholders to present their views and Shareholders may at any time submit their questions and concerns of the Group. Shareholder(s) holding not less than one-tenth of Company's paid-up capital may request the Board to convene an extraordinary general meeting. The objects of the meeting must be stated in the related requisition deposited at the Company's registered office and addressing to Company Secretary at the Company's principal place of business in Hong Kong. The extraordinary general meeting will be held within 2 months after the deposition of such requisition.

Procedures for a Shareholder to propose a person for election as a director

Subject to the Statutes and the provisions of the Company's Articles of Association, the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. A shareholder may propose a person for election as a Director by lodging the following documents to the Board or Company Secretary at our head office of Hong Kong office in Room 1, 15/F., Tower 3, China Hong Kong City, 33 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong: 1) a notice in writing of the intention to propose that person (with full name and biographical details as required by rule 13.51(2) of the Listing Rules) for election as a Director; and 2) a notice in writing by that person of his willingness to be elected as a Director. Such notices shall be lodged at least 7 clear days before the date of the general meeting and the period for lodgement of such notices shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and shall be at least 7 clear days in length.

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

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

SHARE INTERESTS OF SENIOR MANAGEMENT

Confirmed with the senior management of the Company, they did not hold shares of the Company as at 31 December 2012.

INVESTOR RELATIONS

There was no change in the constitutional documents of the Company during the year. The latest version of the Memorandum and Articles of Association of the Company is posted on the Company's website.

2012 Annual General Meeting

The Board is committed to the constructive use of the AGM as a forum to meet Shareholders. The Chairman and the chairman of the Audit Committee, Remuneration Committee and Nomination Committee and the external auditor attended the 2012 AGM.

At the 2012 AGM, the Company proposed separate resolutions on each separate issue. Resolutions passed at the 2012 AGM were (i) received the audited consolidated financial statements for the year ended 31 December 2011 together with the reports of the directors and auditors of the Company; (ii) payment of the final dividend of HK5.7 cents per share for the year ended 31 December 2011; (iii) election of Messrs Chen Zhao Nian as executive Director and Liang Guo Yao as independent non-executive Director and authorization to the Board to fix the Directors' remuneration; (iv) reappointed Ernst & Young as auditor of the Company and authorization to the Directors to fix auditor's remuneration; (v) approval of a general mandate for the Directors to allot and issue of new shares of an amount not exceeding 20 per cent of the issued share capital of the Company as at the date of 2012 AGM; (vi) approval of a general mandate for the Directors to repurchase shares of an amount not exceeding 10 per cent of the aggregate nominal amount of the Company's issued share capital as at the date of 2012 AGM; (vii) extension of the general mandate granted to the Directors of the Company to allot, issue, and deal with additional shares in the share capital of the Company by an amount not exceeding the amount of the shares repurchased by the Company. All resolutions were passed by way of a poll conducted by the Company's registrar. The poll voting results of the 2012 AGM were available on the Company's website.

CORPORATE GOVERNANCE REPORT

2013 Annual General Meeting

All Shareholders are encouraged to attend the 2013 AGM and exercise their right to vote. Shareholders are invited to ask questions related to the business of the meeting. Details of the resolutions of the 2013 AGM will be set out in the circular and will be sent out to Shareholders together with the 2012 annual report.

Sufficiency of Public Float

The Company has maintained the prescribed public float under the Listing Rules as at 31 December 2012.

SOCIAL RESPONSIBILITY

The Company has long give back to communities as part of its responsibility.

Charity Fund

On April 2013, the Company has set up a charity fund ("Charity Fund") named "Panyu Chu Kong Steel Pipe Group Co Ltd – Blessing Charity Fund". The purpose of this Charity Fund is to, through the donation from the Company, help the single mothers and orphans to improve their living environment and career development of single mothers.

In addition, the Group made charitable contributions of approximately RMB3.8 million during the year. Major charitable contributions were below:

Help and Support the Poor

On 28 June 2012, the Company donated RMB2 million at the "Guangdong Poverty Alleviation Day & Guangzhou Charity Day". The funds will be dedicated to antipoverty efforts.

Cultural Heritage Conservation

At January 2012, the Company donated RMB1 million as the renovation funds of the temple "Shang Shi Tang" in Shilou, Panyu.

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

22F CITIC Tower
1 Tim Mei Avenue,
Central,
Hong Kong

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

We have audited the consolidated financial statements of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 48 to 102, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
22 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	7	**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	7	**108,341**	68,972
Selling and distribution expenses		**(88,493)**	(71,023)
Administrative expenses		**(217,285)**	(165,925)
Other expenses		**(5,566)**	(3,087)
Finance costs	8	**(77,361)**	(65,196)
Changes in fair value of derivative financial instruments	31	**(3,784)**	–
Exchange (loss)/gain, net		**(1,717)**	5,413
PROFIT BEFORE TAX	9	**380,724**	279,502
Income tax expense	12	**(70,646)**	(48,775)
PROFIT FOR THE YEAR		**310,078**	230,727
Profit attributable to:			
Owners of the parent	13	**310,078**	230,727
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	15	**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

Details of the dividend paid and proposed for the year are disclosed in note 14 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**2,211,264**	1,420,346
Investment properties	17	**1,765**	1,813
Long term prepayments and deposit	18	**209,114**	174,973
Prepaid land lease payments	19	**506,725**	339,776
Goodwill	20	**4,075**	4,075
Deferred tax assets	22	**7,806**	4,394
Pledged deposits	26	**5,904**	165
Total non-current assets		**2,946,653**	1,945,542
CURRENT ASSETS			
Inventories	23	**807,872**	1,190,235
Trade and bills receivables	24	**1,385,829**	803,321
Prepayments, deposits and other receivables	25	**480,712**	462,357
Pledged deposits	26	**120,380**	47,483
Cash and bank balances	26	**1,039,348**	981,779
Total current assets		**3,834,141**	3,485,175
CURRENT LIABILITIES			
Trade and bills payables	27	**863,623**	666,583
Interest-bearing bank loans and other borrowings	28	**862,126**	1,434,816
Other payables and accruals	30	**484,219**	323,443
Tax payable		**71,093**	39,512
Derivative financial instruments	31	**3,784**	–
Short-term notes	32	**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	28	**1,636,096**	732,289
Government grants	33	**96,082**	34,153
Deferred tax liabilities	22	**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	34	**88,856**	88,856
Reserves	35(a)	**2,309,123**	2,062,075
Proposed final dividend	14	**62,311**	46,725
Total equity		**2,460,290**	2,197,656

