# 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 2014

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# CORPORATE PROFILE

Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company", together with its subsidiaries hereinafter referred to as the "Group") is the largest manufacturer and exporter of longitudinal welded steel pipes in China. The Company has been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock Code: 1938) since February 2010. 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, offshore engineering, steel structures and water utilities industries.

The Group's production bases and offices are located in Panyu, Zhuhai, Lianyungang, Jiangyin, Nanjing, Ningbo of China, Singapore, Indonesia, Saudi Arabia, Dubai of the United Arab Emirates and Hong Kong, with 9 longitudinal submerged arc-welded ("LSAW"), 4 spiral submerged arc-welded ("SSAW") and 1 electric resistance welded ("ERW") production lines and other lines with a combined annual production capacity of 3,380,000 tonnes as at 31 December 2014.

The Group is an industry pioneer, particularly strong in research and development, with possession of 102 patents (including 7 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 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 six national honours and awards, including "Gold Cup Prize for Actual Quality of Metallurgical Products", "Superior Quality Award for Actual Quality of Metallurgical Products", "National Key New Products", "National-recognised Enterprise Technology Centre", "High and New Technology Enterprise", and "Academician Workstation" and 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 (resigned with effect from 1 August 2014)
Mr SEE Tak Wah
Mr TIAN Xiao Ren (appointed with effect from 1 August 2014)

## 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 TIAN Xiao Ren

## NOMINATION COMMITTEE

Mr CHEN Ping *(Chairman)*
Mr TIAN Xiao Ren
Mr CHEN Chang

## REMUNERATION COMMITTEE

Mr TIAN Xiao Ren *(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

Locke Lord

## PRINCIPAL BANKERS

### In Hong Kong:

Bank of China (Hong Kong) Limited
China Citic Bank International Limited
China Development Bank Corporation
Deutsche Bank AG
Industrial and Commercial Bank of China (Asia) Limited

### In the PRC:

Bank of China Limited
Bank of Communications
China Construction Bank
China Resource Bank Company Limited
Dah Sing Bank
Guangzhou Rural Commercial Bank
Industrial and Commercial Bank of China
Ping An Bank Co Ltd
Shanghai Pudong Development Bank
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


**Chen Chang**
*Chairman*

**Dear Shareholders,**

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I would like to present to you the audited consolidated annual results of the Group for the year ended 31 December 2014. In the difficult and challenging year of 2014, the Group has a turnover of approximately RMB2,679.2 million, up by approximately 32.2% as compared with that of 2013 (2013: RMB2,027.1 million). Loss attributable to equity holders of the Company was approximately RMB358.7 million (2013: profit RMB41.5 million). Loss per share were approximately RMB0.36, (2013: earnings per share RMB0.04). The Board did not recommend the payment of final dividend for the year ended 31 December 2014.

## UPS AND DOWNS

2014 was a year with a mix of good and bad. The political restlessness in relation to the anti-corruption movement, which was initiated by the central government of China for enhancing the integrity of the state-owned-enterprises and government departments, has caused substantial impacts to the oil and gas industry and the domestic energy sector. Many of the ongoing domestic national construction pipeline projects either came to a halt or slowed down, leading to a further significant decline in the number of projects available for bidding. Such tough condition has negatively influenced the business sentiment and the industry.

The vigorous expansion plan the Group carried out which is still in progress, has brought the Group to a state with six production plants and a wharf in operation by the end of 2014. Though the Saudi Arabian production line will only commence commercial operation in the second half of 2015, the construction of the plant is completed and the technical and production team are already in place. The expansion will serve the Group well in the long-run, yet nevertheless it will also cause an increase in expenses and financial pressure of the Group, particularly when the volume of sales has yet to make a recovery, which is expected to be taken place in 2015.

Despite the poor sentiment in the domestic market in 2014, the Group's overseas sales team proactively extended its reach to different places and markets around the globe. After a considerable amount of hard work and effort they had put in, the new orders from overseas increased significantly and made up approximately 57% of the total signed new orders in 2014. The performance of the overseas sales team had gone from strength to strength, and had made an immense positive impact to the Group in terms of the new orders. Once again, it was a proof to the world that the Company and the brand of PCK is no stranger to the international oil and gas industry. The quality of the Group's products is well accepted not only by the domestic oil majors but by international players as well.

The second development phase of the Zhuhai plant had been completed, with a self-owned and operated wharf commencing operation in early 2014. Wasting no time, the Company already started to utilise it, by handling some distinctive orders for shipping pipes in a length of over 70 metres each and for some construction projects, such as the Hong Kong-Zhuhai-Macau Bridge (the "Bridge"). The Company supplied a good number of pipes for the construction of the foundation of the Bridge and the artificial island as part of the Bridge project. The self-operated wharf also brought us unprecedented convenience with regards to the transportation of our products, especially for export, which accounted for a at least half of the Company's income. This is indeed an unparalleled competitive advantage over our peers. The location of the Zhuhai plant is neighbouring the South China Sea, a major offshore exploration area for China National Offshore Oil Corporation ("CNOOC"), having its marine equipment manufacturing base established only blocks away from us. The South China Sea has ample natural gas reserve and the Chinese government has implemented a strategy to explore the South China Sea area for oil and gas. We therefore expect the Zhuhai plant can handle more and more offshore orders to supply pipes for the construction of drilling platforms and pipelines for energy transmissions.

