Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited

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

Overcoming Headwind
Sailing Ahead

ANNUAL REPORT 2013

CONTENTS

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. The Group's steel pipes are mainly used for energy transmission including oil and gas transmission pipelines, deep sea pipelines, city gas networks, and petrochemicals, mining, infrastructure construction, steel structures and water utilities industries.

The Group's production bases are located in Panyu, Zhuhai, Jiangyin, Lianyungang, Saudi Arabia (under construction) and Dubai, with 6 longitudinal submerged arc-welded ("LSAW"), 2 spiral submerged arc-welded ("SSAW") and 1 electric resistance welded ("ERW") production lines with a combined annual production capacity of 2,710,000 tonnes as at 31 December 2013.

The Group is an industry pioneer, strong in research and development, holding 51 patents (including 5 invention patents) and 10 international certificates 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 a core supplier of Shell and a qualified supplier of Petrobras. The Group is the only welded steel pipe manufacturer in China that has received five national honours and awards, including "Gold Cup Prize for Actual Quality of Metallurgical Products", "China Well-known Trademark", "National-recognised Enterprise Technology Centre", "High and New Technology Enterprise", and "Academician Workstation" and the Group is the main drafter of the national standard for longitudinal welded steel pipes in China.

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Mr CHEN Ping
Mr LIANG Guo Yao
Mr SEE Tak Wah

REGISTERED OFFICE

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

COMPANY SECRETARY

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr CHEN Chang
Ms CHEN Zhao Nian

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Qinghe Road
Shiji Town
511450 Panyu District
Guangzhou City
Guangdong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite Nos 1, 2 and 19
15th Floor, Tower 3
China Hong Kong City
33 Canton Road
Tsim Sha Tsui, Kowloon
Hong Kong

AUDITOR

Ernst & Young

STOCK CODE

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 (HK) LLP

PRINCIPAL BANKERS

In Hong Kong:

Australia and New Zealand Banking Group Limited
Bank of China (Hong Kong) Limited
China Citic Bank International Limited
China Development Bank Corporation
Deutsche Bank AG
Standard Chartered Bank (Hong Kong) Limited
The Royal Bank of Scotland N.A., (Hong Kong) Branch

In the PRC:

Australia and New Zealand Bank (China)
Bank of China Limited
Bank of Communications
China Construction Bank
China Everbright Bank
China Guangfa Bank
China Merchants Bank
Industrial and Commercial Bank of China
Ping An Bank Co Ltd
Shanghai Pudong Development Bank
Societe Generale
The Export-Import Bank of China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, 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
Level 22, Hopewell Center
183 Queen's Road East
Hong Kong

CHAIRMAN'S STATEMENT

OVERCOMING HEADWIND; SAILING AHEAD

Dear Shareholders,

On behalf of the Board, I would like to present to you the audited consolidated annual results of the Group for the year ended 31 December 2013.

In the difficult and challenging year of 2013, the Group managed to report a turnover of approximately RMB2,027.1 million, down by approximately 48.4% as compared with that of 2012 (2012: RMB3,926.0 million). Profit attributable to equity holders of the Company declined by approximately 86.7%, to approximately RMB41.5 million (2012: RMB311.2 million). Earnings per share were approximately RMB0.04, declined by approximately 87.1% as compared with that of 2012 (2012: RMB0.31). The Board did not recommend the payment of final dividend for the year ended 31 December 2013.

During the year under review, the aftermath of the changes in the leadership in the PRC government led to delays in bidding processes of a number of pipeline projects further adversely affected the performance of our sales in 2013, though we have seen some good signs of gradual restoration. The declined results of 2013 were mainly attributable to the decrease in sales order. We expect the downturn to be temporary. The Group will continue to drive forward and prepare to cope with the overall development and to capture the ever-growing market demand. The Group is committed to enhancing its integrated strengths, adhering to a strategy of product diversification, further expanding the scale of production and strengthening our leading position in the industry.

POISED FOR FUTURE GROWTH

Despite the fact that the year of 2013 was a setback year for the industry, we believe the frost has gradually dispersed and the situation has been restored to normal. In 2013, the Group has reached three milestones: 1) the completion of our self-owned and self-operated wharf in Zhuhai, which is part of the phase two development of our Zhuhai plant, including a SSAW production line and the relocation of the JCOE-LSAW (infrastructure pipes) production line from Panyu to Zhuhai; 2) the purchase of land in Lianyungang for the construction of a steel plate processing production line; and 3) the change of permitted use of a piece of land in Panyu, which involved 27% of the total land area of our Panyu production site, from industrial use to commercial use.

The Group currently operates six separate LSAW production lines in four locations in the PRC with a total annual capacity of 1.9 million tonnes of LSAW steel pipes. Together with two SSAW and one ERW production lines, the Group's total annual capacity of welded steel pipes is now at 2.71 million tonnes. Based on the current production capacity, the Company is now the largest LSAW manufacturer in the PRC. Both of our new production plants located in Lianyungang and Zhuhai are now in operation and house state-of-the-art production lines, including our in-house invention of COE-LSAW production lines, the pre-welding and precision welding SSAW and the JCOE-LSAW production line, which is capable of manufacturing deep-sea welded steel pipes for offshore deep-sea oil and gas transmission.

Our Zhuhai production plant is strategically located in Gaolangang Port, Zhuhai, equipped with self-operated wharf and enjoyed a geographical advantage as being neighboured with the China National Offshore Oil Corporation's ("CNOOC") marine resources production plant, so as to ride on the future development of marine resources of the nation. When completed in March 2014, our wharf will occupy a coastal line of 210m and have two berths with a handling capacity of 1.1 million tonnes of throughput each year. It will further enhance our efficiency in delivery and transportation of raw materials. The Group will benefit from possessing our own logistics and storage facilities, enabling us to improve our cost management capability and catering our customers' needs, which will in turn further enhance our competitive advantages.

The development of our Lianyungang production plant is smoothly on track. Benefited from its geographical location and facilities, we have poised for strong pace for the future development of our overseas business. Our Lianyungang SSAW production team has fulfilled all production requirements and made timely deliveries, which further strengthened our reputation in the international market of SSAW pipes. In late 2013, the Lianyungang production plant successfully made delivery of steel pipes for a Nigeria gas project. Furthermore, the Company has acquired another block of land adjacent to the Group's existing production base of Lianyungang. It paves way for upstream expansion of our steel plate processing operation which is expected to commence operation in 2015. We believe such vertical integration will enhance the Group's integrated strength and reinforce our leading position as the largest and the most technologically advanced steel pipe maker in the PRC.

In the first half of 2013, the Group completed the change of land use in Panyu. The permitted use of a piece of land of a total site area of 125,000 square metres, or 27% of the total site area of our Panyu site, has been converted from industrial use to commercial use. We believe the surrounding areas of the Panyu production plant will be developed into a central business district in the near future, therefore, the land value and the development potential of the land shall rise accordingly. The management of the Company will carefully consider all options in terms of the best interest of the shareholders, on the future arrangement of the converted land. The converted land as well as the existing Panyu production plant are located near the heart of the district of Panyu and close to highway, subway and high-speed train routes. We believe, the potential value of the land will be realised progressively in the years to follow. As of the end of 2013, the converted land use right was valued at RMB2.2 billion, based on the valuation provided by independent valuer.

By end of 2014, the Group's first overseas production line of LSAW steel pipes is expected to commence operation. By then, the brand of "PCK" will become more famous in the areas of Middle East, and should lead to more business opportunities. The Company is also opening its first office in Indonesia to expand its business sales network.

TECHNOLOGY ADVANCEMENT

Subsequent to the introduction of deep-sea welded steel pipe in our product offering in 2012, the Company advanced even further technically by launching clad pipes to the market during 2013. Clad pipe is a combination of stainless steel (inner layer) and carbon steel (outer layer) that can be used in resource exploration/exploitation projects of crude oil and gas and corrosive spectrum. Clad pipe is an ideal solution for complex hydraulic pressure sealing, mechanical lining complex, steel pipe welding and other technical problems. Our clad pipes satisfy the qualification requirements of API 5LD (2009), DNV OS F101 (2005) and technical specification requirements of clad pipes after an examination by the National Quality Supervision and Inspection Center Oil Pipe and China National Petroleum Corporation ("CNPC") Tubular Goods Research Institute. Clad pipes are widely used in corrosive environments, including oil exploration, water transmission, gas transmission, petrochemicals, food industry, transmission of corrosive spectrum, seawater desalination and drinkable water transportation.

Our newly promoted product of SSAW steel pipes have been used in the construction of the Hong Kong-Zhuhai-Macao Bridge and thick walled grouting borehole SSAW for the water transmission project in Lianyungang.

PROSPECT AND GO FORWARD

Owing to the delays and slow-downs of tendering activities in the PRC in 2013, we reasonably foresee the demand of steel pipes would come back at a stronger pace. In the PRC, the domestic demand will increase in line with the commencement of various natural gas, coal-to-gas and offshore oil and gas projects, which all shall be completed within the duration of 12th Five-Year Plan.

We expect the demand of steel pipe will surge in the coming years, as the Chinese government encourages the use of gas for power generation in order to reduce the use of coal. As for now, China is in the midst of introducing the use of more natural gas as energy sources, together with the newly approved coal-to-gas projects, which are mainly located in Xinjiang in Western China. The Chinese government is aiming to transmit those gases from their origins to Eastern China and the project shall commence and complete within the duration of 12th Five-Year Plan, with further development expected on natural gas and shale gas under the 13th Five-Year Plan.

CHAIRMAN'S STATEMENT

It is anticipated that two major national pipeline projects will continue and commence construction at full speed this year, namely the West-East Gas Pipeline III, which is owned by CNPC with construction commenced at the end of 2012 and aims to begin operation within 2015, as well as the government-approved coal-to-gas project of Xinjiang-Guangdong-Zhejiang of China Petroleum and Chemical Corporation ("Sinopec"). The Company has a long history of business relationships with CNPC and Sinopec, and with our advanced technology in steel pipe manufacturing and our high quality products, we are confident that we can participate in these future developments, especially the southern sections of the pipeline projects. Meanwhile, the Chinese government has also named the project for renewing old pipes and it represents a good business opportunity for the industry.

Recently, the Chinese government declared marine resources exploration as a key strategy and solution for energy consumption in the future with various energy cooperation and natural gas steel pipe construction agreements having been signed with other countries. We believe that the strategic location of our production plant in Zhuhai will enable us to attract more sales for deep sea welded steel pipes. Through our strong capability in research and development on offshore oil and gas pipes, we will continue to enhance our products to fulfil the needs of the PRC.

For our overseas business, the Group has been actively expanding its scale of overseas sales. At present, we have accumulated over 800 customers across 56 countries worldwide and involved in mining projects in South America, oil sand project in Canada and the Sino-Russian natural gas transmission project. We believe the demand for high quality steel pipes for the use of gas and oil transmission and other applications will remain strong.

As the leader and pioneer of the industry in terms of our production capacity, quality and technological advancement, we share a major responsibility of rolling out advanced products to keep up with the needs of modern applications. We also have a strong vision of supporting the development of the PRC by supplying first-class steel pipes. Through our Academician Workstation, we shall continue our efforts in developing new and advanced products that allow the Group to retain its industry pioneer position in China as well as gaining further international recognition. In the future, we will continue to enhance our existing integrated strengths with our strategies of "Product Diversification" and "Integration of Steel Plate and Pipe", to embrace the future growth in the industry and to promote the brand name of PCK as an international top-class steel pipe maker.

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 years to come, further realising the mutual growth of both the enterprise and employees and sharing our brilliant success with our shareholders.

Chen Chang
Chairman

Panyu, Guangdong Province, China
28 March 2014

AWARDS AND RECOGNITIONS

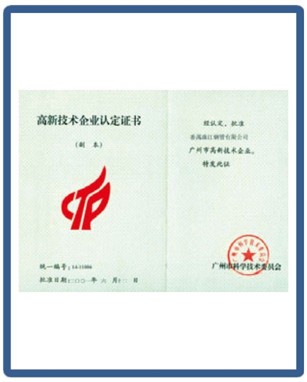
The Group is strong in research & development and has numerous awards and recognitions:

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

2005/Renewed in 2011/2012
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 2011/2012
Gold Cup Prize for Actual Quality of Metallurgical Products*
– ERW
(China Iron & Steel Association*)



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

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

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

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

* Unofficial transliteration from Chinese name for identification purposes only

AWARDS AND RECOGNITIONS

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

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

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

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

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

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

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

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

* Unofficial transliteration from Chinese name for identification purposes only.

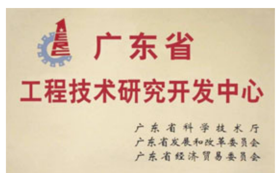
2009
Guangdong Province Patent Excellence Award* (Three-roller forming technology and equipment*)
(Guangdong Provincial Bureau of Personnel & Intellectual Property Office of Guangdong Province*)

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

2009/Renewed in 2013
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/Renewed in 2013
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-recognised Enterprise Technology Centre*
(National Development and Reform Commission*, Science and Technology Department*, Finance Department*, General Administration of Customs*, State Administration of Taxation*)

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

* Unofficial transliteration from Chinese name for identification only.

AWARDS AND RECOGNITIONS

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*)

2013
Science Technological 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 received numerous international quality certifications.






1996/Renewed in 2010/2013

ISO9001

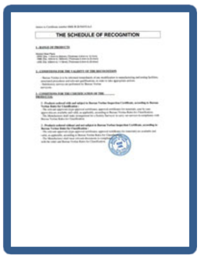
(Hong Kong Quality Assurance Agency)

1999/Renewed in 2010/2013

CE

(Lloyd's Register of Shipping)





2006/Renewed in 2010/2011

DNV

(Det Norske Veritas)

2002/Renewed in 2009/2010

BV

(Bureau Veritas)

1996/Renewed in 2011/2014

API

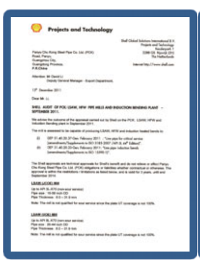
(American Petroleum Institute)



2004/Renewed in 2010/2013

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.

Selected Onshore Projects for LSAW Pipe

Projects	Quantity sold (MT)	Year
Hangzhou Natural Gas Project, China	4,500	2013–2014
Yizheng — Changling Crude Oil Pipeline, Yizheng — Jiujiang section, SINOPEC, China	6,013	2013–2014
LNG Pipeline Project, Phase II, SINOPEC, China	8,348	2013–2014
LNG Pipeline Project, Phase II, Guangxi Natural Gas Pipeline Project, China	1,078	2013–2014
ADCO, Abu Dhabi, United Arab Emirates	2,135	2013–2014
Suzhou Baorun Gas Project, China	6,033	2013–2014
Jiangyin City Heat Supply Network Southeast Pipeline Project, China	5,200	2013
Gathering Pipeline, CNPC, China	3,300	2013
X90M Small Batch Trial Project, CNPC, China	400	2013
Siping — Baishan Gas Pipeline Project, CNPC, China	12,600	2013
Sichuan — East Gas Pipeline, Jiangsu Yutai Section, Jiangsu Natural Gas Project, China	4,200	2013
Zhoushan Fishing Island Oil Depot Project, CNPC, China	10,600	2013
Shanxi Zhongli Flange Project, China	500	2013
Jincheng – Houma pipeline project, Qinshui – Duanshi section, Shanxi Qinshui Guoxin Coalbed Gas Project, China	2,800	2013
The Hong Kong — Zhuhai — Macau Bridge Project, Hong Kong	3,600	2013
Provincial Gas Transmission Pipeline Project to Nakhon Ratchasima, PTT, Thailand	28,825	2013
Shell, Canada	1,000	2013
Indonesia Project, Indonesia	380	2013
Chemical Industry Project, China	4,800	2013
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 Phase 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

Selected Onshore Projects for LSAW Pipe (continued)

Projects	Quantity sold (MT)	Year
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
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

TRACK RECORDS

Selected Onshore Projects for LSAW Pipe (continued)

Projects	Quantity sold (MT)	Year
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

Selected Offshore Projects for LSAW Pipe

Projects	Quantity sold (MT)	Year
Huangyan and The Surrounding Gas Rolling Development Project, Phase I, North of Huangyan Oil and Gas Field Group, CNOOC, China	11,620	2013–2014
Zhanjiang South Sea Oil Offshore Construction Project, China	800	2013
Yong-Tai-Wen Gas Project, Longwan Branch Pipeline, Zhejiang Natural Gas Project, China	850	2013
Shell, Nigeria	1,800	2013
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

Selected Projects for SSAW Pipe

Projects	Quantity sold (MT)	Year
Cross Sea Bridge Project, Lianyungang City, China	1,700	2013
Hong Kong — Zhuhai — Macau Bridge Project, Hong Kong	838	2013
City Heat Supply Network Southeast Pipeline Project, China	7,300	2013
NNPC, Nigeria	9,940	2013
Jiangsu Water Network Project, China	8,000	2013
Hainan LNG Station Transmission Pipeline Project, CNOOC, China	3,000	2012–2013
Lianyugang Water Pipeline Project, Phase I, China	2,200	2012

Selected Projects for ERW Pipe

Projects	Quantity sold (KM)	Year
OGDCL, Pakistan	15	2014
Santos, Australia	212	2013–2014
Pipeline Crossing Project, Sinopec, China	4.1	2013
Southern China Project, SINOPEC, China	25	2013
Hainan Natural Gas Project, CNOOC, China	2.9	2013
Jian Rong Foundation Project, Hong Kong	3.6	2013
Guangxi PetroChina Kunlun Natural Gas Project, CNPC, China	52	2013
Chongqing Gas Project, China	102	2013
Jiangxi Oil Pipeline Project, Phase II, SINOPEC, China	10	2013
Mexican Project, Mexico	155	2013
Hongkong Tunnel project, Hong Kong	3,445 (MT)	2013
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, Phase 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

TRACK RECORDS

Selected Projects for ERW Pipe (continued)

Projects	Quantity sold (KM)	Year
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 providing 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 X100 standard. We are also accredited 10 international quality certifications such as Det Norske Veritas ("DNV") and American Petroleum Institute ("API"). In addition, we are the first and the sole PRC manufacturer that has successfully developed deep sea welded pipes for use under 1,500m water depth. Our products are widely applicable to 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 in the Offshore Engineering Equipment Industry* (海洋工程裝備製造業) during the 12th Five-Year Plan. During the year, the Group received support from the PRC government in the form of subsidies and bank loans with preferential interest rates from policy banks such as China Development Bank, The Export-Import Bank of China, as well as export policy support from China Export & Credit Insurance Corporation.