Chen Chang
Director

Chen Zhao Nian
Director

	Attributable to owners of the parent								
	Issued capital RMB'000 (note 34)	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Statutory reserve fund RMB'000 (note (a))	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
Profit for the year	–	–	–	–	–	230,727	–	–	230,727
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(2,578)	(2,578)
Total comprehensive income for the year	–	–	–	–	–	230,727	–	(2,578)	228,149
Final 2010 dividends declared	–	(21,510)	–	–	–	21,510	(21,510)	–	(21,510)
Transfer from retained profits	–	–	–	–	22,665	(22,665)	–	–	–
Proposed final 2011 dividend (note 14)	–	(46,725)	–	–	–	–	46,725	–	–
At 31 December 2011	88,856	829,408	224,589	57,607	104,225	850,436	46,725	(4,190)	2,197,656
At 1 January 2012	88,856	829,408	224,589	57,607	104,225	850,436	46,725	(4,190)	2,197,656
Profit for the year	–	–	–	–	–	310,078	–	–	310,078
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(719)	(719)
Total comprehensive income for the year	–	–	–	–	–	310,078	–	(719)	309,359
Final 2011 dividends declared	–	–	–	–	–	–	(46,725)	–	(46,725)
Transfer from retained profits	–	–	–	–	29,520	(29,520)	–	–	–
Proposed final 2012 dividend (note 14)	–	(62,311)	–	–	–	–	62,311	–	–
At 31 December 2012	**88,856**	**767,097***	**224,589***	**57,607***	**133,745***	**1,130,994***	**62,311**	**(4,909)***	**2,460,290**

* These reserve accounts comprise the consolidated reserves of RMB2,309,123,000 (2011: RMB2,062,075,000) in the consolidated statement of financial position as at 31 December 2012.

Note:

(a) 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 an entity's statutory reserve fund reaches 50% of its registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 25% of the registered capital after such usage.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**380,724**	279,502
Adjustments for:			
Finance costs	8	**77,361**	65,196
Bank interest income	7	**(7,519)**	(7,029)
Loss on disposal of items of property, plant and equipment, net	9	**–**	684
Depreciation	9	**52,123**	38,869
Amortisation of prepaid land lease payments	9	**8,563**	3,478
Impairment/(reversal of impairment) of trade receivables	9	**329**	(1,131)
Reversal of impairment of deposits and other receivables	9	**(57)**	(33)
Fair value loss of derivative instruments-transactions not qualifying as hedge	9	**3,784**	–
		515,308	379,536
Decrease/(increase) in inventories		**384,387**	(212,696)
Increase in trade and bills receivables		**(582,837)**	(447,165)
Increase in prepayments, deposits and other receivables		**(4,376)**	(91,495)
(Increase)/decrease in pledged deposits		**(78,636)**	8,659
Increase in trade and bills payables		**197,036**	462,600
Increase/(decrease) in other payables and accruals		**128,217**	(70,336)
Increase/(decrease) in government grants		**61,929**	(3,071)
Cash generated from operations		**621,028**	26,032
Interest received	7	**7,519**	7,029
Corporate income tax paid		**(41,659)**	(31,729)
Net cash flows from operating activities		**586,888**	1,332
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(844,104)**	(460,574)
Acquisition of a subsidiary	36	**(3,958)**	–
Addition to prepaid land lease payments		**(173,822)**	(225,726)
Proceeds from disposal of items of property, plant and equipment		**236**	5
Net cash flows used in investing activities		**(1,021,648)**	(686,295)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and government loans		**3,346,419**	3,321,691
Repayment of bank loans and government loans		**(2,681,845)**	(2,250,425)
Dividend paid		**(46,725)**	(21,510)
Interest paid		**(84,212)**	(68,784)
Interest element of finance lease rental payments		**(8,346)**	(10,527)
Cash received from sales and leasing back of finance lease		**–**	128,000
Capital element of finance lease rental payments		**(32,241)**	(27,495)
Net cash flows from financing activities		**493,050**	1,070,950
NET INCREASE IN CASH AND CASH EQUIVALENTS		**58,290**	385,987
Effect of foreign exchange rate changes, net		**(721)**	(3,386)
Cash and cash equivalents at beginning of year		**981,779**	599,178
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,039,348**	981,779
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	**1,039,348**	981,779

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**23**	33
Investments in subsidiaries	21	**1,778,636**	1,778,636
Total non-current assets		**1,778,659**	1,778,669
CURRENT ASSETS			
Prepayments, deposits and other receivables	25	**1,771**	1,389
Due from subsidiaries	21	**788,479**	846,261
Cash and bank balances	26	**64**	218
Total current assets		**790,314**	847,868
CURRENT LIABILITIES			
Other payables and accruals	30	**26**	351
Total current liabilities		**26**	351
NET CURRENT ASSETS		**790,288**	847,517
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,568,947**	2,626,186
Net assets		**2,568,947**	2,626,186
EQUITY			
Issued capital	34	**88,856**	88,856
Reserves	35(b)	**2,417,780**	2,490,605
Proposed final dividend	14	**62,311**	46,725
Total equity		**2,568,947**	2,626,186

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 9 January 2008 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's registered office address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Group are involved in the manufacture and sale of welded steel pipes and the provision of related manufacturing services. There were no significant changes in the nature of the Group's principal activities during the year.

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with 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 Renminbi ("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	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*

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 IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – 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

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group expects to adopt the amendments from 1 January 2013.

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

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

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

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and SIC 12 *Consolidation – Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC 12. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

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

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

In June 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 which clarify the transition guidance in IFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or SIC 12 at the beginning of the annual period in which IFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

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

The amendments to IFRS 10 issued in October 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (Revised). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, IAS 27 (Revised) and IAS 28 (Revised) and the subsequent amendments to these standards issued in June and October 2012 from 1 January 2013.