In mid-2014, China and Russia entered into a natural gas agreement, under which Russia will supply as much as 38 billion cubic metres of gas each year for 30 years, starting in 2018 at the earliest. In November 2014, these two countries executed another preliminary gas-supply agreement for supplying another approximately 30 billion cubic metres of gas each year, also over 30 years. Such arrangements demonstrated the determination of the Chinese government to shift its traditional energy source of thermo coal to clean alternative gas so as to reduce pollution. However, in order to have a wider adoption of gas as energy source, China has to install more long distance pipelines for transmitting the gases to the mainland. Most of the gas reserve are located in the western and southern part of China, especially in the region of South China Sea. The Group has two production bases situated along the coastline, with the support of easy and even exclusive access to wharf facilities.

## SOMETHING NEW

Part of the commercial use converted land in Panyu has been assigned for property development, including retails shops and office buildings. The development project of the first phase is expected to be completed before 2016 and by then, incomes will be generated for the Group in forms of property rental. Having the property development segment established, the Company's business and income will be more diversified. The development of the converted land into a commercial complex will increase the economic scale and returns on the land, and it is believed that such approach is certainly in the best interest of the shareholders. The returns from the property development will enhance the profitability and create value for the Company, and as a result, the shareholders will be all benefited.

In the fourth quarter of 2014, the Company entered into 3 separate agreements to enhance its competitiveness by establishing business relationships with companies within the industry. A framework agreement has been entered into with Guangxin Shipbuilding & Heavy Industry Co. Ltd. (廣新海事重工股份有限公司) ("Guangxin Shipbuilding"), under which both parties would jointly develop and bid for CNOOC's offshore projects. The second agreement was made with CPP Material & Equipment Corporation (中油管道物資裝備總公司)("CPPMEC"), a subsidiary of the state-owned China National Petroleum Corporation 中國石油天然氣集團公司 ("CNPC") and is principally engaged in the provision of procurement service to oil and gas pipeline projects, the Company has been recognised as a recommended supplier by CCPMEC who has agreed to provide support in bidding and quotation of pipelines projects. Co-operation with China Railway Major Bridge Engineer Group Co. Ltd (中鐵大橋局集團有限公司) ("MBEC") also established in December 2014, as the Company will assist MBEC in bidding offshore installation engineering projects, marine ports projects as well as bridge construction projects. Both parties entitle business priority, to work as subcontractor in each other's projects.

## PROSPECTS AND GO FORWARD

The Group has evolved into a more sizeable scale, with six production bases in operation, a newly commenced property development and investment business segment and newly started Singapore and Indonesian offices. Such new expansions and developments have transformed the Company into a multi-income-platform enterprise, which shall no longer rely only on the income from pipe manufacturing. Business segments shall create supports to each other, and further solidifying the foundation of the Company and evolving the brand name of PCK into a multinational corporation, with cross-border business activities in pipe manufacturing, building materials, property development and steel processing.

The increase of new orders in the year of 2015 was a sign of a turnaround for the Company. A total of 510,000 tonnes of new order was received in 2014, and the Company is poised to regain its momentum with overseas segment continuing to grow in a sustainable and stable manner. The hibernated domestic market is expected to become active, with a few mega national projects to be either initiated or resumed construction, for instance, the West-East-Pipeline Phase III and Xinjiang-Guangdong-Zhejiang Pipeline, the Shaanxi-Beijing Pipeline Phase IV. In order to fulfilling the target of building almost 50,000 kilometres of pipeline, which was set in the beginning of the 12th Five-Year-Plan, the nation has to accelerate its construction pace to make up the lost time in the last two years. Therefore, we shall expect the domestic demand to make a comeback in 2015 and it will be sustained for the years to come.

## 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 confident 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
31 March 2015

# 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


**2005/2011/ Renewed in 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*)


**2005/2011/ Renewed in 2012**
**Gold Cup Prize for Actual Quality of Metallurgical Products***
**– ERW**

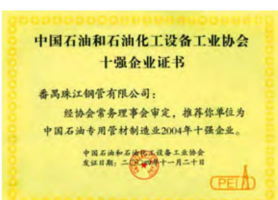
(China Iron & Steel Association*)


**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.


**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*)


**2007/2010/Renewed in 2013**
**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 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*)

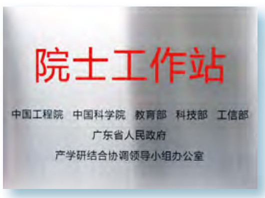
* Unofficial transliteration from Chinese name for identification purposes only.