The Group received new orders of approximately 278,000 tonnes during 2013 and approximately 27% were received from the three major oil and gas companies in China. The Group delivered approximately 337,000 tonnes of welded steel pipes during 2013. Subsequent to 2013, the Group received major sales contracts of approximately 82,000 tonnes with total contract value of approximately RMB478 million.

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 72.6% of our total revenue for the year ended 31 December 2013. For the year ended 31 December 2013, revenue from the sales and manufacturing service of LSAW steel pipes amounted to approximately RMB1,440.3 million and RMB32.2 million, respectively, representing a decrease of approximately 58.8% and an increase of 26.9%, respectively, as compared to that for the year ended 31 December 2012. The decrease in sales of LSAW steel pipes was mainly due to the delay in the opening of the bidding processes of a number of pipeline projects in the PRC and overseas.

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Revenue contribution from the manufacturing service of LSAW steel pipes increased as compared with 2012 while the absolute amount of manufacturing service of LSAW steel pipes in 2013 was similar as compared with that of 2012.

SSAW Steel Pipes

Our SSAW steel pipes are produced in our plant in Lianyungang using the pre-welding and precision welding SSAW technique, which is the most advanced standard among all SSAW technologies. Revenue of approximately RMB136.8 million was recorded from the sale of SSAW steel pipes during the year ended 31 December 2013. The total revenue from SSAW steel pipes accounted for approximately 6.8% of the total revenue for the year ended 31 December 2013. We expect robust demand for SSAW steel pipes for oil and gas transmission under China's 12th Five-Year Plan and for infrastructure use under urbanisation plan in China.

ERW Steel Pipes

Market competition of ERW steel pipes has been very keen due to its relatively low technical and standardised requirements. For the year ended 31 December 2013, revenue from the sales and manufacturing service of ERW steel pipes amounted to approximately RMB249.5 million and RMB6.0 million, respectively. The total revenue from ERW steel pipes accounted for approximately 12.6% of the total revenue for the year ended 31 December 2013.

Second Phase of Zhuhai Production Base in operation

The 300,000 tonnes SSAW production line in Zhuhai has commenced production in the third quarter of 2013. Together with the self-owned and self-operated wharf in Zhuhai which has commenced operation in March 2014, the Group can provide one-stop service to customers. The SSAW steel pipes produced in Zhuhai are of length of 150m, diameter of 7m and thickness of 230mm, suitable for use in construction of offshore platform structures and infrastructure projects. The 300,000 tonnes JCOE-LSAW (infrastructure pipes) production line has been relocated from Panyu to Zhuhai production base in late 2013.

Change of Land Use in Panyu

In May 2013, the Group had completed the process of changing the permitted use for a piece of land (the "Land") in its production facility in Panyu, Guangdong Province from industrial use into commercial use. The Land has a total site area of approximately 125,000 square metres and a permitted construction area of approximately 401,000 square metres, which accounts for approximately 27 per cent of the total site area of approximately 461,000 square metres.

MANAGEMENT DISCUSSION AND ANALYSIS

After the change of land use, the Land was valued at RMB2 billion at 30 June 2013 (according to a valuation report of RHL Appraisal Limited, an independent valuer). The market value of the Land as at 31 December 2013 (according to RHL Appraisal Limited's later valuation report) was RMB2.2 billion. The increase in valuation of RMB196.5 million was recorded as change in value of investment property and credited to the profit or loss of the Group for the year ended 31 December 2013.

The Group currently has no specific plan in developing the Land. The Company will make an announcement if any specific plan is materialised.

Acquisition of Screw-thread Steel Business

In May 2013, the Group acquired the entire equity interest in Nanjing Rongyu Group Company Limited* (南京鎔裕集團), Nanjing Rongyu Group Market Management Company Limited* (南京鎔裕集團市場管理有限公司) and Nanjing City Xixia Hill Roll Steeling Company Limited* (南京市棲霞山軋鋼有限公司), (collectively the "Nanjing Rongyu Group") from four independent third parties. Nanjing Rongyu Group is principally engaged in the manufacture and sales of screw-thread steel that is mainly used as construction materials of buildings, bridges and roads. The consideration for the acquisition was approximately RMB80 million. The Group has commenced production and sale of screw-thread steel since completion of the acquisition during the year.

FINANCIAL REVIEW

Revenue and gross profit

For the year ended 31 December 2013, our revenue was approximately RMB2,027.1 million, representing a decrease of approximately RMB1,898.9 million or 48.4% as compared with that of 2012. The decrease in revenue was mainly attributable to the delay in the opening of the bidding processes of a number of pipeline projects in the PRC and overseas, which led to a decrease in both domestic and export sales orders received by the Group.

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:

	2013		2012	
	Revenue RMB'000	**% to total**	Revenue RMB'000	% to total
Sales of steel pipes				
LSAW steel pipes	**1,440,276**	**71.0**	3,495,594	89.0
SSAW steel pipes	**136,835**	**6.8**	–	–
ERW steel pipes	**249,455**	**12.3**	319,502	8.1
Subtotal	**1,826,566**	**90.1**	3,815,096	97.1
Manufacturing services				
LSAW steel pipes	**32,166**	**1.6**	25,342	0.7
ERW steel pipes	**6,037**	**0.3**	9,084	0.2
Subtotal	**38,203**	**1.9**	34,426	0.9
Others	**162,288**	**8.0**	76,473	2.0
Grand total	**2,027,057**	**100.0**	3,925,995	100.0

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	2013			2012		
	Gross profit RMB'000	**Sales volume tonnes**	**Average gross profit RMB/tonne**	Gross profit RMB'000	Sales volume tonnes	Average gross profit RMB/tonne
Sales of steel pipes						
LSAW steel pipes	**240,310**	**240,895**	**998**	590,011	448,656	1,315
SSAW steel pipes	**6,316**	**23,925**	**264**	–	–	–
ERW steel pipes	**33,480**	**40,025**	**836**	27,824	57,650	483
Subtotal	**280,106**	**304,845**		617,835	506,306	
Manufacturing services						
LSAW steel pipes	**16,307**	**15,259**	**1,069**	14,036	13,853	1,013
ERW steel pipes	**384**	**16,655**	**23**	194	8,176	24
Subtotal	**16,691**	**31,914**		14,230	22,029	
Others	**16,147**	**N/A**	**N/A**	34,524	N/A	N/A
Grand total	**312,944**	**336,759**		666,589	528,335	

The revenue generated from the sales of steel pipes accounted for approximately 90.1% of our total revenue in 2013 as compared with approximately 97.1% in 2012. Steel pipe manufacturing services accounted for approximately 1.9% of our total revenue in 2013 as compared with approximately 0.9% in 2012. The revenues denoted by "Others" mainly represented the sales of screw thread steel, sales of steel fittings, trading of equipment and sales of scrap materials which accounted for approximately 8.0% of our total revenue in 2013 as compared with approximately 2.0% in 2012.

Gross profit for 2013 was approximately RMB312.9 million, representing a decrease of approximately 53.1% or RMB353.6 million as compared with approximately RMB666.6 million in 2012. Gross profit margin for 2013 was approximately 15.4% which was lower than approximately 17.0% of last year due to the increase in sales for city gas projects with lower profit margin in 2013. In addition, the Group has delivered deep sea welded steel pipes with higher profit margin in 2012.

Selling price of steel pipes is calculated based on a cost-plus pricing model, i.e., price of the raw materials (in particular steel plate and steel coil) marked up with processing fees. Hence, the impact of market price fluctuation of raw materials can be excluded in the analysis of average gross profit per tonne.

The average gross profit per tonne for LSAW steel pipes decreased by approximately 24.1% from approximately RMB1,315 in 2012 to approximately RMB998 in 2013. This was attributable to the sale of deep sea welded pipes with higher profit margin last year and sale of steel pipes for city gas projects with lower operational efficiency this year.

The average gross profit per tonne for ERW steel pipes was approximately RMB836 in 2013 as compared with gross profit per tonne of approximately RMB483 in 2012. Such increase was due to the fact that the Group delivered ERW pipes for the Oman Project and other overseas projects with higher profit margin this year.

As to the manufacturing services, the average gross profit per tonne for manufacturing services of LSAW steel pipes was similar as compared with last year.

Our domestic sales accounted for approximately 82.4% of our total revenue in 2013, as compared to approximately 72.9% in 2012. Although there was delay in the bidding schedules of the national projects, the Group is able to obtain orders for numerous city gas projects in order to maintain its market share. Furthermore, the construction of the first long distance coal slurry pipeline in Shenwei, PRC also boosted our domestic sales.

MANAGEMENT DISCUSSION AND ANALYSIS

SALES BY GEOGRAPHICAL AREAS

	2013		2012	
	RMB'000	**% to total**	RMB'000	% to total
Overseas sales	**355,848**	**17.6**	1,063,232	27.1
Domestic sales	**1,671,209**	**82.4**	2,862,763	72.9
Total	**2,027,057**	**100.0**	3,925,995	100.0

CHANGE IN FAIR VALUES OF INVESTMENT PROPERTIES

In 2013, the Group has changed its accounting policy to change the measurement method of investment properties to fair values. Accordingly, gains or losses arising from the changes in the fair values of investment properties are reflected in profit or loss for the year. The Group has engaged RHL Appraisal Limited, an independent valuer, to value the investment properties. According to the valuation report as at 31 December 2013 issued by RHL Appraisal Limited, the market value of the investment properties as at 31 December 2013 was RMB2.2 billion. There was an increase in fair values of investment properties of approximately RMB196.5 million and was credited to profit or loss in 2013.

OTHER INCOME AND GAINS

Other income in 2013 mainly represents bank interest income and subsidy income from the PRC government. Other income and gains increased by approximately 116.0% or RMB119.3 million from approximately RMB102.8 million in 2012 to approximately RMB222.1 million in 2013. Increase in other income was mainly due to (i) the increase in government subsidies and (ii) increase in fair value of derivative financial instruments. These government subsidies were mainly related to awards for the Group's investment in Lianyungang and to awards to the Group's Zhuhai's production base as Offshore Engineering Equipment Industry* (海洋裝備製造業).

Net gain on increase in fair value of derivative financial instrument was approximately RMB16.9 million (2012: loss RMB3.8 million. For more details, please refer to the section headed "Changes in fair value of derivative financial instruments" below.

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SELLING AND DISTRIBUTION COSTS

Selling and distribution costs increased by approximately 48.6% or RMB43.0 million from approximately RMB88.5 million in 2012 to approximately RMB131.5 million in 2013. The increase was mainly due to the increase in transportation expenses for some major domestic sales projects.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by approximately 55.3% or RMB120.3 million from approximately RMB217.2 million in 2012 to approximately RMB337.5 million in 2013. The increase was primarily due to the increase in research and development expenses and the increase in salaries and wages and office expenses for the newly set up production bases in Zhuhai and Lianyungang. In order to qualify as a High Technology Enterprise and maintain the status of high technology steel pipe manufacturer, the Group has allocated more resources on the research and development of clad pipes, pipes for transmission of nuclear reactors, X-100 steel pipes, steel pipes for construction of offshore platform structure and deep sea pipes for use at a water depth of 3,000 m.

FINANCE COSTS

Finance costs increased by approximately 124.6% or RMB96.4 million from approximately RMB77.4 million in 2012 to approximately RMB173.8 million in 2013. The effective interest rate in 2013 was approximately 3.0% (2012: 2.8%). The increase in finance costs was mainly due to the increase in average borrowing balance to finance both the working capital and capital expenditure of the Group.

CHANGES IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group entered into a cross currency swap contract with a financial institution in 2011 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 RMB17.3 million (2012: RMB3.7 million) was credited to profit or loss in 2013. 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 RMB0.4 million (2012: RMB0.06 million) was debited to profit or loss in 2013. The net gain on increase in fair value of derivative financial instrument was RMB16.9 million.

INCOME TAX EXPENSES

Income tax expenses decreased by approximately 42.9% or RMB30.4 million from approximately RMB70.9 million in 2012 to approximately RMB40.4 million in 2013. The decrease was mainly due to the decrease in our profit before tax. Panyu Chu Kong Steel Pipe Company Limited ("PCKSP"), a wholly-owned subsidiary of the Company, was qualified as High Technology Enterprise and entitled to a reduced tax rate of 15% in 2013 (2012: 15%). The Group's effective tax rate for 2013 was approximately 49.4% which was higher than that of 2012 of approximately 18.5%. This was mainly due to the fact that (i) some of the subsidiaries ceased to enjoy a 50% tax exemption from 2013 onwards; and (ii) the Lianyungang and Zhuhai production bases were subject to income tax at a standard rate of 25% (2012: 25%).

PROFIT FOR THE YEAR

As a result of the factors discussed above, our profit decreased by 86.7% or RMB269.7 million from approximately RMB311.2 million in 2012 to approximately RMB41.5 million in 2013. Net profit margin decreased from 7.9% in 2012 to 2.0% in 2013.

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 2012 and 2013:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Net cash flows (used in)/from operating activities	**(559,900)**	586,885
Net cash flows used in investing activities	**(1,551,103)**	(1,021,648)
Net cash flows from financing activities	**2,681,083**	493,050
Net increase in cash and cash equivalents	**570,080**	58,287

MANAGEMENT DISCUSSION AND ANALYSIS

NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES

The Group's net cash flows from operating activities changed from an inflow of approximately RMB586.9 million in 2012 to an outflow of approximately RMB559.9 million in 2013. The net cash outflows from operating activities were primarily due to the combined effect of (i) operating profit before changes in working capital of approximately RMB133.8 million, (ii) increase in inventories of approximately RMB307.2 million and (iii) decrease in trade and bills receivables, prepayments and deposit, trade and bills payables, other payables of approximately RMB365.2 million resulted from the decrease in sales for the year ended 2013 as compared with that of 2012.

NET CASH FLOWS USED IN INVESTING ACTIVITIES

The Group's net cash flows used in investing activities increased from approximately RMB1,021.6 million in 2012 to approximately RMB1,551.1 million in 2013. The net cash outflows were mainly due to the capital expenditure for the production bases in Lianyungang and Zhuhai, acquisition of Nanjing Rongyu Group and premium paid for the change of land use in Panyu during the year.

NET CASH FLOWS FROM FINANCING ACTIVITIES

The Group's net cash flows from financing activities increased from approximately RMB493.1 million in 2012 to approximately RMB2,681.1 million in 2013. The net cash inflows were mainly resulted from the combined effect of (i) borrowing of new interest bearing loans and other borrowings of approximately RMB5,179.2 million and (ii) repayment of bank loans and government loans and finance lease of approximately RMB2,211.4 million.

EXCHANGE RISK EXPOSURE

The Group mainly operates in the PRC and most of its operating transactions are settled in Renminbi except for export sales which are mostly denominated in US dollar. Most of its assets and liabilities are denominated in Renminbi. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect that future currency fluctuations would 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 into by the Group in 2011, the Group did not adopt formal hedging policies nor instruments of foreign currency for hedging purposes during the year ended 31 December 2013.

CAPITAL EXPENDITURE

For the year ended 31 December 2013, the Group invested approximately RMB1,551.1 million for the purchase of property, plant and equipment and for payment of the premium of change of land use in Panyu. These capital expenditures were fully financed by internal resources and bank borrowings.

CONTINGENT LIABILITIES

As at 31 December 2013, 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 RMB148.8 million (2012: RMB141.8 million) and RMB302.4 million (2012: RMB115.0 million) as at 31 December 2013 respectively, to secure bank loans granted to the Group.

FINANCIAL INSTRUMENTS

The Group has entered into 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 2013.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group's gearing ratio is calculated based on the sum of bank loans, other borrowings and short term notes divided by total assets. The gearing ratio of the Group as at 31 December 2013 and 2012 were 52.9% and 41.3%, 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.