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

The IAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

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

The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

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

The *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) IAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) IAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measures the non-controlling interests in the acquire that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

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

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

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery under construction. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing cost on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS39.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented in profit or loss. These net fair value changes do not include any interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

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

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

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

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and bills payables, other payables, interest-bearing bank loans and other borrowings, derivative financial instruments and short-term notes.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Loans and borrowings

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

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

Fair value of financial instruments

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

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials	Purchase cost on the weighted average basis
Work in progress and finished goods	Cost of direct materials, direct labour and an appropriate proportion of overheads

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

Cash and cash equivalents

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

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

Income tax

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

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

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to deferred income account and deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of manufacturing services, when underlying services have been rendered;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and

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

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

Other benefits

The Group contributes on a monthly basis to defined contribution housing, medical and other benefit plans organised by the PRC government. The PRC government undertakes to assume the benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for benefits for their qualified employees under these plans.

Borrowing costs

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

Foreign currencies

The Company incorporated in the Cayman Islands has the Hong Kong dollar as its functional currency. The functional currency of the PRC subsidiaries is the RMB. As the Group mainly operates in Mainland China, RMB is used as the presentation currency of the Group. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the end of the reporting period. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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

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

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

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from subsidiaries in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing and amount of the payment of the dividend. Withholding taxes are only provided for the profits of the subsidiaries in the PRC which the Group considers that it is probable to be distributed in the foreseeable future.

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Useful lives and residual values of property, plant and equipment

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

Deferred tax assets

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

Write-down of inventories to net realisable value

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

Impairment of trade and other receivables

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

6. OPERATING SEGMENT INFORMATION

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

Information about products

The revenue of the major products is analysed as follows:

	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.

Geographical information

The revenue information based 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**	98,418
Other Asian countries	**67,320**	91,073
Others	**2,886**	73,516
	3,925,995	3,376,865

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

6. OPERATING SEGMENT INFORMATION (continued)

Information about a major customer

Revenue from continuing operations of approximately RMB392,977,000 (2011: RMB116,159,000) was derived from sales to a single customer, including sales to a group of entities which are known to be under common control with that customer.

7. REVENUE, OTHER INCOME AND GAINS

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

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

	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. ("PCKSP (Lianyungang)") (番禺珠江鋼管(連雲港)有限公司), Lianyungang Kaidi Heavy Equipment Technology Company Limited ("Kaidi") and PCKSP as awards for their investments and products. There are no unfulfilled conditions or contingencies relating to such subsidies.

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	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

9. 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	19	**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	8	**77,361**	65,196
Employee benefit expenses (including directors' remuneration (note 10)):			
Wages and salaries		**204,564**	122,220
Retirement benefit scheme contributions		**18,606**	13,258
Impairment/(reversal of impairment) of trade receivables	24	**329**	(1,131)
Reversal of impairment of deposits and other receivables	25	**(57)**	(33)
Fair value loss of derivative instruments-transactions not qualifying as hedge		**3,784**	–
Bank interest income	7	**(7,519)**	(7,029)
Loss on disposal of items of property, plant and equipment, net		**–**	684
Research and development costs		**41,615**	45,938

10. DIRECTORS' REMUNERATION

Details of directors' remuneration for the year, disclosure pursuant to the listing rules and section 161 of the Hong Kong companies' ordinance, are as follows:

	2012 RMB'000	2011 RMB'000
Fees	**522**	522
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**4,412**	4,520
Retirement benefit scheme contributions	**46**	40
	4,458	4,560
	4,980	5,082

10. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

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

	2012	2011
	RMB'000	RMB'000
Mr. Chen Ping	**180**	180
Mr. Liang Guo Yao	**180**	180
Mr. See Tak Wah	**162**	162
	522	522

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

(b) Executive directors

	Fees	**Salaries, allowances and benefits in kind**	**Retirement benefit scheme contributions**	**Total remuneration**
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2012				
Executive directors:				
Mr. Chen Chang	–	2,254	–	2,254
Ms. Chen Zhao Nian	–	1,079	23	1,102
Ms. Chen Zhao Hua	–	1,079	23	1,102
	–	4,412	46	4,458
Year ended 31 December 2011				
Executive directors:				
Mr. Chen Chang	–	2,248	2	2,250
Ms. Chen Zhao Nian	–	1,136	19	1,155
Ms. Chen Zhao Hua	–	1,136	19	1,155
	–	4,520	40	4,560

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

11. FIVE HIGHEST PAID EMPLOYEES

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

	2012	2011
Directors	**3**	3
Non-director, highest paid employees	**2**	2
	5	5

11. FIVE HIGHEST PAID EMPLOYEES (continued)

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

	2012 RMB'000	2011 RMB'000
Salaries, allowances and benefits in kind	**4,565**	4,543
Retirement benefit scheme contributions	**22**	19
	4,587	4,562

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

	2012	2011
RMB1,600,001 to RMB2,100,000	**1**	1
RMB2,100,001 to RMB2,600,000	**1**	1
	2	2

During the year, no remuneration was paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

Other than the directors or five highest paid employees, the number of other senior management whose remuneration fell within the following bands is as follows:

	2012	2011
RMB200,001 to RMB300,000	**1**	–
RMB300,001 to RMB400,000	**2**	3
RMB400,001 to RMB600,000	**3**	3
	6	6

12. INCOME TAX

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

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

Lessonstart 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.

12. INCOME TAX (continued)

PCKSP, as a High and New Technology Enterprise ("HNTE") qualified on 16 December 2008 and renewed in 2011, was entitled to a reduced tax 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, were exempted from corporate income tax for the years 2008 and 2009, and were 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 income tax rate at a rate of 25%.

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%.

Aike which was acquired from two independent third parties in 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.