On 30 April 2013, the Group issued bonds with a principal amount of US$72,000,000 and the bonds will be repayable in full by 30 April 2018. The bonds may be redeemed at the option of the Group in whole. The bonds bear a fixed coupon interest rate at 5.6% per annum for five years payable semi-annually, commencing on 30 October 2013. The bonds are unsecured. The bonds were issued for refinancing the existing debt and for general corporate purposes.

As at 31 December 2013, the Group's total borrowings amounted to approximately RMB5,804.0 million, of which approximately 44% (2012: 58%) were long term borrowings and approximately 56% (2012: 42%) 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 coil. Once the Group received sales proceeds from its customers, it will then repay the short term borrowings. Taking into account the Group's cash in hand and the available banking facilities, the Group has sufficient liquidity and strong financial position to repay its short term borrowings.

As at 31 December 2013, approximately 55% (2012: 33%) of the 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 14% (2012: 37%) of the total borrowings were denominated in Renminbi which carried fixed interest rate, approximately 19% (2012: 30%) of the total borrowings were denominated in US dollar and HK dollar with interest rates linked to the London interbank offered rates for US dollar loans and Hong Kong interbank offered rates for HK dollar loans and approximately 12% (2012: Nil) of the total borrowings were denominated in US dollars which carried fixed interest rate.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

In May 2013, the Group acquired 100% equity interest in Nanjing Rongyu Group from four independent third parties. The Nanjing Rongyu Group is principally engaged in the manufacture and sale of screw-thread steel that is mainly used as construction materials of buildings, bridges and roads. The consideration for the acquisition was approximately RMB80 million.

The acquisition of Nanjing Rongyu Group was part of the Group's diversification strategy and can bring forth new business opportunities for the Group, for achieving sustainable growth in both sales and profit by widening its income sources with better risk diversification. At the same time, the Group can also strengthen its brand name in the PRC. Moreover, the screw-thread steel produced by the Nanjing Rongyu Group can be used for the construction of the Group's production bases in Lianyungang and Zhuhai. This can lower the cost of construction and ensure the quality of the construction materials to be used by the Group. The Group has commenced production and sale of screw-thread steel since completion of the acquisition during the year.

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

MANAGEMENT DISCUSSION AND ANALYSIS

EVENT AFTER THE REPORTING PERIOD

There are no significant events subsequent to 31 December 2013 which would materially affect the Group's operating and financial performance as of the date of consolidated financial statements.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2013, the Group had a total of 4,024 full time employees (2012: 3,964 employees). The following set forth the total number of our staff by functions:

	2013	2012
Management	**241**	193
Production and logistics	**2,037**	2,302
Sales and marketing	**45**	42
Finance	**54**	35
Quality control	**545**	567
R&D	**396**	302
Procurement	**54**	57
General administration and others	**652**	466
Total	**4,024**	3,964

For the year ended 31 December 2013, staff cost (including Directors' remuneration in the form of salaries and other benefits) was approximately RMB245.2 million (2012: RMB223.2 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 2013.

FUTURE PLANS AND PROSPECTS

Our Group strives to maintain its leadership in the domestic LSAW steel pipe market and to increase its presence in the international LSAW steel pipe market. Leveraging on our experienced management team, R&D capabilities, state-of-the-art technology, solid customer base and established track records with reputation, we are the only Chinese company that is qualified to undertake most of the international large projects, and capable of producing deep sea welded steel pipes for use under 1,500m depth. We are also a core supplier of Shell and a qualified supplier of Petrobras, Brazil. We have set up the Academician Workstation (院士工作站) which was approved by the Guangdong Provincial Government. This will further strengthen our R&D capabilities and further enhance our products for high-end use.

Foreseeing the future gas demand in China, the Chinese government has initiated a comprehensive strategy for utilising gas sources by bringing gases from various locations to not just independent power producers but for the use in some other applications. The adoption of gas as an alternative energy source aims to tackle environmental pollution, in particular air pollution in cities. In that case, the PRC government is eager to improve the air quality by switching from conventional to alternative energy. One major obstacle is that most of the gas sources are either located in remote regions or distant from the users. To resolve this issue, pipelines are needed to be deployed in order to transmit gases in a large volume at a lower cost in the long-run.

The three major oil and gas companies in China are making progress that coincided with the national development plan. The construction of the West-East Gas Pipeline Phase III owned by CNPC commenced in late 2012 spanning from Xinjiang to the east, with an estimated length of approximately 7,300 kilometres and shall be commenced operation in mid-2015. Sinopec, on the other hand, is focusing on the development of coal-to-gas projects and is targeting to build pipelines of 8,000km in length in total, delivering gas from Xijiang to Guangdong and Zhejiang. CNOOC, an offshore oil producer, is actively exploring the region of South China Sea. CNOOC also offers offshore blocks for foreign participation not just in the South China Sea, but also in the East China Sea. Domestically, several other pipelines are planned to be constructed in the coming years, including Guangdong Natural Gas Pipeline Network, Kazakhstan–China Oil Pipeline, Central Asia–China Gas Pipeline and Zhongwei-Guiyang Pipeline.

For 2014, the Group intends to pursue or complete:

1. Construction of Steel Plate Processing Facilities in Lianyungang

It is the intention of the Group to build its own steel plate processing plant in Lianyungang. As the major cost and component of pipe manufacturing is steel plates, the possession of plate processing skills will further improve the profit margins, delivery time and quality control. The steel plate processing plant is aiming to be built in 2015, with a designed annual capacity of around 2 million tonnes API-grade plates, proprietary to the Group. The Group has to acquire additional land for plant building and commence infrastructure construction works.

2. Joint Venture in Saudi Arabia

The Group has partnered with Abdel Hadi Abdullah Al Qahtani & Sons. Co ("AHQ") to establish a joint venture company ("JV Company") for the purpose of establishing our first overseas LSAW production line with an annual capacity of 300,000 tonnes in Saudi Arabia. The JV Company was owned as to 50% by the Group and 50% by AHQ. The proposed principal business of the JV Company is the manufacturing and sales of LSAW, and is expected to commence operation in the fourth quarter of 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 the Middle East. It is expected that the JV Company will improve the Group's financial results.

3. Office in Indonesia

The Group has set up an office in Indonesia for business sales network expansion and will look for opportunities in Indonesia.

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

Moving ahead, the Group is in a better-than-ever position to capture the ever expanding welded steel pipe market, with a total of 2.71 million tonnes of combined annual capacity in three different product segments, LSAW, SSAW and ERW steel pipes. Furthermore, new and technologically advanced products will also widen our income sources and diversify our product and application range.

MANAGEMENT DISCUSSION AND ANALYSIS

In China, we foresee that the progress of national pipeline constructions may accelerate, as some of the projects have been in delay due to political reasons in 2013 and it is high time to catch up with the 12th Five-Year Plan. The incident of oil pipes explosion in Qingdao in 2013 also brought attention to the safety issues with obsolete pipes, which were mostly installed over two decades ago. Those pipes were made by less advanced machines with out-dated technologies. Most importantly, they were installed underneath some densely populated areas. The PRC government is determined to reassess the safety level of those obsolete pipes and make replacements if necessary. As the awareness of safety standard of pipeline transmission has been rising, the quality requirement for pipes will become higher. Being the industry leader, not just in terms of production volume but in both quality and technologies, the Group will relentlessly strive to satisfy the needs by the nation's development.

Globally, the Company has established a strong overseas sales network across continents, such as Asia, Middle East, South America, North America, Europe and Africa. Overseas sales account for a significant portion of the Company's income and are a recognition of the quality of our products. Therefore, many oil-and-gas related multinational corporations have sourced pipes from the Group for many years even for their most technologically demanding projects. Years back, the Company has successfully entered into the suppliers' lists of Shell and Petrobras as their core-supplier and qualified-supplier, respectively, after rounds of testing and assessment on the quality of the Company's products as well as the production procedures. In addition, the Group has also obtained various essential international certificates such as API and DNV.

In Asia, besides China, several other countries are initiating the constructions of gas pipeline, such as India, Uzbekistan, Vietnam, Thailand and etc. In Australia, the production of liquefied natural gas ("LNG") is thriving, as the global demand has been driven up by the global environmental concerns. Africa, in the near future, will have many oil fields in Equatorial Guinea, Congo and Nigeria moving from exploration stages into exploitation stages and ready for production, and thus boosting the demand for pipelines for large volume transmission will be needed. Although Russia, Eastern and Middle East are rich in oil and gas, they must find ways to deliver the resources to users in the East, namely China, and pipeline is the most efficient, economic and environmental-friendly way of all, especially for those international cross-border projects. In South America, the Company has been providing pipes for the traditional oil and gas applications and to mines for ores transportations.

Based on the positive prospect of the international market, the Company can take advantage of its two production plants in Lianyungang and Zhuhai, both located along the shore with easy access to port facilities. In terms of product quality, the Company is certainly among the best in the industry and competing with some of the big names. With stable raw materials supply at a competitive price from the local steel mills, easy access to port facilities that led to better cost management and long track record with major oil and gas companies, the Company will be able to further penetrate into the global market in full confidence.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr Chen Chang (陳昌)

Mr CHEN Chang (陳昌), aged 68, is the chief executive officer 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 of experience in areas related to woodwork, machine tool equipment and lift/escalator equipment and has accumulated abundant experience and knowledge in the 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 has been appointed by several steel pipe related associations and organisations for various positions, including:

- 中國金屬學會軋鋼分會第四屆焊接鋼管學術委員會 (Member of the Fourth Session of Welded Steel Pipe Academic Committee of the Steel Rolling Branch Association of the Chinese Society for Metals*) (2001)
- 中國鄉鎮企業協會副會長 (Vice president of the China Township Enterprises Association*) (2004, 2008)
- 中國鋼結構協會鋼管分會第四屆理事會及第五屆理事會副理事長 (Vice chairman of the 4th and 5th sessions of the board of directors of the China Steel Construction Society and the Steel Pipe Branch Association*) (2004, 2008)
- 中國鋼結構協會冷彎型鋼分會第四、五、六屆理事會副理事長 (Vice chairman of the 4th, 5th and 6th consecutive council of the Cold-formed Steel Sub-committee of the China Steel Structure Association*) (2004, 2005 and 2010)
- 中華全國工商業聯合會冶金商會副會長 (Vice president of the Metallurgical Chamber of Commerce of the All-China Federation of Industry & Commerce*) (2006)

Mr Chen has received various awards, honours qualifications, including:

- Honoured by the Ministry of Commerce, Industry and Energy of the Republic of Korea for his contributions to Korean economic development through trade revitalisation (2004)
- 中華全國工商業聯合會評為中國優秀民營科技企業家 (Excellent Entrepreneur in Chinese Private Technology Enterprises awarded by the All-China Federation of Industry & Commerce*) (2004)
- 廣州市人民政府評為科學技術獎一等獎得主 (Awarded the First Prize of Science and Technology Awards by the Guangzhou Municipality People's Government*) (2007)
- 中國國際權威專家協會評為焊管行業權威專家 (Awarded as authority expert of welded pipe industry by the Chinese International Authority Expert's Association*) (2007)
- 發明三輥成型工藝及設備並在第六屆國際發明展覽會上榮獲金獎及獲廣東省人事廳及廣東省知識產權局評為優秀獎 (The invention of "three-roller forming technology and equipment" was awarded the gold prize in the Sixth Session of International Exhibition of Inventions and outstanding award by the Guangdong Provincial Bureau of Personnel and the Guangdong Province Intellectual Property Department*) (2008)
- 廣州市抗震救災先進個人 (Outstanding Individual in Earthquake Relief in Guangzhou *) (2008)
- 中國鋼鐵協會第四屆"發明創業獎" (The Fourth Invention and Entrepreneur Award by the China Steel Association*) (2009)

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- 廣州市勞動模範 (Guangzhou Model Labour*) (2009)

- 主持開展的《大口徑直縫雙面埋弧焊鋼管工藝技術及系列產品研究開發》獲得廣東省科學技術獎一等獎 (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 awarded First Prize of Science and Technology Awards in Guangdong Province*) (2010)

- 廣州市優秀企業家 (Guangzhou Outstanding Entrepreneur*) honors (2011)

- 全國優秀企業家 (Nationwide Outstanding Entrepreneur*) (2012)

- 廣州市科學技術突出貢獻獎 (Guangzhou Outstanding Contribution Award for Science and Technology*) (2012)

- 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*) (2012)

- 羊城光彩人物 (Guangzhou Figure of Focus*) (2012)

- 2012 年度廣東省十項工程勞動競賽模範企業家 (The Outstanding Entrepreneur for the Competition of the Top 10 Guangzhou Construction Project*) (2013)

- 廣州科技創新聯盟突出貢獻獎 (Outstanding Contribution Award for Innovation in Guangzhou*) (2013)

- 2013年廣東十大經濟風雲人物 (Top 10 Guangdong Economic Influential Individuals in 2013*)

As at the date of this annual report, Mr Chen is the sole director and sole shareholder of Bournam Profits Limited, which is 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 a total interest of 703,549,000 shares of the Company.

Ms Chen Zhao Nian (陳兆年)

Ms CHEN Zhao Nian (陳兆年), aged 37, is an executive director. She is the daughter of Mr Chen Chang (being chairman of the Company and an executive Director) and also the sister of Ms Chen Zhao Hua (being 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 her master's degree in accounting from Leeds Metropolitan University in United Kingdom in October 2002. Ms. Chen has taken up the following public duties and has received the following awards:

- 廣州市番禺區大龍街商會副會長 (Vice President of the Chamber of Da Long Street in Panyu District of Guangzhou City*) (2010)

- 廣州市番禺區女企業家協會副會長 (Vice President of the Panyu District Association of Women Entrepreneurs in Guangzhou City*) (2010)

- 廣州市番禺區巾幗獻才建功領導協調小組評為"番禺區巾幗獻才建功先進個人" ("Pioneering Lady with Great Contribution to Community in Panyu District" awarded by the Leading Committee for Selection of Lady with Great Contribution to Community in Panyu District of Guangzhou City") (2010)

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- 廣州市番禺區第十六屆人大常委 (Member of the Standing Committee of 16th Session of NPC in Panyu, Guangzhou*) (2011)
- 廣州市女企業家協會副會長 (Vice President of the Guangzhou Association of Women Entrepreneur*) (2011)
- 廣州市番禺區中小企業投融資促進會理事 (Executive member of the SMEs Investment and Finance Promotion Association of Panyu, Guangzhou*) (2011)
- 廣州市"三八紅旗手" ("March 8th Flag Bearer" of Guangzhou City) (2010–2013)
- 廣州市光彩事業促進會理事 (Executive member of the Guangzhou Glory Society*) (2012)
- 廣州市番禺區工商業聯合會的副主席 (Vice chairwoman of the Federation of Industry & Commerce in Panyu District of Guangzhou*) (2012)
- 番禺區禺商創業青年協會會長 (President of the Youth Association of Panyu Merchants and Entrepreneurs in Panyu District*) (2012)
- 廣州市各界知識分子聯誼會副會長 (Vice chairwoman of the Guangzhou Association of Intellectuals from All Sectors*) (2012)
- 廣州市婦女第十二屆執行委員會委員 (Member of the 12th Executive Committee for Guangzhou Women*) (2012)
- 廣州市番禺區青年企業家協會副會長 (Vice chairwoman of the Association of Young Entrepreneurs in Panyu District of Guangzhou City*) (2012)
- 廣州市番禺海外聯誼會第五屆理事會理事 (Executive director of the 5th board of directors of the Guangzhou Panyu Association of Overseas Friendship*) (2012)
- 廣州市女企業家協會廣州市優秀女企業家榮譽 (Guangzhou Outstanding Woman Entrepreneur Honors awarded by the Guangzhou Association of Women Entrepreneurs*) (2012)
- 中華全國婦女聯合會第八屆五好文明家庭 (the 8th Civilised Family with Five Distinctive Merits by the All-China Women's Federation*) (2012)
- 感動廣州60年最具魅力女性 (Most Charismatic Woman in 60 years of Guangzhou Loving Hearts*) (2013)
- 番禺區關愛員工的優秀企業家 (Outstanding Entrepreneur of the Panyu District*) (2013)
- 中華全國婦女聯合會第十一屆會議代表 (Representative of Guangzhou in the 11th All-China Women Federation Conference*) (2013)
- 廣州市女企業家協會會長 (Chairlady of the Guangzhou Association of Women Entrepreneurs*) (2013)
- 中國人民政治協商會議第十二屆廣州市委員會委員 (Committee member of the Guangzhou Committee of the Chinese People's Political Consultative Conference*) (2013)
- 廣州市優秀企業家 (Guangzhou Outstanding Entrepreneur Honors*) (2013)
- 全國巾幗建功標兵 (Female Pace Setter with Great Contribution (National Level)*) (2013)
- 番禺區家庭服務促進會第一屆理事會副會長 (Vice Chairman of 1st board of directors of the Family Service Association*) (2013)

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PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Ms Chen Zhao Hua (陳兆華)

Ms CHEN Zhao Hua (陳兆華), aged 35, is an executive Director. She is the daughter of Mr. Chen Chang (being the Chairman of the Company and executive Director) and also the sister of Ms Chen Zhao Nian (being executive Director). Ms Chen is primarily responsible for handling overseas marketing activities, sales and business relationships with overseas customers as well as sales and bidding agents. 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 the China Chamber of International Commerce.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Chen Ping (陳平)

Mr CHEN Ping (陳平), aged 48, was appointed as an independent non-executive Director on 23 January 2010. Mr Chen is also the chairman of the Nomination Committee and 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. Mr Chen has lectured at the Lingnan College, Sun Yat-Sen University in Guangdong Province, the PRC, teaching international finance for more than 20 years. He is currently the head of 海洋經濟研究中心 (Marine Economic Research Centre) of Sun Yat-Sen University. Mr Chen also assumed various posts in societies and clubs concerning economics and finance, such as a 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 researches with focuses on finance theories and policies, 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 國家教學成果二等獎 (National Educational Achievement Award – Second Class*) by the 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 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*). 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*), 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 56, 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 and 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 (Party School of the Guangdong Provincial Committee of the Communist Party of China*) 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.