12. INCOME TAX (continued)

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

	2012 RMB'000	2011 RMB'000
Group:		
Current – Mainland China		
charged for the year	**73,240**	51,908
Deferred (note 22)	**(2,594)**	(3,133)
Total tax charge for the year	**70,646**	48,775

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

Year ended 31 December 2012

	Mainland China RMB'000	%	Hong Kong and others RMB'000	%	Total RMB'000	%
Profit/(loss) before tax	**424,968**		**(44,244)**		**380,724**	
Tax at the statutory tax rate	**106,242**	**25**	**(5,533)**	**12.5**	**100,709**	**26.5**
Tax effect of:						
Lower tax rates for PRC subsidiaries	**(3,295)**	**(0.8)**	**–**	**–**	**(3,295)**	**(0.9)**
Lower tax rate for an HNTE	**(35,042)**	**(8.2)**	**–**	**–**	**(35,042)**	**(9.2)**
Adjustments in respect of current tax of previous periods	**1,121**	**0.3**	**–**	**–**	**1,121**	**0.3**
Expenses not deductible for tax	**1,620**	**0.4**	**–**	**–**	**1,620**	**0.4**
Tax loss not recognised	**–**	**–**	**5,533**	**(12.5)**	**5,533**	**1.5**
Tax charge at Group's effective tax rate	**70,646**	**16.6**	**–**	**–**	**70,646**	**18.6**

12. INCOME TAX (continued)

Year ended 31 December 2011

	Mainland China RMB'000	%	Hong Kong and others RMB'000	%	Total RMB'000	%
Profit/(loss) before tax	294,226		(14,724)		279,502	
Tax at the statutory tax rate	73,557	25	(1,296)	8.8	72,261	25.8
Tax effect of:						
Lower tax rates for PRC subsidiaries	(2,100)	(0.7)	–	–	(2,100)	(0.7)
Lower tax rate for an HNTE	(23,194)	(7.9)	–	–	(23,194)	(8.3)
Expenses not deductible for tax	1,330	0.5	–	–	1,330	0.5
Income not subject to tax	(59)	–	–	–	(59)	–
Tax losses utilised from previous periods	(828)	(0.3)			(828)	(0.3)
Tax loss not recognised	–	–	1,365	(9.3)	1,365	0.5
Tax charge at Group's effective tax rate	48,706	16.5	69	(0.5)	48,775	17.5

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a loss of RMB10,699,000 (2011:RMB8,544,000) which has been dealt with in the financial statements of the Company (note 35(b)).

14. DIVIDEND

	2012 RMB'000	2011 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.

15. 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.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012						
At 31 December 2011 and 1 January 2012:						
Cost	161,907	706,885	24,074	31,537	837,431	1,761,834
Accumulated depreciation and impairment	(28,732)	(291,704)	(12,965)	(8,087)	–	(341,488)
Net carrying amount	133,175	415,181	11,109	23,450	837,431	1,420,346
At 1 January 2012, net of accumulated depreciation and impairment	133,175	415,181	11,109	23,450	837,431	1,420,346
Additions	–	62,585	11,889	9,575	741,610	825,659
Acquisition of a subsidiary (note 36)	2,588	9,178	45	262	5,495	17,568
Disposals	–	(236)	–	–	–	(236)
Depreciation provided during the year	(4,615)	(40,175)	(4,331)	(2,954)	–	(52,075)
Transfers	335,903	204,515	–	–	(540,418)	–
Exchange realignment	–	–	–	2	–	2
At 31 December 2012, net of accumulated depreciation and impairment	467,051	651,048	18,712	30,335	1,044,118	2,211,264
At 31 December 2012:						
Cost	500,397	983,089	36,014	41,374	1,044,118	2,604,992
Accumulated depreciation and impairment	(33,346)	(332,041)	(17,302)	(11,039)	–	(393,728)
Net carrying amount	467,051	651,048	18,712	30,335	1,044,118	2,211,264

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Land and buildings RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011						
At 31 December 2010 and 1 January 2011:						
Cost	155,157	644,520	18,365	27,122	533,698	1,378,862
Accumulated depreciation and impairment	(24,919)	(261,749)	(10,313)	(10,684)	–	(307,665)
Net carrying amount	130,238	382,771	8,052	16,438	533,698	1,071,197
At 1 January 2011, net of accumulated depreciation and impairment	130,238	382,771	8,052	16,438	533,698	1,071,197
Additions	3,719	36,029	5,267	9,773	334,075	388,863
Disposals	–	(166)	(6)	(517)	–	(689)
Depreciation provided during the year	(3,814)	(30,247)	(2,684)	(2,074)	–	(38,819)
Transfers	3,032	26,794	515	–	(30,341)	–
Exchange realignment	–	–	(36)	(170)	–	(206)
At 31 December 2011, net of accumulated depreciation and impairment	133,175	415,181	11,108	23,450	837,432	1,420,346
At 31 December 2011:						
Cost	161,908	706,885	24,073	31,537	837,432	1,761,835
Accumulated depreciation and impairment	(28,733)	(291,704)	(12,965)	(8,087)	–	(341,489)
Net carrying amount	133,175	415,181	11,108	23,450	837,432	1,420,346

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

Included in the carrying amount of the property, plant and equipment was capitalised interest of RMB43,046,000 (2011: RMB27,849,000) as at 31 December 2012.

Included in the total costs of plant and machinery are certain assets acquired in prior years for which government grants of RMB5,950,000 (2011: RMB5,950,000) were received and deducted from their costs in arriving at their carrying amounts. The original costs of those assets before the deduction of the grants amounted to RMB117,183,000 (2011: RMB117,183,000) as at 31 December 2012.

Details of the Group's property, plant and machinery pledged to secure the Group's bank loans are set out in note 28.

Certificates of ownership in respect of certain buildings of the Group located in Guangzhou, Zhuhai, Jiangyin and Lianyungang with a total net carrying amount of approximately RMB10,642,000 (2011: RMB42,223,000) as at 31 December 2012, have not yet been issued by the relevant PRC authorities. As at the end of the reporting period, the directors were still in the process of obtaining these certificates.

The net carrying amounts of the Group's fixed assets held under finance leases included in the total amounts of plant and machinery and office and other equipment at 31 December 2012 amounted to RMB87,103,000 (2011: RMB92,971,000) and RMB195,000 (2011 RMB312,000), respectively.