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Mr See Tak Wah (施德華)

Mr SEE Tak Wah (施德華), aged 50, 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 first class honours in Bachelor of Management Studies. He 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 of experience in financial and general management as 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 positions in the North Asia offices of Philips and Siemens. Mr See currently runs his own strategic consultancy business. In addition, he is currently an independent non-executive director of Sun East Technology (Holdings) Limited, which is listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock Code: 0365).

SENIOR MANAGEMENT

Mr Wang Lishu (王利樹)

Mr WANG Lishu (王利樹), aged 56, 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. Prior to his promotion as PCKSP's chief engineer, Mr Wang had previously assumed various posts at PCKSP such as engineer, vice director at its branch factory for the manufacturing of welded steel pipes and 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 majoring 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", which Mr Wang participated in designing, was awarded 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", 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 a member of 全國標準化技術委員會委員 (National Standardisation 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 a 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 (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 (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 Standardisation*). In 2010, Mr Wang was awarded 廣東省科學技術獎一等獎 (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 (Guangzhou Contribution Award for Standardisation and Innovation*) and 冶金科學技術一等獎 (First Prize of Metallurgical Science and Technology*) by 中國鋼鐵工業協會 (Chinese Association of Steel and Iron*) and 中國金屬學會 (Chinese Society for Metals*).

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PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mr Wong Yu May (黃耀楣)

Mr WONG Yu May (黃耀楣), aged 61, joined the Group in August 2010 as vice president of finance. Mr Wong is responsible for overseeing the treasury and corporate finance functions of the Group and the relationships with banks. Mr Wong graduated from the HEC Business School of University of Montreal in Canada in 1975 and obtained a Master of Business Administration degree at Concords University in Canada in 1981. Mr Wong is an experienced international banker having worked in Canada, France, China, Taiwan and Hong Kong. Mr Wong has over 38 years of experience in the financial field.

Mr Li Junqiang (李軍強)

Mr LI Junqiang (李軍強), aged 40, joined PCKSP in July 1995 as a technician and thereafter acted as a research engineer and a 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 majoring 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 (First Prize of Science and Technology Awards*) by 廣州市人民政府 (Guangzhou Municipality People's Government*). Mr Li has over 18 years of experience in the ferrous metallurgy industry.

Ms Wong Pui Shan (王珮珊)

Ms WONG Pui Shan (王珮珊), aged 37, 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 secretariat work 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, a 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 international audit firms for four years and listed companies as financial controller and company secretary for more than 11 years.

Ms Liu Yonghe (劉咏荷)

Ms LIU Yonghe (劉咏荷), aged 45, 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 20 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 23 years of experience in the accounting and finance industry. She was awarded the "March 8th Flag Bearer" in 1999 and 2002, 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).

* Unofficial transliteration from Chinese name for identification purposes only.

Mr Xu Qilin (徐啟林)

Mr XU Qilin (徐啟林), aged 56, 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 32 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 51, 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 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 (Senior) 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 (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 (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 23 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.

* Unofficial transliteration from Chinese name for identification purposes only.

REPORT OF THE DIRECTORS

The Directors hereby present their report and the audited financial statements of the Group for the year ended 31 December 2013.

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 2013 are set out in note 21 to the financial statements.

RESULTS AND DIVIDEND

The Group's profit for the year ended 31 December 2013 and the state of affairs of the Group at that date are set out in the financial statements on pages 57 to 122.

The Directors did not recommend dividend for the year ended 31 December 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 123. 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 36 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 2013, the Company's reserves available for distribution to the shareholders in accordance with the Articles of Association were RMB655,492,000.

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 of approximately RMB1,700,000.

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 2013, sales to the Group's five largest customers accounted for 33.8% of the total revenue of the Group, and sales to the largest customer included therein amounted to 19.0%. Purchases from the Group's five largest suppliers accounted for 69.2% of the total cost of sales of the Group, and purchases from the largest supplier included therein amounted to 16.3%. 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.

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 26 to 32 of this annual report.

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

REPORT OF THE DIRECTORS

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 2014 and is subject to termination by either party giving not less than one month's written notice. The Nomination Committee and the Remuneration Committee have reviewed the terms of service contracts of all Directors.

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 the 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 the financial statements.

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

As at 31 December 2013, 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)	Long	701,911,000	69.42%
	Personal interest	Long	1,638,000	0.16%

Note:

These shares are held by Bournam Profits Limited, 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 Profits Limited.

Shares of Associated Corporation

Mr. Chen Chang beneficially owns the entire issued share capital of Bournam Profits Limited, which 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 2013.

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 of the Company, the Company adopted its share option scheme (the "Share Option Scheme"). The details of the Scheme are disclosed below pursuant to the requirements under Chapter 17 of the Listing Rules:

1. Purpose of the Share Option Scheme: The purpose of the 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 Share Option 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 Share Option Scheme: The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option 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 Share Option Scheme and thus the total number of shares available for issue under the Share Option 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 Share Option 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 Share Option 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 Share Option Scheme: The Scheme will remain in force for a period of 10 years commencing on 23 January 2010, being the date on which the Share Option Scheme was adopted.

From the date of adoption of the Share Option Scheme and up to 31 December 2013, no share option has been granted or agreed to be granted to any person under the Share Option Scheme.

SHARE AWARD SCHEME

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

The trustee shall not be obliged to exercise any voting rights and powers in respect of any shares held under the trust (including but not limited to the awarded shares, the returned shares, any bonus shares and scrip shares) until such shares have been transferred to the relevant Selected Grantee.

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 (the "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 22 March 2012.

From the date of adoption of the Share Award Scheme and up to 31 December 2013, 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 Share Option 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 AND UNDERLYING SHARES

As at 31 December 2013, so far as the Directors are aware, the following persons or corporations (not being a Director or a chief executive of the Company) have an interest or short position 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:

Shares of the Company

Name	Capacity	Position	Numbers of shares held	Percentage of shareholding in the Company
Ms. Su Xing Fang	Interest of spouse (note)	Long	703,549,000	69.58%
Bournam Profits Limited	Beneficial owner	Long	701,911,000	69.42%

Note:

Ms. Su Xing Fang is the spouse of Mr. Chen Chang. By virtue of the SFO, Ms. Su Xing Fang is deemed to be interested in the same number of shares in which Mr. Chen Chang is deemed to be interested.

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

During the year ended 31 December 2013, 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 on pages 42 to 50.

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 THE 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 2013.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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*)

On 4 December 2012, the Group entered into the spare parts purchase agreement (the "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") to renew the terms of the original spare parts purchase agreement which would expire on 31 December 2015. Pursuant to the GZMT Spare Parts Purchase Agreement, the Group agreed to purchase spare parts of the machines used for the manufacturing and processing of steel pipes from GZMT, with the annual cap for each of the three years ending 31 December 2015 being RMB28 million, RMB30 million and RMB32 million respectively ("the "Proposed Annual Caps""). During the year ended 31 December 2013, the Group purchased spare parts from GZMT of a total amount of RMB18,035,000, which was within the annual cap. Such 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 those available to independent third parties and in accordance with the GZMT Spare Parts Purchase Agreement. Details of the above transactions are set out in note 41 to the financial statements.

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.

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 its machines and 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, GZMT 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 purchases of spare parts set out 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 for the above 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. Announcement was published on 4 December 2012 regarding the above transactions in accordance with the Listing Rules. The Company confirms that it has complied with the relevant requirements under Chapter 14A of the Listing Rules in so far as they are applicable.

The independent non-executive Directors have reviewed the continuing connected transactions set out in note 41 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; (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 2013 as set out in the Company's announcement dated 4 December 2012.

* Unofficial transliteration from Chinese name for identification purposes only.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE REPORTING PERIOD

There are no significant events subsequent to 31 December 2013 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 2013. 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
28 March 2014

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 Company has adopted the code provisions in the Corporate Governance Code (the "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 deviation from code provision A.2.1 (see section "Chairman and Chief Executive" below), the Company has complied with the CG Code. The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the evolving regulatory requirements and to meet the rising expectations of the shareholders and other stakeholders.

The following summarises the Company's corporate governance practices.

CORPORATE GOVERNANCE PRACTICES

(A) Board of Directors

Responsibilities and Delegation

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 the 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 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 in section B of this corporate governance report.

The Company had arranged Directors and Officers Liability Insurance for the Directors and Officers of the Company.

Board Composition

The Board members during the year ended 31 December 2013 and up to the date of this report are as follows:

Executive Directors:

Mr. Chen Chang	Chairman of the Board and Chief Executive Officer, Member of the Remuneration Committee and Nomination Committee
Ms. Chen Zhao Nian	
Ms. Chen Zhao Hua	

Independent Non-Executive Directors:

Mr. Chen Ping	Chairman of the Nomination Committee and Member of the Audit Committee and Remuneration Committee
Mr. Liang Guo Yao	Chairman of the Remuneration Committee, Member of the Audit Committee and Nomination Committee
Mr. See Tak Wah	Chairman of the Audit Committee

The Board currently comprises three executive Directors and three independent non-executive Directors from different business and professional fields. Mr. Chen Chang, Ms. Chen Zhao Nian and Ms. Chen Zhao Hua are members of the same family. Mr. Chen Chang is the father of both Ms. Chen Zhao Nian and Ms. Chen Zhao Hua. Save as disclosed, there is no other relationship among members of the Board. 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 number of independent non-executive Directors constitutes more than one-third of the Board. A list containing the names of the Directors and their roles and functions is published on the websites of the Stock Exchange and the Company at www.pck.com.cn.

The Company recognises the benefits of a board that compose of a balance of skills, experience, expertise and diversity of perspectives appropriate to the business development of the Company. The Board has adopted a board diversity policy in 2013. The Board has reviewed its composition and considered a number of aspects, including gender, age, educational background, professional experience, skills, knowledge and length of service in accordance with its board diversity policy. The Board consider that the existing board composition is well diversified and appropriate to the business development of the Company.

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.

Upon reviewing the directorships and major commitments of each Director, and the attendance rate of each Director at the meetings of the Board and its committees, the Board is satisfied that all Directors have spent sufficient time in performing their responsibilities during 2013.

Board Meetings and Board Practices

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 for keeping 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 2013, six 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 practices, 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.

Chairman and Chief Executive

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.

Appointments, Re-election and Removal of Directors

The Board is responsible for selection and approval of candidates for appointment as Directors. The Company has established a Nomination Committee on 22 March 2012. The Nomination Committee is responsible for reviewing Board composition including the board diversity policy, 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 his/her 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 2014, and are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

The Nomination Committee has reviewed the re-appointments of both executive Directors and independent non-executive Directors and recommended to the Board of Directors for decision.

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 the Articles of Association, Ms. Chen Zhao Hua and Mr. Chen Ping 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

Directors has endeavoured to keep abreast of the changes in their responsibilities as a Director and of the business activities and development of the Company.

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. The Directors have provided to the Company their records of continuous professional development during the year ended 31 December 2013.

During the year ended 31 December 2013, all Directors attended seminars and training courses in relation to corporate governance, Listing Rules update or financial markets update arranged by professional firms/institutions, and Ms. Chen Zhao Hua attended a EMBA programme. Records of continuing professional development have been maintained by the company secretary. Besides, the company secretary also conducted briefings on corporate governance, directors' duties and responsibilities and provided materials for Listing Rules amendments to all Directors for their reference.

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 2013.

When the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors in advance.

Non-Competition Undertakings

The independent non-executive Directors have also reviewed the confirmation given by Mr. Chen Chang and Bournam Profits Limited, being controlling shareholders of the Company, in respect of each of their compliance with the non-competition undertakings as disclosed in the prospectus of the Company dated 28 January 2010.

(B) Board Committees

The Board has established three committees, namely the 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 2013 and the interim financial statements for the six months ended 30 June 2013, 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 2013, of which two meetings with external auditors' presence, and all members of the Audit 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. No major issue on the internal control system of the Group has been identified.

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 2013 and interim results for the six months ended 30 June 2013 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, assess the independence of independent non-executive Directors, and review the board diversity policy and review the measurable objectives that the Board has set for implementing the board diversity policy, and the progress on achieving the objectives.

During the year and up to the date of the annual report, the Nomination Committee has reviewed the composition of the Board and made recommendations to the Board for the re-appointment of Directors and succession planning for the chairman, assessed the independence of independent non-executive Directors and reviewed the board diversity policy.

The Nomination Committee held one meeting during the year ended 31 December 2013 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, assessed the performance of executive Directors and reviewed the remuneration package of the executive Directors and senior management and recommended to the Board on the remuneration packages of the executive Directors and senior management.

For the year ended 31 December 2013, one meeting of the Remuneration Committee was held and all members attended the meeting.

The attendance of individual members of the Board and other Board Committees meetings for the financial year ended 31 December 2013 is set out in the table below:

	Meeting attended/held				
	AGM	Board	Audit Committee	Nomination Committee	Remuneration Committee
Executive Directors					
Mr. Chen Chang					
(chairman of the Board)	1/1	6/6	N/A	1/1	1/1
Ms. Chen Zhao Nian	1/1	6/6	N/A	N/A	N/A
Ms. Chen Zhao Hua	1/1	6/6	N/A	N/A	N/A
Independent non-executive Directors					
Mr. Chen Ping	1/1	6/6	4/4	1/1	1/1
Mr. Liang Guo Yao	1/1	6/6	4/4	1/1	1/1
Mr. See Tak Wah	1/1	6/6	4/4	N/A	N/A

Chairman of the Board had a meeting with the independent non-executive Directors without the presence of other Executive Directors (save as the chairman himself) during the year ended 31 December 2013.

(C) Accountability and Audit

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.

Directors' Responsibility on the Financial Statements

The Directors are responsible for overseeing the preparation of financial statements for the year ended 31 December 2013 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.

Independent Auditors

During the year ended 31 December 2013, the remuneration paid or payable to the independent auditors, Ernst & Young, for services rendered is broken down below:

	2013 **HK$'000**
Audit services	**3,180**
Non-audit services	**300**
Total	**3,480**

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.

(D) 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 2013. No major issue was raised which may affect shareholders.

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

(E) 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 26 to 32 of this annual report. The Company Secretary has complied with the professional training requirement as set out in the Rule 3.29 of the Listing Rules during the year ended 31 December 2013.

(F) Shareholders' Rights

The Board welcomes shareholders to present their views and shareholders may at any time submit their questions and concerns about the Group. Enquiries may be put to the Board by contacting the Company Secretary through our shareholders' email at ir@zhujiang.com.hk. 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 the 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 laws 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 Hong Kong office at 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 substantial 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.

(G) Investor Relations and 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 available 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. 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 20 June 2014. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

The Company attended conferences, roadshows and media interviews to keep shareholders and potential investors informed of 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 requirements.

Memorandum and Articles of Association

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.

2013 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 auditors attended the 2013 AGM.

At the 2013 AGM, the Company proposed separate resolutions on the issues considered. Resolutions passed at the 2013 AGM were as follows: (i) received the audited consolidated financial statements for the year ended 31 December 2012 together with the reports of the Directors and auditors of the Company; (ii) payment of the final dividend of HK7.6 cents per share for the year ended 31 December 2012; (iii) re-elected of Mr Chen Chang as executive Director and Mr See Tak Wah as independent non-executive Director and authorised the Board to fix the Directors' remuneration; (iv) reappointed Ernst & Young as auditors of the Company and authorised the Directors to fix its remuneration; (v) approved 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 the 2013 AGM; (vi) approved 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 the 2013 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 2013 AGM were available on the Company's website.

2014 Annual General Meeting

All shareholders are encouraged to attend the 2014 AGM and exercise their rights to vote. Shareholders are invited to ask questions relating to the business of the meeting. Details of the resolutions to be considered in the 2014 AGM will be set out in a circular to be sent out to shareholders together with the 2013 annual report.

(H) Others

Share Interests of Senior Management

As confirmed with the senior management of the Company, they did not hold shares of the Company as at 31 December 2013.

Sufficiency of Public Float

The Company has maintained the prescribed public float under the Listing Rules as at 31 December 2013.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group believes care about our community, and adheres to an ingrained culture of fulfilling our social responsibilities by giving a much-needed boost to the environment in Guangdong Province, China and the regions in which we operate.

I. WORKING ENVIRONMENT

The Group has complied with the laws and regulations and adopted Health Safety and Environmental ("HSE") management methods, in an effort to prevent environmental pollution, to ensure people's health and safety, and to promote sustainable development. Our target is to achieve zero accidents, zero injuries and zero losses, in order to meet the international HSE management standard.

As at 31 December 2013, the Group has 4,024 employees.

The Company's employees reside in the neighborhood areas. Within our plant zone, there are gardening landscape, fish ponds and recreational facilities, which offer a comfortable environment and a sports ground for our employees.

Occupational Safety

We have adopted the HSE risk identification and risk assessment and control procedures to manage our occupational safely risk. The Company's management is responsible for organising periodic risk identification and evaluation exercises, and is responsible for sorting, aggregation and distribution of relevant information, which includes: the identification of risk factors for occupational safety and health, risk assessment on operating conditions, possibility of accidents, the formulation of operational control procedures, contingency plans, safety level standards, as well as training and education issues.

The Company has kept records and documents relating to risk management, including the "Control procedures of the new, rebuilding and extension projects", "Risk sources identification and risk evaluation form" and "List of major risks", for staff references.

Development and Training

Through meetings, trainings and notifications on notice board, the Company promotes its safety philosophy and amiable working environment among various departments and teams. We offer our employees access to learning and understanding about the Company, so that each employee and contractors of the Company or visitors can recognise their responsibilities and obligations in the aspect of improving the environment and enhancing occupational health and safety performance. We make great efforts on improving the environment and occupational safety.

Our adherence to the HSE management policy is a testimony of the greatest commitment of the Company towards the environment and occupational health and safety. This policy is available for review by employees at any time.

The Group endeavors to enhance the skills of each employee in various aspects by providing staff trainings, which include the "Weekly Star" and "Weekly Talk". A wide array of training courses are provided for employees to strengthen their work-related knowledge and skills. Also, the Company hosted an "advanced employees election", whereby, each of the employees obtaining a certificate of honorary will be offered an outdoor training opportunity. To enable excellent employees to take up management positions and to bolster our team's management capabilities, the Company also organised the "team leader for production and management training" courses during the year.

To reinforce the employees' sense of belongings to the Company, a wide range of sports events are provided by the Company for its employees every year, including basketball and table tennis contests, etc. In addition, we have provided activities that are of educational significance and served to enhance the work performance of our employees, including the "Safety in My Heart" Speech Contest, "Wall Street English", "Crane Skills Tournament" and "Whampoa Training Camp". We organise safety education activities and knowledge lectures as well.

We encourage our employees to take an active part in community activities, including the 1st "Green Enterprise Cup" Table Tennis and Badminton Tournament of Panyu District Youth Entrepreneur Association and the private enterprises working concern group activities.

Staff Code

The staff code of the Company is based on the PRC labour law, and is in line with the national standards of the PRC. The Company has also been providing its staff with guidance in line with the regulations in accordance with the national legislation.

II. ENVIRONMENTAL PROTECTION

Emission reduction mechanism

The Company remains focused on environmental protection. Our bases are featured with high-end sewage treatment equipment. Sewage will be treated before recycling. Sewage will also be treated before being discharged. All of the Company's production bases are equipped with complete ventilation facilities. We also adopted measures to reduce the air pollution caused during the process of our production.

Use of materials

We endeavour to calculate the amount of materials needs for our production based on the principle of minimising surplus materials. In addition, the Company also puts in place a scrap metal recycling mechanism to sell the wasted steel produced in our process of production to recycling companies for recycling.

III. WORKING OPERATION

Supply chain management

The Company has maintained proven track records of high production efficiency and timely delivery. We have established deep and cordial relationships with our suppliers. The Company keeps a list of qualified suppliers, whose appraisal is based on their track record of compliance with international standards and the Company's past cooperation relationship with them. To improve logistics and enhance efficiency, the Company has established a self-operated wharf for the delivery of steel products and the receipt of raw materials in the Zhuhai production base.

Product quality

With its state-of-art technology, equipment, management and well-established reputation, the Company is dedicated to the provision of high-quality products and services that satisfy customers' needs. Our product quality has met a number of international standards. We are also the only domestic welded steel pipe manufacturer being granted five national honors, namely the "China Well-known Trademark", "Gold Cup Prize for Actual Quality of Metallurgical Products", "High and New Technology Enterprise", "National Recognized Enterprise Technology Center" and "Academician Workstation". We are also the main drafter of the national standard for longitudinal welded steel pipes in China. Meanwhile, with the setting up of the "Post-doctoral Research Station" and "Academician Workstation", the Company strive to further enhance its product quality and extends the application of its products.

The Company strictly upholds the ISO9001 quality system. With the use of advanced testing equipment, and the conduct of on-line and off-line testing as well as mechanical and chemical properties testing, we inspect the product in each production process stage in accordance with the best product quality requirements through a myriad of tests, such as steel ultrasonic testing, ultrasonic welding detection, weld X-ray inspection system, hydrostatic testing and flattening test. Upon obtaining post-test data, we will make a rigorous analysis on product quality, so as to ensure that each product meets customer requirements. We have built a testing center in compliance with the national standards, and the center has been recognised by China National Accreditation Service for Conformity Assessment (CNAS). The Company's testing center is equipped with a wide variety of laboratory equipment, including universal materials testing machine, low temperature impact material testing machine, drop weight tear test (DWTT) machine, hydrogen induced cracking (HIC) testing, sulfide stress corrosion cracking (SSC), crack tip opening displacement (CTOD) test, computer-controlled chemical composition vacuum direct reading spectrometer and microscope. Achieving six standards, our measuring chamber has passed through the ISO10012: 2003 AAA measurement management system certification. This proves that our measuring instruments are of high qualification and effectiveness. Our products, an unfailing symbol of quality, are blessed with unparalleled reputation in the international market under the "PCK" brand.

Anti-corruption

The operation of various departments of the Company is in conformity with legal regulations and legislations. We have established a whistle blowing policy, which enables our employees to express their views to the management at all times in an anonymous way.

IV. CONTRIBUTION TO THE COMMUNITY

The Group has been playing an active role in charitable activities in Panyu, Guangdong Province, and other regions in which we operate. During the year, with the organisation of a couple of educational, sports, cultural and charitable activities, we gave our support to arts and promoted the exuberance of Guangzhou City, thus attracting more interest in Guangzhou from the external parties and fostering urban development. These activities included:

- hosting of Panyu District "PCK Cup" 1st Table Tennis Contest
- hosting of Zhujiang "PCK Cup" 1st World Go Team Championships

In addition, the Group also participated in the assessment of the government and other organisations. During the year, we participated in:

- "Guangzhou Top Ten Enterprises with corporate integrity" organised and appraised by 11 sectors including Guangzhou Municipal Party Committee Publicity Department, a publicity and education activity with the theme of "respect for ethics, Guangzhou of integrity"

- Provincial and municipal high-tech enterprises or private technology enterprises and member companies granted with the Technology Progress Award by units above municipal-level

- "Panyu District Mayor Quality Award Assessment Management Approach" granted with the Quality Award by the provincial government

The Group has also been encouraging its employees to actively participate in community activities in Guangdong Province, including:

- Employees participated in two "spring action, special recruitment fairs" organised by the district

- Spread the spirit of love and care for "migrant workers" throughout the community by sending warm greetings to "migrant workers" who were on-duty during Chinese New Year Festival

- The Company offered employment opportunities to persons with disabilities, and was honored as an employer with outstanding performance at the annual working meeting for the employment of persons with disabilities in Panyu District

- The Company's union was regarded as one of the "model workers' homes" in Panyu District

- The Company won the third runner-up award in the 2013 "Li Ning Cup Double Happiness" Chinese Table Tennis Association Men's League Match at Changchun Station in 60-year-old Group. This match was sponsored by the State Sports General Administration, and hosted by Jilin Sports Bureau Ping Pong Song Center and the Province Table Tennis Association.

Charity Fund

In April 2013, the Company established a charitable fund, named as the "Chu Kong Steel Pipe Group Co., Ltd. – Blessing Charity Fund", and aimed at improving the living environment of single mothers and orphans and assisting single mothers in job seeking. In addition, during the year, the Group made charitable donations of approximately RMB1.7 million, which were mainly donated to this charitable fund.

INDEPENDENT AUDITORS' REPORT

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 57 to 122, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, 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
28 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
REVENUE	7	**2,027,057**	3,925,995
Cost of sales		**(1,714,113)**	(3,259,406)
Gross profit		**312,944**	666,589
Fair value gains on investment properties	17	**196,501**	1,302
Other income and gains	7	**222,098**	102,840
Selling and distribution expenses		**(131,511)**	(88,493)
Administrative expenses		**(337,537)**	(217,240)
Other expenses		**(6,518)**	(5,566)
Finance costs	8	**(173,777)**	(77,361)
Share of profit and loss of a joint venture	22	**(299)**	–
PROFIT BEFORE TAX	9	**81,901**	382,071
Income tax expense	12	**(40,430)**	(70,861)
PROFIT FOR THE YEAR		**41,471**	311,210
Profit attributable to:			
Owners of the parent	13	**41,471**	311,210
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	15	**RMB0.04**	RMB0.31

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Note	2013 RMB'000	2012 RMB'000 (Restated)
PROFIT FOR THE YEAR		**41,471**	311,210
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations		**22,219**	(722)
Income tax effect		**–**	–
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**22,219**	(722)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Gains on property revaluation	19	**1,538,287**	–
Income tax effect		**(384,572)**	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**1,153,715**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**1,175,934**	(722)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,217,405**	310,488
Total comprehensive income attributable to:			
Owners of the parent		**1,217,405**	310,488

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	**31 December 2013 RMB'000**	31 December 2012 RMB'000 (Restated)	1 January 2012 RMB'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	16	**2,903,523**	2,211,264	1,420,346
Investment properties	17	**2,216,313**	6,159	4,864
Long term prepayments and deposit	18	**211,650**	209,114	174,973
Prepaid land lease payments	19	**859,617**	506,725	339,776
Goodwill	20	**4,075**	4,075	4,075
Investment in a joint venture	22	**75,647**	–	–
Deferred tax assets	23	**43,954**	7,806	4,394
Pledged deposits	27	**5,907**	5,904	165
Total non-current assets		**6,320,686**	2,951,047	1,948,593
CURRENT ASSETS				
Inventories	24	**1,148,337**	807,872	1,190,235
Trade and bills receivables	25	**1,219,104**	1,385,829	803,321
Prepayments, deposits and other receivables	26	**535,226**	480,712	462,357
Pledged deposits	27	**127,596**	120,380	47,483
Derivative financial instruments	32	**13,675**	–	–
Cash and bank balances	27	**1,609,517**	1,039,348	981,779
Total current assets		**4,653,455**	3,834,141	3,485,175
CURRENT LIABILITIES				
Trade and bills payables	28	**535,443**	863,623	666,583
Interest-bearing bank loans and other borrowings	29	**3,017,516**	862,126	1,434,816
Other payables and accruals	31	**393,757**	484,219	323,443
Tax payable		**67,080**	71,093	39,512
Derivative financial instruments	32	**480**	3,784	–
Short term notes	33	**206,926**	301,216	–
Total current liabilities		**4,221,202**	2,586,061	2,464,354
NET CURRENT ASSETS		**432,253**	1,248,080	1,020,821
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,752,939**	4,199,127	2,969,414
NON-CURRENT LIABILITIES				
Interest-bearing bank loans and other borrowings	29	**2,148,077**	1,636,096	732,289
Fixed rate bonds	34	**431,453**	–	–
Government grants	35	**106,345**	96,082	34,153
Deferred tax liabilities	23	**447,995**	2,974	2,760
Total non-current liabilities		**3,133,870**	1,735,152	769,202
Net assets		**3,619,069**	2,463,975	2,200,212
EQUITY				
Equity attributable to owners of the parent				
Issued capital	36	**88,856**	88,856	88,856
Reserves	37(a)	**3,530,213**	2,312,808	2,064,631
Proposed final dividend	14	**–**	62,311	46,725
Total equity		**3,619,069**	2,463,975	2,200,212

Chen Chang
Director

Chen Zhao Nian
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Note	Attributable to owners of the parent									
	Note	Issued capital RMB'000 (note 36)	Share premium RMB'000	Asset revaluation reserve# RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Statutory reserve fund RMB'000 (note (a))	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2012											
As previously reported		88,856	829,408	–	224,589	57,607	104,225	850,436	(4,190)	46,725	2,197,656
Prior year adjustments		–	–	710	–	–	–	1,924	(78)	–	2,556
As restated		88,856	829,408	710	224,589	57,607	104,225	852,360	(4,268)	46,725	2,200,212
Profit for the year (as restated)		–	–	–	–	–	–	311,210	–	–	311,210
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	(722)	–	(722)
Total comprehensive income for the year		–	–	–	–	–	–	311,210	(722)	–	310,488
Final 2011 dividend declared		–	–	–	–	–	–	–	–	(46,725)	(46,725)
Transfer from retained profits		–	–	–	–	–	29,520	(29,520)	–	–	–
Proposed final 2012 dividend	14	–	(62,311)	–	–	–	–	–	–	62,311	–
At 31 December 2012		88,856	767,097	710	224,589	57,607	133,745	1,134,050	(4,990)	62,311	2,463,975

	Note	**Attributable to owners of the parent**									
	Note	**Issued capital RMB'000 (note 36)**	**Share premium RMB'000**	**Asset revaluation reserve# RMB'000**	**Contributed surplus RMB'000**	**Capital reserve RMB'000**	**Statutory reserve fund RMB'000 (note (a))**	**Retained profits RMB'000**	**Exchange fluctuation reserve RMB'000**	**Proposed final dividend RMB'000**	**Total RMB'000**
At 1 January 2013											
As previously reported		**88,856**	**767,097**	**–**	**224,589**	**57,607**	**133,745**	**1,130,994**	**(4,909)**	**62,311**	**2,460,290**
Prior year adjustments	3.1	**–**	**–**	**710**	**–**	**–**	**–**	**3,056**	**(81)**	**–**	**3,685**
As restated		**88,856**	**767,097**	**710**	**224,589**	**57,607**	**133,745**	**1,134,050**	**(4,990)**	**62,311**	**2,463,975**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**41,471**	**–**	**–**	**41,471**
Other comprehensive income for the year:											
Gains on property revaluation, net of tax		**–**	**–**	**1,153,715**	**–**	**–**	**–**	**–**	**–**	**–**	**1,153,715**
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**22,219**	**–**	**22,219**
Total comprehensive income for the year		**–**	**–**	**1,153,715**	**–**	**–**	**–**	**41,471**	**22,219**	**–**	**1,217,405**
Final 2012 dividend declared		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(62,311)**	**(62,311)**
At 31 December 2013		**88,856**	**767,097***	**1,154,425 ***	**224,589***	**57,607***	**133,745***	**1,175,521***	**17,229***	**–**	**3,619,069**

The asset revaluation reserve arose from a change in use from owner-occupied properties to investment properties carried at fair value.

* These reserve accounts comprise the consolidated reserves of RMB3,530,213,000 (2012: RMB2,312,808,000 (restated)) in the consolidated statement of financial position as at 31 December 2013.

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 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 2013

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**81,901**	382,071
Adjustments for:			
Finance costs	8	**173,777**	77,361
Share of profit and loss of a joint venture	9	**299**	–
Bank interest income	7	**(14,861)**	(7,519)
Depreciation	16	**87,228**	52,075
Amortisation of prepaid land lease payments	19	**19,110**	8,563
Changes in fair value of investment properties	17	**(196,501)**	(1,302)
(Reversal of impairment)/impairment of trade receivables	25	**(208)**	329
Reversal of impairment of deposits and other receivables	26	**–**	(57)
Fair value (gain)/loss of derivative instruments-transactions not qualifying as hedge	9	**(16,926)**	3,784
		133,819	515,305
(Increase)/decrease in inventories		**(307,222)**	384,387
(Increase)/decrease in trade and bills receivables		**171,223**	(582,837)
(Increase)/decrease in prepayments, deposits and other receivables		**198,231**	(4,376)
Increase in pledged deposits		**(7,219)**	(78,636)
Increase/(decrease) in trade and bills payables		**(342,682)**	197,036
Increase/(decrease) in other payables and accruals		**(391,939)**	128,217
Increase in government grants		**2,312**	61,929
Cash (used in)/generated from operations		**(543,477)**	621,025
Interest received	7	**14,861**	7,519
Corporate income tax paid		**(31,284)**	(41,659)
Net cash flows (used in)/from operating activities		**(559,900)**	586,885
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(604,385)**	(844,104)
Addition to investment properties	17	**(3,792)**	–
Acquisition of subsidiaries	38	**(28,556)**	(3,958)
Addition to prepaid land lease payments		**(844,413)**	(173,822)
Investment in a joint venture		**(70,092)**	–
Proceeds from disposal of items of property, plant and equipment		**135**	236
Net cash flows used in investing activities		**(1,551,103)**	(1,021,648)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings		**4,525,404**	3,045,203
Repayment of bank loans and other borrowings		**(1,862,201)**	(2,681,845)
Proceeds from issue of bonds		**430,452**	–
Proceeds from issue of short term note		**223,310**	301,216
Repayment of short term note		**(317,600)**	–
Dividend paid		**(62,311)**	(46,725)
Interest paid		**(218,139)**	(84,212)
Interest element of finance lease rental payments		**(6,242)**	(8,346)
Capital element of finance lease rental payments		**(31,590)**	(32,241)
Net cash flows from financing activities		**2,681,083**	493,050
NET INCREASE IN CASH AND CASH EQUIVALENTS		**570,080**	58,287
Effect of foreign exchange rate changes, net		**89**	(718)
Cash and cash equivalents at beginning of year		**1,039,348**	981,779
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,609,517**	1,039,348
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	**1,609,517**	1,039,348

STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**–**	23
Investments in subsidiaries	21	**1,778,636**	1,778,636
Total non-current assets		**1,778,636**	1,778,659
CURRENT ASSETS			
Prepayments, deposits and other receivables	26	**1,576**	1,771
Due from subsidiaries	21	**1,113,776**	788,479
Cash and bank balances	27	**98**	64
Total current assets		**1,115,450**	790,314
CURRENT LIABILITIES			
Other payables and accruals	31	**4,170**	26
Total current liabilities		**4,170**	26
NET CURRENT ASSETS		**1,111,280**	790,288
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,889,916**	2,568,947
NON-CURRENT LIABILITIES			
Fixed rate bonds	34	**431,453**	–
Total non-current liabilities		**431,453**	–
Net assets		**2,458,463**	2,568,947
EQUITY			
Issued capital	36	**88,856**	88,856
Reserves	37(b)	**2,369,607**	2,417,780
Proposed final dividend	14	**–**	62,311
Total equity		**2,458,463**	2,568,947

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 pies and the provision of related manufacturing services. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Bournam Profits Limited, 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 investment properties and 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 2013. 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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance*
IFRS 13	*Fair Value Measurement*
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits*
IAS 27 (Revised)	*Separate Financial Statements*
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*
IAS 36 Amendments	Amendments to IAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009–2011 Cycle	Amendments to a number of IFRSs issued in May 2012

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

In addition, in the previous year, investment properties, subsequent to initial recognition, were stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation was recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

According to the board resolution, with effect from 31 March 2013, the measurement method subsequent to initial recognition has been changed to fair values. Accordingly, gains or losses arising from changes in the fair values of investment properties are included in profit or loss for the period in which they arise. Management believes that the new policy results in a more appropriate presentation of the Group's investment properties.