17. INVESTMENT PROPERTIES

	Group	
	2012	2011
	RMB'000	RMB'000
Carrying amount at 1 January	**1,813**	1,954
Depreciation provided during the year	**(48)**	(50)
Exchange realignment	**–**	(91)
Carrying amount at 31 December	**1,765**	1,813

The Group's investment properties are held under medium term leases and are situated in Hong Kong. The investment properties are leased to third parties under operating leases, further details of which are summarised in note 37.

At 31 December 2012, the fair value of the Group's investment properties was approximately HK$7,600,000 (2011: HK$6,000,000), which was based on the valuation by RHL Appraisal Limited, independent professionally qualified valuers, on an open market, existing use basis.

18. LONG TERM PREPAYMENTS AND DEPOSIT

	Group	
	2012	2011
	RMB'000	RMB'000
Prepayments for property, plant and equipment	**184,471**	150,973
Deposit paid	**24,643**	24,000
	209,114	174,973

19. PREPAID LAND LEASE PAYMENTS

	Group	
	2012	2011
	RMB'000	RMB'000
Carrying amount at 1 January	**347,372**	126,077
Additions	**166,226**	224,773
Acquisition of a subsidiary (note 36)	**12,866**	–
Amortisation provided during the year	**(8,563)**	(3,478)
Carrying amount at 31 December	**517,901**	347,372
Current portion included in prepayments, deposits and other receivables (note 25)	**(11,176)**	(7,596)
Non-current portion	**506,725**	339,776

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

Details of the Group's leasehold lands that are pledged to secure the Group's bank loans are set out in note 28.

20. GOODWILL

	Group	
	2012	2011
	RMB'000	RMB'000
At 1 January and 31 December	**4,075**	4,075

Impairment testing of goodwill

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

The recoverable amount of the CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections was 19.2% (2011: 19.2%). Cash flows beyond the five-year period were extrapolated using the estimated growth rate of 7% (2011: 7%). The growth rate does not exceed the projected long term average growth rate for the anti-corrosion business of Hualong Anti-Corrosion in Mainland China.

Assumptions were used in the value in use calculation of the CGU as at 31 December 2012. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – Management has determined the budgeted gross margins based on past performance and its expectations for market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the CGU.

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

21. INVESTMENTS IN SUBSIDIARIES

	Company 2012 RMB'000	Company 2011 RMB'000
Unlisted shares, at cost	**1,778,636**	1,778,636

The amounts due from subsidiaries included in the Company's current assets of RMB788,479,000 as at 31 December 2012 (RMB846,261,000 as at 31 December 2011), are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued capital/ registered capital	Percentage of equity attributable to the Company Direct %	Percentage of equity attributable to the Company Indirect %	Principal activities
Lessonstart Enterprises Limited	British Virgin Islands 18 May 1993	US$300	100	–	Investment holding
Lucknow Consultants Limited	British Virgin Islands 22 November 1994	US$10	–	100	Investment holding
Crown Central Holdings Limited	Hong Kong 21 March 1995	HK$1,000	–	100	Trading of steel pipes
Chu Kong Steel Pipe Group Co., Limited	Hong Kong 13 December 2007	HK$100,000	–	100	Investment holding and trading of steel pipes
Panyu Chu Kong Steel Pipe Co., Ltd. 番禺珠江鋼管有限公司	The PRC 7 June 1993	HK$1,200,000,000	–	100	Manufacture and sale of welded steel pipes
Guangzhou Pearl River Petrol-Fittings Co., Ltd. 廣州珍珠河石化管件有限公司	The PRC 16 October 2006	HK$5,000,000	–	100	Manufacture and sale of petro fittings
Guangzhou Pearl River OCTG Co., Ltd. 廣州珍珠河石油套管有限公司	The PRC 16 October 2006	HK$21,000,000	–	100	Manufacture and sale of oil country tubular goods
Guangzhou Pearl River Petroleum Steel Pipe Coating Co., Ltd. 廣州珍珠河石油鋼管防腐有限公司	The PRC 16 October 2006	HK$10,000,000	–	100	Steel pipe casing and lining services
Guangzhou Pearl River Petroleum Steel Pipe Co., Ltd. 廣州珍珠河石油鋼管有限公司	The PRC 16 October 2006	HK$50,000,000	–	100	Manufacture and sale of welded steel pipes

21. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued capital/ registered capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Panyu Chu Kong Steel Pipe (Lianyungang) Co., Ltd. 番禺珠江鋼管(連雲港)有限公司	The PRC 8 July 2009	RMB1,100,000,000	–	100	Manufacture and sale of welded steel pipes
Guangzhou Panyu Chu Kong Hualong Petroleum Steel Pipe Anti-Corrosion Co., Ltd. 廣州市番禺珠江華龍石油鋼管防腐有限公司	The PRC 19 October 1999	RMB2,060,000	–	100	Steel pipe casing and lining services
Panyu Chu Kong Steel Pipe (Zhuhai) Co., Ltd. 番禺珠江鋼管(珠海)有限公司	The PRC 21 June 2010	HK$570,000,000	–	100	Manufacture and sale of welded steel pipes
Lianyungang Kaidi Heavy Equipment Technology Company Limited * 連雲港凱帝重工科技有限公司	The PRC 9 May 2011	RMB300,000,000	–	100	Manufacture steel pipe equipment and metallurgy equipment
Lianyungang Pearl River Petrol-Fittings Co., Ltd. 連雲港珍珠河石化管件有限公司*	The PRC 9 November 2012	HK$8,525,000	–	100	Manufacture and sale of petro fittings
Lianyungang Aike New Construction Materials Limited 連雲港艾可新型建材有限公司	The PRC 27 June 2007	RMB30,000,000	–	100	Manufacture and sale of tubular pile
Guangdong Pearl Steel Investment Management Company Limited 廣東珠鋼投資管理有限公司*	The PRC 9 November 2012	RMB20,000,000	–	100	Investment management

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

During the year, the Group acquired Aike from independent third parties. Further details of this acquisition are included in note 36 to the financial statement.

* These companies have not yet commenced operation as at 31 December 2012.