This change in accounting policy has been applied retrospectively. In June 2013, owner-occupied lands with a carrying amount of RMB471,763,000 were transferred to investment properties after the change of the permitted use from industrial use to commercial use. Relevant increase in fair value arising between the carrying amount at that date and the fair value amounted to RMB1,538,287,000. After the recognition of deferred tax liabilities of RMB384,572,000, the net amount of RMB1,153,715,000 was recognised in other comprehensive income and accumulated in asset revaluation reserve under equity.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The effects of the change in accounting policy are summarised below.

Impact on the consolidated statement of profit or loss for the year ended 31 December:

	2013 RMB'000	2012 RMB'000
Decrease in administrative expenses	7,053	45
Increase in fair value gains on investment properties	196,501	1,302
Increase in profit before tax	203,554	1,347
Increase in income tax expense	(51,092)	(215)
Increase in profit for the year	152,462	1,132
Attributable to:		
Owners of the parent	152,462	1,132
Increase in earnings per share attributable to ordinary equity holders of the parent		
Basic and diluted	RMB0.15	RMB0.00

Impact on the consolidated statement of comprehensive income for the year ended 31 December:

	2013 RMB'000	2012 RMB'000
Increase in profit for the year	152,462	1,132
Increase in gains on property revaluation	1,538,287	–
Decrease on exchange differences on translating foreign operations	(225)	(3)
Increase in income tax effect	(384,572)	–
Increase in other comprehensive income for the year, net of tax	1,153,490	(3)
Increase in total comprehensive income for the year	1,305,952	1,129
Attributable to:		
Owners of the parent	1,305,952	1,129

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Impact on the consolidated statement of financial position at 31 December:

	2013 **RMB'000**	2012 RMB'000
Increase in investment properties	**1,746,046**	4,394
Increase in deferred tax liabilities	**(434,598)**	(709)
Increase in net assets and total equity	**1,311,448**	3,685

Impact on the consolidated statement of financial position at 1 January:

Increase in investment properties	3,051
Increase in deferred tax liabilities	(495)
Increase in net assets and total equity	2,556

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 9	*Financial Instruments*[4]
IFRS 9, IFRS 7 and IAS 39 Amendments	*Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39*[4]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities*[1]
IFRS 14	*Regulatory Deferral Accounts*[3]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
IAS 39 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
IFRIC 21	*Levies*[1]
IFRS Amendments	*Annual Improvements to IFRSs 2010-2012 Cycle*[2]
IFRS Amendments	*Annual Improvements to IFRSs 2011-2013 Cycle*[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 January 2016
4 No mandatory effective date yet determined but is available for adoption

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

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

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

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 as 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 the statement of 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 the statement of profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

In November 2013, the IASB added to IFRS 9 the requirements related to hedge accounting and made some related changes to IAS 39 and IFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to IFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to IFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other IFRS 9 requirements at the same time.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of IFRS 9 was removed by the IASB in November 2013 and a mandatory effective date will be determined after the entire replacement of IAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

Amendments to IFRS 10 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.

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.

The Annual Improvements to IFRSs 2010–2012 Cycle and *Annual Improvements to IFRSs 2011–2013 Cycle* set out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 July 2014. 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Investment in a joint venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investment in a joint venture is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of a joint venture is included in the consolidated statement of profit or loss. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's investment in the joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of the joint venture is included as part of the Group's investment in a joint venture.

If an investment in a joint venture becomes an investment in an associate or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

The results of the joint venture are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investment in a joint venture is treated as non-current asset and is stated at cost less any impairment losses.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in a joint venture (continued)

When an investment in a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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 acquiree 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.

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 other comprehensive income. 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 of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

The Group measures its investment properties and derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

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 the statement of 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 the statement of 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 are classified, at initial recognition, as financial assets at fair value through profit or loss, and loans and receivables. 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 that are attributable to the acquisition of the financial assets, 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

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 as 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 as 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 as 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 as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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 the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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.

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 Group continues to recognise the transferred asset 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.

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 whether impairment exists individually 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.

The amount of any impairment loss identified 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 yet 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).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of 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 the statement of profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified at initial recognition 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.

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, short term notes and fixed rate bonds.

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 include 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 repurchasing 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 the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as 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 the statement of 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 the statement of 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 the statement of 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.

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 statement of 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 portion and non-current portion only if a reliable allocation can be made.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated 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.

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

(a) when the deferred 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 and a joint venture, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred 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 and a joint venture, 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)

Government grants (continued)

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

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 the statement of 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Dividends

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

Foreign currencies

The Company incorporated in the Cayman Islands uses 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 the statement of 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 measured. 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 difference 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 and a joint venture 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 profit or loss 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 the statement of 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 Mainland China 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 Mainland China which the Group considers that it is probable to be distributed in the foreseeable future.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

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 goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 20.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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.

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 a 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 portions 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 of inventories in the period in which such estimate has been changed.

Impairment of trade and other receivables

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

6. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

(a) the manufacture and sale of welded steel pipes and the provision of related manufacturing services; and

(b) property development and investment for its rental income potential.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit/(loss) before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that head office and corporate expenses are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2013

	Steel pipes RMB'000	**Property development** RMB'000	**Total** RMB'000
Segment revenue:			
Sales to external customers	2,027,057	–	2,027,057
Segment results:	(84,755)	193,145	108,390
Reconciliation:			
Corporate and other unallocated expenses			(26,489)
Profit before tax			81,901
Segment assets:	11,863,435	2,545,032	14,408,467
Reconciliation:			
Elimination of intersegment receivables			(540,240)
Corporate and other unallocated assets			(2,894,086)
Total assets			10,974,141
Segment liabilities:	7,605,224	725,711	8,330,935
Reconciliation:			
Elimination of intersegment payables			(540,240)
Corporate and other unallocated liabilities			(435,623)
Total liabilities			7,355,072
Other segment information:			
Share of profit and loss of a joint venture	(299)	–	(299)
Impairment losses recognised in the statement of profit or loss	(35)	–	(35)
Impairment losses reversed in the statement of profit or loss	243	–	243
Depreciation and amortisation	(106,333)	(5)	(106,338)
Investment in a joint venture	75,647	–	75,647
Capital expenditure*	1,173,230	454,970	1,628,200

6. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2012

	Steel pipes RMB'000	Property development RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	3,925,995	–	3,925,995
Segment results:	392,750	19	392,769
Reconciliation:			
Corporate and other unallocated expenses			(10,698)
Profit before tax			382,071
Segment assets:	9,334,180	19,981	9,354,161
Reconciliation:			
Corporate and other unallocated assets			(2,568,973)
Total assets			6,785,188
Segment liabilities:	4,321,239	–	4,321,239
Reconciliation:			
Corporate and other unallocated liabilities			(26)
Total liabilities			4,321,213
Other segment information:			
Impairment losses recognised in the statement of profit or loss	(329)	–	(329)
Impairment losses reversed in the statement of profit or loss	57	–	57
Depreciation and amortisation	(60,638)	–	(60,638)
Capital expenditure*	1,022,318	–	1,022,318

* Capital expenditure consists of additions to property, plant and equipment, investment properties and intangible assets including assets from the acquisition of subsidiaries.

6. OPERATING SEGMENT INFORMATION (continued)

Information about steel pipe products

The revenue of the major products is analysed as follows:

	2013 RMB'000	2012 RMB'000 (Restated)
Manufacture and sale of steel pipes:		
LSAW steel pipes	**1,440,276**	3,495,594
SSAW steel pipes	**136,835**	–
ERW steel pipes	**249,455**	319,502
Steel pipe manufacturing services:		
LSAW steel pipes	**32,166**	25,342
ERW steel pipes	**6,037**	9,084
Others*	**162,288**	76,473
	2,027,057	3,925,995

* Others mainly included the manufacture and sale of steel fittings, screw-thread steels and scrap materials and the trading of equipment.

Geographical information

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

	2013 RMB'000	2012 RMB'000 (Restated)
Sales to external customers:		
Mainland China	**1,671,209**	2,862,763
America	**83,145**	623,841
European Union	**1,788**	44,354
Middle East	**114,589**	324,831
Other Asian countries	**91,395**	67,320
Others	**64,931**	2,886
	2,027,057	3,925,995

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

Information about a major customer

Revenue of approximately RMB382,864,000 (2012: RMB107,575,000) 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:

	2013 RMB'000	2012 RMB'000 (Restated)
Revenue		
Manufacture and sale of welded steel pipes and the provision of related manufacturing services	**2,027,057**	3,925,995
Other income		
Bank interest income	**14,861**	7,519
Subsidy income from the PRC government	**173,938**	95,079
Rental income	**240**	4,145
Others	**60**	1,598
	189,099	108,341
Gains		
Fair value gain/(loss), net:		
Derivative instruments – transactions not qualifying as hedge	**16,926**	(3,784)
Exchange gain/(loss), net	**16,073**	(1,717)
	32,999	(5,501)
	222,098	102,840

The subsidy income represented subsidies granted by the local finance bureaus to Panyu Chu Kong Steel Pipe (Lianyungang) Co., Ltd., Lianyungang Kaidi Heavy Equipment Technology Company Limited, Panyu Chu Kong Steel Pipe (Zhuhai) Co., Ltd., Panyu Chu Kong Steel Pipe Co., Ltd., Lianyungang Aike New Construction Materials Limited and Nanjing Rongyu Group Limited 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	
	2013 RMB'000	2012 RMB'000 (Restated)
Interest on bank loans and government loans	**183,013**	82,680
Interest on other loans (including bonds and short term notes)	**40,262**	2,416
Interest on finance leases	**6,242**	7,462
Total interest expense on financial liabilities not at fair value through profit or loss	**229,517**	92,558
Less: Interest capitalised	**(55,740)**	(15,197)
	173,777	77,361

9. PROFIT BEFORE TAX

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

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
Cost of inventories sold		**1,503,018**	2,894,614
Depreciation	16	**87,228**	52,075
Share of profit and loss of a joint venture		**299**	–
Amortisation of prepaid land lease payments	19	**19,110**	8,563
Minimum lease payments under operating leases in respect of buildings		**5,297**	4,937
Auditors' remuneration		**2,415**	2,460
Exchange (gain)/loss, net	7	**(16,073)**	1,717
Finance costs	8	**173,777**	77,361
Employee benefit expenses (including directors' remuneration (note 10)):			
Wages and salaries		**217,363**	204,564
Retirement benefit scheme contributions		**27,826**	18,606
(Reversal of impairment)/impairment of trade receivables	25	**(208)**	329
Reversal of impairment of deposits and other receivables	26	**–**	(57)
Changes in fair value of investment properties	17	**(196,501)**	(1,302)
Fair value (gain)/loss of derivative instruments – transactions not qualifying as hedge	7	**(16,926)**	3,784
Rental income on investment properties less direct operation expenses of RMB22,990 (2012: RMB30,386)		**(217)**	(199)
Bank interest income	7	**(14,861)**	(7,519)
Research and development costs		**92,762**	41,615

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:

	2013 RMB'000	2012 RMB'000
Fees	**566**	522
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**5,349**	4,412
Retirement benefit scheme contributions	**54**	46
	5,403	4,458
	5,969	4,980

10. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

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

	2013	2012
	RMB'000	RMB'000
Mr. Chen Ping	**197**	180
Mr. Liang Guo Yao	**197**	180
Mr. See Tak Wah	**172**	162
	566	522

There were no other emoluments payable to the independent non-executive directors during the year (2012: 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 2013				
Executive directors:				
Mr. Chen Chang	**–**	**2,667**	**–**	**2,667**
Ms. Chen Zhao Nian	**–**	**1,341**	**27**	**1,368**
Ms. Chen Zhao Hua	**–**	**1,341**	**27**	**1,368**
	–	**5,349**	**54**	**5,403**
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

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:

	Number of employees	
	2013	2012
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:

	2013 RMB'000	2012 RMB'000
Salaries, allowances and benefits in kind	**2,505**	4,565
Retirement benefit scheme contributions	**24**	22
	2,529	4,587

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

	Number of employees	
	2013	2012
Nil to RMB1,000,000	**1**	–
RMB1,600,001 to RMB2,100,000	**1**	1
RMB2,100,001 to RMB2,600,000	**–**	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 the five highest paid employees, the number of other senior management whose remuneration fell within the following bands is as follows:

	Number of employees	
	2013	2012
RMB200,001 to RMB300,000	**1**	1
RMB300,001 to RMB400,000	**2**	2
RMB400,001 to RMB600,000	**2**	3
	5	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"), Chu Kong Steel Pipe Group Co., Limited ("CKSPG") and View Sharp International Limited ("View Sharp"), 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)

PCK Steel Middle East FZE ("PCK(UAE)"), which was incorporated in Dubai, the United Arab Emirates on 20 May 2013, is exempted from corporate income tax for years 2013 to 2028 according to the preferential corporate tax policy in Jebel Ali Free Zone in the United Arab Emirates.

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") were exempted from corporate income tax for years 2008 and 2009, and were entitled to a 50% tax exemption for years 2010 to 2012, are subject to profits tax at a rate of 25% from 2013 onwards.

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

Panyu Chu Kong Steel Pipe (Lianyungang) Co., Ltd. ("PCKSP (Lianyungang)"), Panyu Chu Kong Steel Pipe (Zhuhai) Co., Ltd. ("PCKSP (Zhuhai)") and Lianyungang Kaidi Heavy Equipment Technology Company Limited ("Kaidi"), which were established in 2009, 2010 and 2011 respectively, are subject to income tax at a rate of 25% in 2013.

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 2012, are subject to income tax at a rate of 25% in 2013.

Lianyungang Aike New Construction Materials Limited ("Aike"), which was acquired from two independent third parties in May 2012, is subject to income tax at a rate of 25%. Nanjing Rongyu Group Company Limited and its two subsidiaries, Nanjing Rongyu Group Market Management Company Limited and Nanjing City Xixia Hill Roll Steeling Company Limited (collectively the "Nanjing Rongyu Group") are subject to income tax at a rate of 25%.

Yunfu Morning Star Property Development Co., Ltd. ("Yunfu Star"), Guangzhou Zhu Jing Property Development Co., Ltd. ("Zhu Jing"), Chu Kong Steel Pipe (Zhuhai) Co., Ltd. ("CKSP (Zhuhai)"), Chu Kong Steel Pipe (Nanjing) Co., Ltd. ("CKSP (Nanjing)") and Jiangsu Kaili Polymer Technology Co Ltd. ("Kaili"), which were established in the PRC in year 2013, are subject to income tax at a rate of 25%.