22. DEFERRED TAX

Deferred tax assets

Group:

	Impairment of trade and other receivables RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2012	**1,076**	**3,318**	**4,394**
Deferred tax credited to the consolidated statement of comprehensive income (note 12)	**41**	**2,553**	**2,594**
Acquisition of a subsidiary (note 36)	**–**	**818**	**818**
At 31 December 2012	**1,117**	**6,689**	**7,806**

	Impairment of trade and other receivables RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2011	1,261	–	1,261
Deferred tax credited/(charged) to the consolidated statement of comprehensive income (note 12)	(185)	3,318	3,133
At 31 December 2011	1,076	3,318	4,394

As at 31 December 2012, the Group had tax losses arising in Hong Kong of RMB36,889,000 (2011: RMB30,930,000), which are available indefinitely for offsetting against future taxable profits of the company in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in Crown Central and CKSPG that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax liabilities

Group:

	Withholding taxes 2012 RMB'000	2011 RMB'000
At 1 January 2012 and 31 December 2012	**2,265**	2,265

In accordance with the Enterprise Income Tax Law of the PRC effective on 1 January 2008, a 10% (or a lower rate if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors) withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2012, no deferred tax has been recognised by the Group for withholding taxes that would be payable on the unremitted earnings of those subsidiaries that are subject to withholding taxes as management considered it is not probable that those subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in those subsidiaries for which deferred tax liabilities have not been recognized totaled approximately RMB94 million at 31 December 2012 (2011: RMB62 million).

23. INVENTORIES

	Group	
	2012	2011
	RMB'000	RMB'000
Raw materials	**227,868**	407,572
Work in progress	**229,681**	192,506
Finished goods	**350,323**	590,157
	807,872	1,190,235

24. 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

24. 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 9)	**329**	618
Amount written off as uncollectible	**–**	(67)
Impairment losses reversed (note 9)	**–**	(1,749)
At 31 December	**6,603**	6,274

Included in 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.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**249,715**	272,192	**1,771**	1,321
Deposits and other receivables	**88,459**	62,870	**–**	68
Tax recoverable	**131,815**	120,209	**–**	–
Current portion of land lease payments (note 19)	**11,176**	7,596	**–**	–
	481,165	462,867	**1,771**	1,389
Less: Impairment of deposits and other receivables	**(453)**	(510)	**–**	–
	480,712	462,357	**1,771**	1,389

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

	Group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**510**	543
Impairment losses reversed (note 9)	**(57)**	(33)
At 31 December	**453**	510

As at 31 December 2012, the net balance of deposits and other receivables was neither past due nor impaired. Financial assets included in the above balance relate to receivables for which there was no recent history of default.

26. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

		Group		Company	
		2012	2011	**2012**	2011
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Cash and bank balances		**1,039,348**	981,779	**64**	218
Pledged deposits	(a)	**126,284**	47,648	**–**	–
		1,165,632	1,029,427	**64**	218
Less:					
Pledged deposits with original maturity of over three months when acquired		**(126,284)**	(47,648)	**–**	–
Cash and cash equivalents	(b)	**1,039,348**	981,779	**64**	218

Notes:

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

(b) As at 31 December 2012, the Group's cash and cash equivalents denominated in RMB amounted to RMB1,015,083,000 (2011: RMB895,337,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

27. TRADE AND BILLS PAYABLES

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

	Group	
	2012	2011
	RMB'000	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.

28. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	Effective interest rate	Maturity	Group	
			2012	2011
	%		**RMB'000**	RMB'000
Current				
Finance lease payables (note 29)	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 (note 29)	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

28. 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

29. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its steel pipe manufacturing business. These leases are classified as finance leases and have remaining lease terms of 38 months.

On 1 March 2011, PCKSP entered into an equipment transfer contract and a finance lease contract (collectively the "finance lease arrangement"), with China Huarong Financial Leasing Co., Ltd. ("華融金融租賃股份有限公司") (the "Lessor"). Pursuant to the finance lease arrangement, PCKSP sold the equipment to the Lessor, and the Lessor leased back the equipment to PCKSP for a period of 60 months. The aggregate consideration was RMB160 million, and PCKSP paid a guarantee deposit of RMB24 million and a service charge of RMB8 million to the Lessor. Rent is calculated on the leasing cost and lease rate which was decided based on the interest rate for a five-year loan designated in RMB quoted by the People's Bank of China ("PBOC").

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

At 31 December 2012, the total future minimum lease payments under finance leases and their present values were as follows:

Group	**Minimum lease payments 2012 RMB'000**	Minimum lease payments 2011 RMB'000	**Present value of minimum lease payments 2012 RMB'000**	Present value of minimum lease payments 2011 RMB'000
Amounts payable:				
Within one year	**37,832**	38,174	**31,970**	29,972
In the second year	**37,832**	38,174	**33,964**	31,844
In the third to fifth years, inclusive	**37,832**	76,346	**36,914**	70,689
Total minimum finance lease payments	**113,496**	152,694	**102,848**	132,505
Future finance charges	**(10,648)**	(20,189)		
Total net finance lease payables	**102,848**	132,505		
Portion classified as current liabilities (note 28)	**(31,970)**	(29,972)		
Non-current portion (note 28)	**70,878**	102,533		

30. OTHER PAYABLES AND ACCRUALS

	Group		**Company**	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Deposits received and receipts in advance	**223,375**	239,060	**–**	–
Other payables*	**112,490**	48,680	**–**	–
Payroll payables	**22,448**	16,680	**–**	–
Accruals and other liabilities	**15,067**	13,488	**26**	351
Other tax payables	**110,839**	5,535	**–**	–
	484,219	323,443	**26**	351

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

31. DERIVATIVE FINANCIAL INSTRUMENT

	31 December 2012	
	Assets	**Liabilities**
	RMB'000	**RMB'000**
Cross currency swap	**–**	**3,723**
Interest rate swap	**–**	**61**
	–	**3,784**

The Group has entered into a cross currency swap contract and an interest rate swap contract to manage its exchange rate and interest rate exposures. Those contracts are not designated for hedge purpose and are measured at fair value through profit or loss. Changes in the fair value of non-hedging derivatives amounting to RMB3,784,000 were charged to profit of loss during the reporting period (2011: Nil).