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

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

	2013 RMB'000	2012 RMB'000 (Restated)
Group:		
Current – Mainland China		
charged for the year	**27,248**	73,240
Deferred (note 23)	**13,182**	(2,379)
Total tax charge for the year	**40,430**	70,861

12. INCOME TAX (continued)

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

Year ended 31 December 2013

	Mainland China RMB'000	%	Hong Kong and others RMB'000	%	Total RMB'000	%
Profit/(loss) before tax	**136,447**		**(54,546)**		**81,901**	
Tax at the statutory tax rate	**34,112**	**25**	**(4,421)**	**8.1**	**29,691**	**36.3**
Tax effect of:						
Lower tax rate for an HNTE	**8,279**	**6.1**	**–**	**–**	**8,279**	**10.1**
Expenses not deductible for tax	**1,422**	**1.0**	**–**	**–**	**1,422**	**1.8**
Profit and loss attributable to a joint venture	**45**	**0.0**	**–**	**–**	**45**	**0.0**
Tax losses utilised from previous periods	**(5,206)**	**(3.8)**	**–**	**–**	**(5,206)**	**(6.4)**
Tax loss not recognised	**1,721**	**1.3**	**4,478**	**(8.2)**	**6,199**	**7.6**
Tax charge at the Group's effective tax rate	**40,373**	**29.6**	**57**	**(0.1)**	**40,430**	**49.4**

Year ended 31 December 2012

	Mainland China RMB'000	%	Hong Kong and others RMB'000 (Restated)	%	Total RMB'000 (Restated)	%
Profit/(loss) before tax	424,968		(42,897)		382,071	
Tax at the statutory tax rate	106,242	25	(5,311)	12.4	100,931	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)	(8.3)	–	–	(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	–	–	5,526	(12.9)	5,526	1.4
Tax charge at Group's effective tax rate	70,646	16.6	215	(0.5)	70,861	18.5

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2013 includes a loss of RMB26,489,000 (2012: RMB10,699,000) which has been dealt with in the financial statements of the Company (note 37(b)).

14. DIVIDEND

	2013 RMB'000	2012 RMB'000
Proposed final – Nil (2012: HK7.6 cents) per ordinary share	**–**	62,311

The directors do not recommend the payment of any dividend in respect of the year.

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 (2012: 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 2012 and 2013 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those 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 2013						
At 31 December 2012 and 1 January 2013:						
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
At 1 January 2013, net of accumulated depreciation and impairment	467,051	651,048	18,712	30,335	1,044,118	2,211,264
Additions	42,827	14,452	6,992	10,563	584,655	659,489
Acquisition of subsidiaries (note 38)	73,364	42,645	847	686	2,680	120,222
Disposals	–	–	(21)	(114)	–	(135)
Depreciation provided during the year	(19,815)	(56,758)	(6,611)	(4,044)	–	(87,228)
Transfers	382,971	39,403	351	–	(422,725)	–
Exchange realignment	–	–	(11)	(78)	–	(89)
At 31 December 2013, net of accumulated depreciation and impairment	946,398	690,790	20,259	37,348	1,208,728	2,903,523
At 31 December 2013:						
Cost	1,000,640	1,088,994	44,695	52,873	1,208,728	3,395,930
Accumulated depreciation and impairment	(54,242)	(398,204)	(24,436)	(15,525)	–	(492,407)
Net carrying amount	946,398	690,790	20,259	37,348	1,208,728	2,903,523

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 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	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

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 RMB98,786,000 (2012: RMB43,046,000) as at 31 December 2013.

Included in the total costs of plant and machinery are certain assets acquired in prior years for which government grants of RMB5,950,000 (2012: 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 (2012: RMB117,183,000) as at 31 December 2013.

Details of the Group's property, plant and machinery pledged to secure the Group's bank loans are set out in note 29.

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 RMB15,248,000 (2012: RMB10,642,000) as at 31 December 2013, 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.

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

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 2013 amounted to RMB81,207,000 (2012: RMB87,103,000) and RMB195,000 (2012: RMB195,000), respectively.

17. INVESTMENT PROPERTIES

	Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Building		
Carrying amount at 1 January	**6,159**	4,864
Net gain from a fair value adjustment	**343**	1,302
Exchange difference	**(189)**	(7)
Carrying amount at 31 December	**6,313**	6,159
Land		
Carrying amount at 1 January	**–**	–
Transfers from owner-occupied property (note 19)	**2,010,050**	–
Additions	**3,792**	–
Net gain from a fair value adjustment	**196,158**	–
Carrying amount at 31 December	**2,210,000**	–
	2,216,313	6,159

The Group's investment properties consist of one commercial property in Hong Kong and one commercial property in Mainland China, which are held under medium term leases. The directors of the Company have determined that the investment properties are commercial assets, based on the nature, characteristics and risks of each property.

At 31 December 2012 and 2013, the fair value of investment properties was based on the valuation by RHL Appraisal Limited, an independent professionally qualified valuer, at RMB6,159,000 and RMB2,216,313,000 respectively. Each year, the Group's property manager and the chief financial officer decide, after approval from the audit committee, to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

17. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2013 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Commercial properties	–	–	2,216,313	2,216,313

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties RMB'000
Carrying amount at 1 January 2013	6,159
Transfers from owner-occupied properties	2,010,050
Additions	3,792
Net gains from a fair value adjustment	196,501
Exchange difference	(189)
Carrying amount at 31 December 2013	2,216,313

The valuations of investment properties were arrived at with the adoption of Direct Comparison Method by making reference to the comparable sale prices in the relevant locality.

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Significant unobservable inputs	**Range (weighted average)**
Retail	Market unit sale rate (RMB/sq.m)	5,038~5,664 (5,508)
Office	Market unit sale rate (HKD/sq.ft.)	4,258~4,608 (4,460)

18. LONG TERM PREPAYMENTS AND DEPOSIT

	Group	
	2013 **RMB'000**	2012 RMB'000
Prepayments for property, plant and equipment	**187,007**	184,471
Deposits paid	**24,643**	24,643
	211,650	209,114

19. PREPAID LAND LEASE PAYMENTS

	Group	
	2013	2012
	RMB'000	RMB'000
Carrying amount at 1 January	**517,901**	347,372
Additions	**378,305**	166,226
Payment for change of permitted use	**454,932**	–
Acquisition of subsidiaries (note 38)	**15,252**	12,866
Asset revaluation	**1,538,287**	–
Transfer to investment properties (note 17)	**(2,010,050)**	–
Amortisation provided during the year	**(19,110)**	(8,563)
Carrying amount at 31 December	**875,517**	517,901
Current portion included in prepayments, deposits and other receivables (note 26)	**(15,900)**	(11,176)
Non-current portion	**859,617**	506,725

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 29.

20. GOODWILL

	Group	
	2013	2012
	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 16.1% (2012: 19.2%). Cash flows beyond the five-year period were extrapolated using the estimated growth rate of 5% (2012: 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 2013. 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 2013 RMB'000	2012 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 RMB1,113,776,000 as at 31 December 2013 (2012: RMB788,479,000), are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Company name	Place and date of incorporation/ establishment and business	Nominal value of issued capital/ registered capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Lessonstart Enterprises Limited	British Virgin Islands 18 May 1993	US$300	100	–	Investment holding
Lucknow Consultants Limited	British Virgin Islands 22 November 1994	US$10	–	100	Investment holding
Crown Central Holdings Limited	Hong Kong 21 March 1995	HK$1,000	–	100	Trading of steel pipes
Chu Kong Steel Pipe Group Co., Limited	Hong Kong 13 December 2007	HK$100,000	–	100	Investment holding and trading of steel pipes
Panyu Chu Kong Steel Pipe Co., Ltd. 番禺珠江鋼管有限公司	The PRC/ Mainland China 7 June 1993	HK$1,300,000,000	–	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/ Mainland China 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/ Mainland China 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/ Mainland China 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/ Mainland China 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 business	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/ Mainland China 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/ Mainland China 19 October 1999	RMB20,600,000	–	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/ Mainland China 21 June 2010	HK$686,760,000	–	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/ Mainland China 9 May 2011	RMB300,000,000	–	100	Manufacture of 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/ Mainland China 9 November 2012	HK$240,000,000	–	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/ Mainland China 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/ Mainland China 9 November 2012	RMB50,000,000	–	100	Investment management
Nanjing Rongyu Group Company Limited 南京鎔裕集團有限公司	The PRC/ Mainland China 24 March 2009	RMB75,000,000	–	100	Market management of steel products
Nanjing City Xixia Hill Roll Steeling Company Limited 南京市棲霞山軋鋼有限公司	The PRC/ Mainland China 20 November 1985	RMB20,316,500	–	100	Manufacture and sale of screw-thread steels

21. INVESTMENTS IN SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ establishment and business	Nominal value of issued capital/ registered capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Nanjing Rongyu Group Market Management Company Limited 南京鎔裕集團市場管理有限公司	The PRC/ Mainland China 17 November 2011	RMB1,000,000	–	100	Market management of steel products
Yunfu Morning Star Property Development Company Limited 雲浮星辰房地產開發有限公司*	The PRC/ Mainland China 1 July 2013	RMB20,000,000	–	100	Investment management
Guangzhou Zhu Jing Property Development Company Limited 廣州珠景房地產開發有限公司*	The PRC/ Mainland China 6 September 2013	RMB10,000,000	–	100	Investment management
Chu Kong Steel Pipe (Zhuhai) Company Limited 珠江鋼管（珠海）有限公司*	The PRC/ Mainland China 7 August 2013	RMB100,000,000	–	100	Trading of welded steel pipes and others
Chu Kong Steel Pipe (Nanjing) Company Limited 珠江鋼管（南京）有限公司*	The PRC/ Mainland China 21 November 2013	HK$230,000,000	–	100	Manufacture and sale of welded steel pipes
Jiangsu Kaili Polymer Technology Company Limited 江蘇凱力高分子科技有限公司*	The PRC/ Mainland China 25 December 2013	RMB10,000,000	–	100	Manufacture and sale of polymer
PCK Steel (Middle East) FZE*	Dubai 20 May 2013	UAE Dirhams 1,000,000	–	100	Trading of steel products
View Sharp International Limited*	HK 8 April 2013	HK$10,000	–	100	Investment holding

Except for Hualong Anti-Corrosion, which was established as a Sino-foreign joint venture enterprise, and PCKSP (Lianyungang), Kaidi, Aike, Pearl Steel Investment, Yunfu Star, Zhu Jing, Nanjing Rongyu Group and Kaili, which were established as domestic-invested enterprises, all the above PRC companies are wholly-foreign-invested enterprises.

During the year, the Group acquired Nanjing Rongyu Group from independent third parties. Further details of this acquisition are included in note 38 to the financial statements.

* These companies have not yet commenced operation as at 31 December 2013.

22. INVESTMENT IN A JOINT VENTURE

	Group 2013 RMB'000	Group 2012 RMB'000
Share of net assets	**74,896**	–
Exchange realignment	**751**	–
	75,647	–

Particulars of the Group's joint venture are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Al-Qahtani PCK Pipe Company	Registered capital of SR50 million each	Kingdom of Saudi Arabia	50	50	50	Manufacture and sale of welded steel pipes

The above investment in a joint venture is indirectly held by the Company.

Al-Qahtani PCK Pipe Company, which is considered a material joint venture of the Group, acts as the Group's producer and distributor of steel pipes in the Kingdom of Saudi Arabia and is accounted for using the equity method.

The following table illustrates the summarised financial information of Al-Qahtani PCK Pipe Company adjusted for any differences in accounting policies, and reconciled to the carrying amount in the financial statements:

	2013 RMB'000	2012 RMB'000
Amount due from partners	**60,990**	–
Other receivables	**4,299**	–
Total current assets	**65,289**	–
Property, plant and equipment	**96,221**	–
Total non-current assets	**96,221**	–
Amount due to partners	**597**	–
Total current liabilities	**597**	–
Net assets	**160,913**	–
Reconciliation to the Group's interest in the joint venture:		
The profit from contribution of non-money assets	**(11,122)**	–
Net assets after reconciliation	**149,791**	–
Proportion of the Group's ownership	**50%**	–
Group's share of net assets of the joint venture	**74,896**	–
Carrying amount of the investment	**74,896**	–
Administrative expenses	**(597)**	–
Loss and total comprehensive income for the year	**(597)**	–

23. 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 2013	**1,117**	**6,689**	**7,806**
Deferred tax credited/(charged) to the consolidated statement of profit or loss (note 12)	**(31)**	**36,179**	**36,148**
At 31 December 2013	**1,086**	**42,868**	**43,954**

	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 profit or loss (note 12)	41	2,553	2,594
Acquisition of a subsidiary	–	818	818
At 31 December 2012	1,117	6,689	7,806

As at 31 December 2013, the Group had tax losses arising in Hong Kong of RMB59,729,000 (2012: RMB35,757,000 (restated)), 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.

23. DEFERRED TAX (continued)

Deferred tax liabilities

Group:

	Changes in fair value of investment property RMB'000	Appreciation of property plant and equipment and lands RMB'000	Withholding tax RMB'000	Total RMB'000
At 1 January 2013 (as restated)	**709**	**–**	**2,265**	**2,974**
Deferred tax charge/(credited) to the statement of profit or loss during the year (note 12)	**49,340**	**(10)**	**–**	**49,330**
Deferred tax charge to the statement of comprehensive income during the year	**384,572**	**–**	**–**	**384,572**
Acquisition of subsidiaries (note 38)	**–**	**11,142**	**–**	**11,142**
Exchange differences	**(23)**	**–**	**–**	**(23)**
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2013	**434,598**	**11,132**	**2,265**	**447,995**

	Changes in fair value of investment property RMB'000	Appreciation of property plant and equipment and lands RMB'000	Withholding tax RMB'000	Total RMB'000
At 1 January 2012 (as restated)	495	–	2,265	2,760
Deferred tax charged/ (credited) to the statement of profit or loss during the year (note 12)	215	–	–	215
Exchange differences	(1)	–	–	(1)
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2012	709	–	2,265	2,974

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.

23. DEFERRED TAX (continued)

Since year 2011, 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 recognised totaled approximately RMB104 million at 31 December 2013 (2012: RMB94 million).

24. INVENTORIES

	Group	
	2013	2012
	RMB'000	RMB'000
Raw materials	**340,459**	227,868
Work in progress	**233,848**	229,681
Finished goods	**574,030**	350,323
	1,148,337	807,872

25. TRADE AND BILLS RECEIVABLES

	Group	
	2013	2012
	RMB'000	RMB'000
Trade receivables	**1,225,399**	1,369,152
Impairment	**(6,395)**	(6,603)
Trade receivables, net	**1,219,004**	1,362,549
Bills receivable	**100**	23,280
	1,219,104	1,385,829

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.

25. TRADE AND BILLS RECEIVABLES (continued)

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

	Group	
	2013	2012
	RMB'000	RMB'000
Within 60 days	**561,766**	1,052,706
61 to 90 days	**32,895**	85,426
91 to 180 days	**143,039**	48,475
181 to 365 days	**295,377**	94,378
1 to 2 years	**126,400**	71,737
2 to 3 years	**50,069**	8,870
Over 3 years	**9,458**	957
	1,219,004	1,362,549

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

	Group	
	2013	2012
	RMB'000	RMB'000
At 1 January	**6,603**	6,274
Impairment losses recognised	**35**	329
Impairment losses reversed	**(243)**	–
At 31 December	**6,395**	6,603

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB6,395,000 (2012: RMB6,603,000) with a carrying amount before provision of RMB6,395,000 (2012: RMB7,560,000).

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

	Group	
	2013	2012
	RMB'000	RMB'000
Neither past due nor impaired	**666,333**	1,178,008
Past due but not impaired		
1 to 180 days	**380,674**	122,294
181 to 365 days	**104,748**	43,820
Over 365 days	**67,249**	18,427
	1,219,004	1,362,549

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.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**197,132**	249,715	**1,576**	1,771
Deposits and other receivables	**106,340**	88,459	**–**	–
Tax recoverable	**216,307**	131,815	**–**	–
Current portion of land lease payments (note 19)	**15,900**	11,176	**–**	–
	535,679	481,165	**1,576**	1,771
Less: Impairment of deposits and other receivables	**(453)**	(453)	**–**	–
	535,226	480,712	**1,576**	1,771

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

	Group	
	2013	2012
	RMB'000	RMB'000
At 1 January	**453**	510
Impairment losses reversed (note 9)	**–**	(57)
At 31 December	**453**	453

As at 31 December 2013, 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.

27. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

		Group		Company	
		2013	2012	**2013**	2012
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Cash and bank balances		**1,609,517**	1,039,348	**98**	64
Pledged deposits	(a)	**133,503**	126,284	**–**	–
		1,743,020	1,165,632	**98**	64
Less:					
Pledged deposits with original maturity of over three months when acquired		**(133,503)**	(126,284)	**–**	–
Cash and cash equivalents	(b)	**1,609,517**	1,039,348	**98**	64

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 2013, the Group's cash and cash equivalents denominated in RMB amounted to RMB1,506,803,000 (2012: RMB1,015,083,000). 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.

28. 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	
	2013	2012
	RMB'000	RMB'000
Within 90 days	**180,620**	169,427
91 to 180 days	**13,952**	7,895
181 to 365 days	**5,628**	6,771
1 to 2 years	**11,504**	6,870
2 to 3 years	**3,942**	641
Over 3 years	**2,721**	4,580
	218,367	196,184
Bills payable	**317,076**	667,439
	535,443	863,623

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

All the bills payable have maturity dates within 180 days.

29. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	Effective interest rate	Maturity	Group	
			2013	2012
	%		**RMB'000**	RMB'000
Current				
Finance lease payables (note 30)	7.02	2014	**34,095**	31,970
Bank loans				
– secured	6.0~7.59	2014	**583,572**	41,000
– unsecured	1.14~7.59	2014	**2,139,849**	689,156
Government loans				
– unsecured	4.2	2014	**260,000**	100,000
			3,017,516	862,126
Non-current				
Finance lease payables (note 30)	7.02	2015	**37,163**	70,878
Bank loans				
– secured	2.07~7.59	2015~2018	**934,858**	537,000
– unsecured	4.03~6.15	2015~2016	**937,056**	698,218
Government loan				
– unsecured	4.2	2016	**239,000**	330,000
			2,148,077	1,636,096
			5,165,593	2,498,222

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

	Group	
	2013	2012
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**2,723,421**	730,156
In the second year	**827,406**	35,000
In the third to fifth years, inclusive	**1,044,508**	1,200,218
	4,595,335	1,965,374
Government loans repayable:		
Within one year	**260,000**	100,000
In the second year	**239,000**	330,000
	499,000	430,000
Finance lease repayable:		
Within one year	**34,095**	31,970
In the second year	**37,163**	33,964
In the third to fifth years, inclusive	**–**	36,914
	71,258	102,848
	5,165,593	2,498,222

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 RMB148,775,000 (2012: RMB141,765,000) as at the end of the reporting period; and

(b) certain leasehold lands of the Group with net carrying amounts of approximately RMB302,399,000 (2012: RMB114,981,000) as at the end of the reporting period.

In addition, the Company has guaranteed certain of the Group's bank loans up to RMB1,745,093,000 (2012: RMB1,028,218,000) as at the end of the reporting period.

Except for the unsecured bank loans of RMB31,449,000 (2012: RMB32,434,000) and RMB1,449,181,000 (2012: RMB821,900,000) as at 31 December 2013, 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	
	2013	2012
	RMB'000	RMB'000
Floating rate		
– expiring within one year	**6,938,407**	4,531,613

30. 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 26 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 the 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 expiration of the lease term.

At 31 December 2013, the total future minimum lease payments under finance leases and their present values were as follows:

Group	**Minimum lease payments 2013 RMB'000**	Minimum lease payments 2012 RMB'000	**Present value of minimum lease payments 2013 RMB'000**	Present value of minimum lease payments 2012 RMB'000
Amounts payable:				
Within one year	**37,832**	37,832	**34,095**	31,970
In the second year	**38,696**	37,832	**37,163**	33,964
In the third to fifth years, inclusive	**–**	37,832	**–**	36,914
Total minimum finance lease payments	**76,528**	113,496	**71,258**	102,848
Future finance charges	**(5,270)**	(10,648)		
Total net finance lease payables	**71,258**	102,848		
Portion classified as current liabilities (note 29)	**(34,095)**	(31,970)		
Non-current portion (note 29)	**37,163**	70,878		

31. OTHER PAYABLES AND ACCRUALS

	Group		**Company**	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Deposits received and receipts in advance	**123,301**	223,375	**–**	–
Other payables*	**189,176**	112,490	**–**	–
Payroll payables	**18,216**	22,448	**–**	–
Accruals and other liabilities	**17,199**	15,067	**4,170**	26
Other tax payables	**45,865**	110,839	**–**	–
	393,757	484,219	**4,170**	26

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

32. DERIVATIVE FINANCIAL INSTRUMENTS

Group	31 December 2013 Assets RMB'000	31 December 2013 Liabilities RMB'000
Cross currency swap	**13,675**	**–**
Interest rate swap	**–**	**480**
	13,675	**480**

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 purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging derivatives amounting to RMB16,926,000 were charged to profit or loss during the reporting period (2012: RMB3,784,000).

33. SHORT TERM NOTES

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

	2013 RMB'000	2012 RMB'000
The First Tranche Notes – 5.6% fixed rate notes maturing in November 2013 – unsecured	**–**	301,216
The Second Tranche Notes – 5.1% fixed rate notes maturing in May 2014 – unsecured	**206,926**	–
	206,926	301,216

In September 2012, PCKSP completed the registration with the National Association of Financial Market Institutional Investors for 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 tenure of one year and carrying interest at a fixed rate of 5.6% per annum. In May 2013, PCKSP issued the Second Tranche Notes of RMB200 million in the PRC with tenure of one year and carrying interest at a fixed rate of 5.1% per annum.

34. FIXED RATE BONDS

On 30 April 2013, the Group issued bonds with a principal amount of US dollar 72,000,000 and the bonds will be repayable in full by 30 April 2018. The bonds may be redeemed at the option of the Group in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the holders of the bonds, at their principal amount, together with interest accrued to the date fixed for redemption. The bonds bear a fixed coupon interest rate at 5.6% per annum for five years payable semi-annually, commencing on 30 October 2013. The bonds are unsecured.

The bonds were issued for refinancing the existing debt and for general corporate purposes. The net proceeds of the bonds after deducting issue expenses amounted to approximately RMB438,381,000.

34. FIXED RATE BONDS (continued)

	Group and Company	
	2013	2012
	RMB'000	RMB'000
Carrying amount as at 1 January 2013	**–**	–
Newly issued	**446,990**	–
Issue expense	**(8,609)**	–
Amortisation	**1,001**	–
Exchange realignment	**(7,929)**	–
Carrying amount as at 31 December 2013	**431,453**	–

The effective interest rate of the bonds is 6.05% per annum.

35. GOVERNMENT GRANTS

As at 31 December 2013, government grants represented funds of RMB9,418,000 which was received in advance from the local finance bureau by PCKSP as an encouragement for its technological innovation and improvements, RMB7,848,000 by Nanjing Rongyu Group Limited as a subsidy for land premiums and RMB89,079,000 by PCKSP (Zhuhai) as a subsidy for the construction of production plants. Related assets associated with the above grants have not yet been completed.

36. ISSUED CAPITAL

	2013	2012
	RMB'000	RMB'000
Authorised:		
10,000,000,000 (2012: 10,000,000,000) ordinary shares of HK$0.10 each	**878,335**	878,335
Issued and fully paid:		
1,011,142,000 (2012: 1,011,142,000) ordinary shares of HK$0.10 each	**88,856**	88,856

37. 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 RMB'000	Contributed surplus RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 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 and 1 January 2013	**824,219**	**1,712,731**	**(47,045)**	**(72,125)**	**2,417,780**
Total comprehensive income for the year	**–**	**–**	**(26,489)**	**(21,684)**	**(48,173)**
At 31 December 2013	**824,219**	**1,712,731**	**(73,534)**	**(93,809)**	**2,369,607**

38. BUSINESS COMBINATION

On 29 May 2013, the Group acquired 100% equity interests in the Nanjing Rongyu Group from four independent third parties. The Nanjing Rongyu Group is engaged in the manufacture and sale of screw-thread steels which are mainly used as construction materials of buildings, bridges and roads. The consideration for the acquisition was RMB80,366,500 in the form of cash.

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

	Fair value recognised on acquisition RMB'000
Property, plant and equipment (note 16)	120,222
Prepaid land premiums (note 19)	15,252
Deposit paid for purchase of property, plant and equipment	1,900
Inventories	33,243
Trade and bills receivables	4,290
Prepayments, deposits and other receivables	214,439
Cash and bank balances	51,811
Interest-bearing loans and other borrowings	(42,000)
Trade and bills payables	(14,502)
Other payables and accruals	(285,195)
Government grants	(7,951)
Deferred tax liabilities (note 23)	(11,142)
Total identifiable net assets at fair value	80,367
Satisfied by cash	80,367

38. BUSINESS COMBINATION (continued)

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

	RMB'000
Cash consideration	(80,367)
Cash and bank balances acquired	51,811
Net outflow of cash and cash equivalents included in cash flows from investing activities	(28,556)

39. 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 2013, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
Within one year	**150**	243
In the second year	**–**	154
	150	397

(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 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
Within one year	**7,050**	2,475
In the second to fifth years, inclusive	**4,632**	1,217
	11,682	3,692

40. COMMITMENTS

In addition to the operating lease commitments detailed in note 39(b) above, the Group had the following capital commitments:

	Group	
	2013	2012
	RMB'000	RMB'000
Contracted, but not provided for:		
Land and buildings	**356,422**	123,417
Plant and machinery	**142,535**	106,127
	498,957	229,544
Contracted, but not provided for:		
Capital contributions payable for establishment of a joint venture	**231,972**	333,132
	730,929	562,676

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

41. 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**	**2013**	2012
		RMB'000	RMB'000
GZFLD	Purchases of spare parts	**–**	1
GZMT	Purchases of spare parts	**18,035**	17,326

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

41. RELATED PARTY TRANSACTIONS (continued)

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

	2013 RMB'000	2012 RMB'000
Salaries, allowances and benefits in kind	**9,762**	11,224
Retirement benefit scheme contributions	**157**	137
Total compensation paid to key management personnel	**9,919**	11,361

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

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

42. 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	
	2013 RMB'000	2012 RMB'000
Financial assets included in long term prepayments and deposit (note 18)	**24,643**	24,643
Trade and bills receivables (note 25)	**1,219,104**	1,385,829
Financial assets included in prepayments, deposits and other receivables (note 26)	**106,340**	88,459
Derivative financial instruments (note 32)	**13,675**	–
Pledged deposits (note 27)	**133,503**	126,284
Cash and bank balances (note 27)	**1,609,517**	1,039,348
	3,106,782	2,664,563

Financial liabilities

	Financial liabilities at amortised cost	
	2013 RMB'000	2012 RMB'000
Trade and bills payables (note 28)	**535,443**	863,623
Financial liabilities included in other payables and accruals (note 31)	**189,176**	112,490
Interest-bearing bank loans and other borrowings (note 29)	**5,165,593**	2,498,222
Fixed rate bonds (note 34)	**431,453**	–
Derivative financial instruments (note 32)	**480**	3,784
Short term notes (note 33)	**206,926**	301,216
	6,529,071	3,779,335

42. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

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

Financial assets

	Loans and receivables	
	2013	2012
	RMB'000	RMB'000
Due from subsidiaries (note 21)	**1,113,776**	788,479
Cash and bank balances (note 27)	**98**	64
	1,113,874	788,543

Financial liabilities

	Other payables and accruals	
	2013	2012
	RMB'000	RMB'000
Other payables and accruals (note 31)	**4,170**	26

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments other than those with carrying amounts that reasonably approximate to fair value, are as follows:

Group

	Carrying amounts		Fair values	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Financial assets included in long term prepayments and deposit	**24,643**	24,643	**22,955**	22,262
Pledged deposits, non-current portion	**5,907**	5,904	**5,907**	5,904
Trade and bills receivables	**1,219,104**	1,385,829	**1,215,675**	1,383,166
Derivative financial instruments	**13,675**	–	**13,675**	–
	1,263,329	1,416,376	**1,258,212**	1,411,332
Financial liabilities				
Interest-bearing bank loans and other borrowings	**5,165,593**	2,498,222	**5,126,500**	2,496,754
Derivative financial instruments	**480**	3,784	**480**	3,784
Fixed rate bonds	**431,453**	–	**420,176**	–
	5,597,526	2,502,006	**5,547,156**	2,500,538

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

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

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 the financial asset included in long term prepayments and deposit, non-current portion of pledged deposits, interest-bearing bank and other borrowings and fixed rate bonds have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance lease payables, interest-bearing bank and other borrowings, and fixed rate bonds as at 31 December 2013 was assessed to be insignificant.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with AAA credit ratings. Derivative financial instruments, including forward currency contracts and interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

As at 31 December 2013, the marked to market value of the derivatives is net of credit/debit valuation adjustment attributable to derivative counterparty default risk.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Derivative financial instrument	–	**13,675**	–	**13,675**

The Group did not have any financial asset measured at fair value as at 31 December 2012.

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liability measured at fair value:

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Derivative financial instrument	**–**	**480**	**–**	**480**

As at 31 December 2012

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instrument	–	3,784	–	3,784

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2012: Nil).

Assets for which fair values are disclosed:

As at 31 December 2013

	Fair value measurement using			
	Quoted Prices in Active markets (Level 1) RMB'000	**Significant Observable inputs (Level 2) RMB'000**	**Significant Unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Financial assets included in long term prepayments and deposit	**–**	**22,955**	**–**	**22,955**
Pledged deposits, non-current portion	**–**	**5,907**	**–**	**5,907**
Trade and bills receivables	**–**	**1,215,775**	**–**	**1,215,775**
	–	**1,244,637**	**–**	**1,244,637**

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Assets for which fair values are disclosed: (continued)

As at 31 December 2012

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets included in long term prepayments and deposit	–	22,262	–	22,262
Pledged deposits, non-current portion	–	5,904	–	5,904
Trade and bills receivables	–	1,383,166	–	1,383,166
	–	1,411,332	–	1,411,332

Liabilities for which fair values are disclosed:

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Interest-bearing bank loans and other borrowings	**–**	**5,126,500**	**–**	**5,126,500**
Fixed rate bonds	**–**	**420,176**	**–**	**420,176**
	–	**5,546,676**	**–**	**5,546,676**

As at 31 December 2012

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank loans and other borrowings	–	2,496,754	–	2,496,754

44. 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 profit or loss 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 RMB25.7 million (2012: RMB16.7 million), and there is no impact on other components of the consolidated equity, except for retained profits, of the Group.

(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 18% (2012: 27%) 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

	2013 **RMB'000**	2012 RMB'000
Increase in the US dollar rate of 3%	**40,910**	3,881
Decrease in the US dollar rate of 3%	**(40,910)**	(3,881)

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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 25.

(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 RMB12,104 million as at 31 December 2013, of which an amount of approximately RMB5,166 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 2013			
	On demand RMB'000	Less than 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade and bills payables	–	535,443	–	535,443
Other payables	–	189,176	–	189,176
Interest-bearing bank loans and other borrowings	–	3,224,663	2,363,839	5,588,502
Fixed rate bonds	–	–	431,453	431,453
Derivative financial instruments	–	480	–	480
Short term notes	–	206,926	–	206,926
	–	4,156,688	2,795,292	6,951,980

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Liquidity risk (continued)

	31 December 2012			
	On demand RMB'000	Less than 1 year RMB'000	Over 1 year RMB'000	Total 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

(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, government grants and fix rate bonds. The gearing ratios as at the end of the reporting periods are as follows:

	2013 RMB'000	2012 RMB'000 (Restated)
Interest-bearing bank loans and other borrowings (note 29)	**5,165,593**	2,498,222
Fixed rate bonds (note 34)	**431,453**	–
Government grants (note 35)	**106,345**	96,082
Short term notes (note 33)	**206,926**	301,216
Total debts	**5,910,317**	2,895,520
Total assets	**10,974,141**	6,785,188
Gearing ratio	**53.8%**	42.7%

45. COMPARATIVE AMOUNTS

As further explained in note 3.1 to the financial statements, due to the change in accounting policy of investment properties during the current period, the accounting treatment and presentation of certain items and balances in the financial statements have been revised or added to comply with the changed accounting policy. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation and accounting treatment. and a third statement of financial position as at 1 January 2012 has been presented.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2014.

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				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000	RMB'000
Revenue	**2,027,057**	3,925,995	3,376,865	1,681,473	2,825,736
Cost of sales	**(1,714,113)**	(3,259,406)	(2,866,517)	(1,417,097)	(2,183,831)
Gross profit	**312,944**	666,589	510,348	264,376	641,905
Fair value gains on investment properties	**196,501**	1,302	–	–	–
Other income and gains	**222,098**	102,840	68,972	11,466	35,574
Selling and distribution expenses	**(131,511)**	(88,493)	(71,023)	(42,765)	(87,628)
Administrative expenses	**(337,537)**	(217,240)	(165,925)	(115,984)	(79,940)
Other expenses	**(6,518)**	(5,566)	(3,087)	(3,807)	(827)
Finance costs	**(173,777)**	(77,361)	(65,196)	(22,731)	(41,893)
Share of profit and loss of a joint venture	**(299)**	–	–	–	–
Exchange (loss)/gain, net	**–**	–	5,413	(1,576)	(1,784)
Profit before tax	**81,901**	382,071	279,502	88,979	465,407
Income tax expense	**(40,430)**	(70,861)	(48,775)	(18,742)	(64,389)
Profit for the year	**41,471**	311,210	230,727	70,237	401,018
Other comprehensive income for the year	**1,175,934**	(722)	(2,578)	(8,867)	(18)
Total comprehensive income for the year	**1,217,405**	310,488	228,149	61,370	401,000
Earnings per share (RMB) – basic	**0.04**	0.31	0.23	0.07	0.53

Assets and Liabilities

	31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000	RMB'000
Non-current assets	**6,320,686**	2,951,047	1,945,542	1,270,794	880,325
Current assets	**4,653,455**	3,834,141	3,485,175	2,344,544	1,453,896
Current liabilities	**(4,221,202)**	(2,586,061)	(2,464,354)	(1,344,832)	(999,519)
Non-current liabilities	**(3,133,870)**	(1,735,152)	(768,707)	(279,489)	(382,771)
Total Equity	**3,619,069**	2,463,975	2,197,656	1,991,017	951,931

The financial information for the year ended 31 December 2009 has been prepared as if the Group's structure at the time when the shares of the Company were listed on the Stock Exchange had been in existence throughout the year. The results for the year ended 31 December 2009, and the assets and liabilities as at 31 December 2009 have been extracted from the prospectus of the Company dated 28 January 2010.