32. 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 – 5.6% fixed rate notes maturing in November 2013 – unsecured	**301,216**	–

In September 2012, PCKSP completed the registration with the 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 issued the First Tranche Notes of RMB300 million in the PRC with a tenure of one year, and carrying interest at a fixed rate of 5.6% per annum.

33. GOVERNMENT GRANTS

As at 31 December 2012, government grants represented funds of RMB6,400,000 which were received in advance from the local finance bureau by PCKSP as an encouragement for its technological innovation and improvements, and RMB89,682,000 by PCKSP (Zhuhai) as a subsidy for the construction of production plants. Related assets associated with the above grants have not yet been completed.

34. ISSUED CAPITAL

	2012	2011
	RMB'000	RMB'000
Authorised:		
10,000,000,000 (2011: 10,000,000,000) ordinary shares of HK$0.10 each	**878,335**	878,335
Issued and fully paid:		
1,011,142,000 (2011: 1,011,142,000) ordinary shares of HK$0.10 each	**88,856**	88,856

35. RESERVES

(a) Group

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

(b) Company

	Share premium	Contributed surplus	Accumulated losses	Exchange fluctuation reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	954,765	1,712,731	(49,312)	(30,064)	2,588,120
Total comprehensive income for the year	–	–	(8,544)	(42,246)	(50,790)
Final 2010 dividend declared	(21,510)	–	21,510	–	-
Proposed final 2011 dividend	(46,725)	–	–	–	(46,725)
At 31 December 2011 and 1 January 2012	**886,530**	**1,712,731**	**(36,346)**	**(72,310)**	**2,490,605**
Total comprehensive income for the year	**–**	**–**	**(10,699)**	**185**	**(10,514)**
Proposed final 2012 dividend	**(62,311)**	**–**	**–**	**–**	**(62,311)**
At 31 December 2012	**824,219**	**1,712,731**	**(47,045)**	**(72,125)**	**2,417,780**

36. BUSINESS COMBINATION

On 22 May 2012, the Group acquired 100% equity interests in 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 on 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 recognised on acquisition
	RMB'000
Property, plant and equipment (note 16)	17,568
Prepaid land premiums (note 19)	12,866
Deferred tax assets (note 22)	818
Prepayment for property, plant and equipment	499
Inventories	2,024
Prepayment, deposits and other receivables	2,746
Cash and bank balances	6,042
Other payables and accruals	(32,563)
Total identifiable net assets at fair value	10,000
Satisfied by cash	10,000

36. BUSINESS COMBINATION (continued)

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 balances acquried	6,042
Net outflow of cash and cash equivalents included in cash flows from investing activities	(3,958)

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 17) under operating lease arrangements, with leases negotiated for terms of two years.

At 31 December 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Within one year	**243**	1,795
In the second years	**154**	–
	397	1,795

(b) As lessee

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

As at 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Within one year	**2,475**	2,127
In the second to fifth years, inclusive	**1,217**	121
	3,692	2,248

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37(b) above, the Group had the following capital commitments:

	Group	
	2012	2011
	RMB'000	RMB'000
Contracted, but not provided for:		
Land and buildings	**123,417**	193,884
Plant and machinery	**106,127**	288,219
	229,544	482,103
Contracted, but not provided for:		
Capital contributions payable for establishment of to a jointly-controlled entity	**333,132**	333,948
	562,676	816,051

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

39. RELATED PARTY TRANSACTIONS

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

Name of party	Relationship
Guangzhou Fulingda Elevator Co., Ltd. ("GZFLD") 廣州富菱達電梯有限公司	GZFLD is a company of which Mr. Chen Chang is the ultimate equity owner.
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 company of which Mr. Chen Chang is the ultimate equity owner.

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

		Group	
Name of party	Nature of transaction	2012	2011
		RMB'000	RMB'000
GZFLD	Purchases of spare parts	**1**	172
GZMT	Purchases of spare parts	**17,326**	9,182

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

39. RELATED PARTY TRANSACTIONS (continued)

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

	2012 RMB'000	2011 RMB'000
Salaries, allowances and benefits in kind	**11,224**	11,435
Retirement benefit scheme contributions	**137**	112
Total compensation paid to key management personnel	**11,361**	11,547

Further details of directors' emoluments are included in note 10 to the financial statement.

The related party transactions in respect of purchase of spare parts above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

40. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

Financial assets

	Loans and receivables	
	2012 RMB'000	2011 RMB'000
Financial asset included in Long term prepayments and deposit (note 18)	**24,643**	24,000
Trade and bills receivables (note 24)	**1,385,829**	803,321
Financial assets included in prepayments, deposits and other receivables (note 25)	**88,459**	62,870
Pledged deposits (note 26)	**126,284**	47,648
Cash and bank balances (note 26)	**1,039,348**	981,779
	2,664,563	1,919,618

Financial liabilities

	Financial liabilities at amortised cost	
	2012 RMB'000	2011 RMB'000
Trade and bills payables (note 27)	**863,623**	666,583
Financial liabilities included in other payables and accruals (note 30)	**112,490**	48,680
Interest-bearing bank loans and other borrowings (note 28)	**2,498,222**	2,167,105
Derivative financial instruments (note 31)	**3,784**	–
Short-term notes (note 32)	**301,216**	–
	3,779,335	2,882,368

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

Financial assets

	Loans and receivables	
	2012	2011
	RMB'000	RMB'000
Financial assets included in prepayments, deposits and other receivables (note 25)	**–**	68
Due from subsidiaries (note 21)	**788,479**	846,261
Cash and bank balances (note 26)	**64**	218
	788,543	846,547

Financial liabilities

	Other payables and accruals	
	2012	2011
	RMB'000	RMB'000
Other payables and accruals (note 30)	**26**	351

41. FAIR VALUE

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

Group

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Financial asset included in long term prepayments and deposit	**24,643**	24,000	**22,262**	20,879
Cash and bank balances	**1,039,348**	981,779	**1,039,348**	981,779
Pledged deposits, current portion	**120,380**	47,483	**120,380**	47,483
Pledged deposits, non-current portion	**5,904**	165	**5,904**	165
Trade and bills receivables	**1,385,829**	803,321	**1,383,166**	802,541
Financial assets included in prepayments, deposits and other receivables	**88,459**	62,870	**88,459**	62,870
	2,664,563	1,919,618	**2,659,519**	1,915,717
Financial liabilities				
Trade and bills payables	**863,623**	666,583	**863,623**	666,583
Financial liabilities included in other payables and accruals	**112,490**	48,680	**112,490**	48,680
Interest-bearing bank loans and other borrowings	**2,498,222**	2,167,105	**2,496,754**	2,165,986
Derivative financial instruments	**3,784**	–	**3,784**	–
Short-term notes	**301,216**	–	**301,216**	–
	3,779,335	2,882,368	**3,777,867**	2,881,249

41. FAIR VALUE (continued)

Company

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Cash and bank balances	**64**	218	**64**	218
Financial assets included in prepayments, deposits and other receivables	**–**	68	**–**	68
Due from subsidiaries	**788,479**	846,261	**788,479**	846,261
	788,543	846,547	**788,543**	846,547
Financial liabilities				
Other payables and accruals	**26**	351	**26**	351

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

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

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

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and other borrowings, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces prudent strategies on its risk management. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

(a) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans and government loans with floating interest rates.

The Group regularly reviews and monitors the mix of fixed and floating interest rate borrowings in order to manage its interest rate risk. Interest-bearing loans, cash and short term deposits are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to the statement of comprehensive income as earned/incurred.

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

If there would be a general increase/decrease in the interest rate of bank loans and other borrowings with floating interest rates by one percentage point, with all other variables held constant, the consolidated operating results would have been decreased/increased by approximately RMB16.7 million (2011: RMB10.4 million), and there is no impact on other components of the consolidated equity, except for retained profits, of the Group.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales by operating units in currencies other than the units' functional currencies. Approximately 27% (2011: 52%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale.

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

Effect on profit before tax

		2012	2011
		RMB'000	RMB'000
Increase in the US dollar rate of	3%	**3,881**	22,254
Decrease in the US dollar rate of	3%	**(3,881)**	(22,254)

(c) Credit risk

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

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 24.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Liquidity risk

The Group's objective is to ensure continuity of sufficient funding and flexibility by utilising a variety of bank loans and other borrowings with debt maturities spreading over a range of periods, thereby ensuring that the Group's outstanding borrowing obligation is not exposed to excessive repayment risk in any one year. Due to the capital intensive nature of the Group's businesses, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure. With regard to its future capital commitments and other financing requirements, the Group has already obtained banking facilities with several banks of up to an amount of RMB6,256 million as at 31 December 2012, of which an amount of approximately RMB1,725 million has been utilised.

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

	31 December 2012			
	On demand	**Less than 1 year**	**Over 1 year**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Trade and bills payables	**–**	**863,623**	**–**	**863,623**
Other payables	**–**	**112,490**	**–**	**112,490**
Interest-bearing bank loans and other borrowings	**–**	**959,519**	**1,746,206**	**2,705,725**
Derivative financial instruments	**–**	**3,784**	**–**	**3,784**
Short-term notes	**–**	**301,216**	**–**	**301,216**
	–	**2,240,632**	**1,746,206**	**3,986,838**

	31 December 2011			
	On demand	Less than 1 year	Over 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	–	666,583	–	666,583
Other payables	–	48,680	–	48,680
Interest-bearing bank loans and government loans	–	1,493,056	781,527	2,274,583
	–	2,208,319	781,527	2,989,846

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise Shareholders' value.

The Group monitors capital using a gearing ratio, which is total debts, which are defined to include payables incurred not in the ordinary course of business, divided by total assets. Total debt includes interest-bearing bank loans and other borrowings short-term notes, and government grants. The gearing ratios as at the end of the reporting periods are as follows:

	2012 RMB'000	2011 RMB'000
Interest-bearing bank loans and other borrowings (note 28)	**2,498,222**	2,167,105
Government grants (note 33)	**96,082**	34,153
Short term notes (note 32)	**301,216**	–
Total debts	**2,895,520**	2,201,258
Total assets	**6,780,794**	5,430,717
Gearing ratio	**42.7%**	40.5%

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2013.

FIVE-YEAR FINANCIAL SUMMARY

SUMMARY FINANCIAL INFORMATION

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

Results

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**3,925,995**	3,376,865	1,681,473	2,825,736	2,624,639
Cost of sales	**(3,259,406)**	(2,866,517)	(1,417,097)	(2,183,831)	(2,087,689)
Gross profit	**666,589**	510,348	264,376	641,905	536,950
Other income and gains	**108,341**	68,972	11,466	35,574	6,430
Selling and distribution expenses	**(88,493)**	(71,023)	(42,765)	(87,628)	(57,172)
Administrative expenses	**(217,285)**	(165,925)	(115,984)	(79,940)	(90,033)
Other expenses	**(5,566)**	(3,087)	(3,807)	(827)	(4,000)
Finance costs	**(77,361)**	(65,196)	(22,731)	(41,893)	(65,186)
Changes in fair value of derivative financial instruments	**(3,784)**	–	–	–	–
Exchange (loss)/gain, net	**(1,717)**	5,413	(1,576)	(1,784)	(9,021)
Profit before tax	**380,724**	279,502	88,979	465,407	317,968
Income tax expense	**(70,646)**	(48,775)	(18,742)	(64,389)	(42,504)
Profit for the year	**310,078**	230,727	70,237	401,018	275,464
Other comprehensive income for the year	**(719)**	(2,578)	(8,867)	(18)	1,925
Total comprehensive income for the year	**309,359**	228,149	61,370	401,000	277,389
Earnings per share (RMB) – basic	**0.31**	0.23	0.07	0.53	0.37

Assets and Liabilities

	31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**2,946,653**	1,945,542	1,270,794	880,325	634,136
Current assets	**3,834,141**	3,485,175	2,344,544	1,453,896	1,344,639
Current liabilities	**(2,586,061)**	(2,464,354)	(1,344,832)	(999,519)	(1,263,457)
Non-current liabilities	**(1,734,443)**	(768,707)	(279,489)	(382,771)	(114,681)
Total Equity	**2,460,290**	2,197,656	1,991,017	951,931	600,637

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