**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*)


**2013–2016**
**Guangdong Province Innovative Enterprise Award***
(The Guangdong Provincial Department of Science and Technology, the Guangdong Development and Reform Commission, the Economic & Information Commission of Guangdong Province, the State-owned Assets Supervision and Administration Commission of the Guangdong Province, the Guangdong Intellectual Property Office and the Guangdong Provincial Federation of Trade Unions*)


**2014**
**Model Experimenting Enterprise for Credit Management of Guangdong Province 2014**
(Guangdong Credit Association)


**2014**
**Superior Quality Award for Actual Quality of Metallurgical Products***
(China Iron & Steel Association*)

* Unofficial transliteration from Chinese name for identification only.

# QUALITY CERTIFICATIONS

The Group has received numerous international quality certifications.

1996/2010/
Renewed in 2013

## ISO9001

(Hong Kong Quality Assurance Agency)

1999/2010/
Renewed in 2013

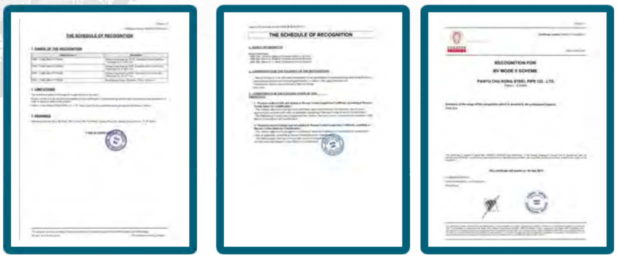
## CE

(Lloyd's Register of Shipping)

2006/2010/
Renewed in 2011

## DNV

(Det Norske Veritas)



2002/2009/
Renewed in 2010

## BV

(Bureau Veritas)

1996/2011/
Renewed in 2014

## API

(American Petroleum Institute)

2004/2010/Renewed in 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 (MT) | Year |
|---|---|---|
| Oiltanking Beaumont New Finger Pier Marine Construction Project, Texas, USA | 2,377 | 2015 |
| Kuwait Gas Project, Kuwait | 1,977 | 2015 |
| Hangzhou Natural Gas Project, China | 2,370 | 2015 |
| Reggane Nord Development Project, Algeria | 7,103 | 2014–2015 |
| Gasoducto Andino del Sur Project, Peru | 57,700 | 2015 |
| Shenhua Coal Carbon Indirect Liquefaction Project, China | 3,848 | 2015 |
| Gas/Oil Pipeline Project, Canada | 3,198 | 2014 |
| Phase II, Weizhou Oilfield Jacket Project, Shenzhen Chiwan, China | 2,151 | 2014 |
| High-rise Building Project, Foshan, China | 1,565 | 2014 |
| Gas Gathering Project, Chengdu, China | 200 | 2014 |
| Dongshan Double Gas Pipeline Project, Shanxi, China | 5,305 | 2014 |
| Jiajie Power Plant Gas Pipeline Project, China | 4,072 | 2014 |
| Hong Kong — Zhuhai — Macau Bridge Project, Guangdong-Scenic Hill Project, Hong Kong | 560 | 2014 |
| Yibal 3RD Stage Depletion Compression Project, Oman | 512 | 2014 |
| Gas Pipeline Project, Pakistan | 844 | 2014 |
| Sek Areas Flowlines Project, Sweden | 2,715 | 2014 |
| Southeast Asia Pipeline Project, Southeast Asia | 2,600 | 2014 |
| Gas/Oil Pipeline Project, Canada | 7,355 | 2014 |
| CNRL Slurry Pipeline Project, Canada | 7,616 | 2014–2015 |
| SSUT Gas Project, PTT, Thailand | 1,488 | 2014 |
| Indorama Eleme Fertilizer & Chemical Limited, Nigeria | 1,670 | 2014 |
| Changqing Oil Field Project, SIN0PEC, China | 268 | 2014 |
| Gas Pipeline Project, Shaanxi, China | 6,537 | 2014 |
| Uzbekistan Gas Project, Lukoil | 20,521 | 2014 |
| Tuen Mun-Chek Lap Kok Link-southern Connection Viaduct Section Project, Hong Kong | 2,000 | 2014 |
| "Hope" Flume Dam Project, Ecuador | 31,949 | 2014 |
| USA Project | 4,788 | 2014 |
| Water Project for Erdos Deep Coal factory, China | 10,680 | 2014 |
| Highway Road High-pressure Gas Transmission Pipeline, Chengdu, China | 1,677 | 2014 |
| Southern Section of Jingzhou-Gongan-Shishou Natural Gas Pipeline Project, Hubei, China | 1,652 | 2014 |
| Phase II, Uzbekistan Project, Uzbekistan | 26,076 | 2014 |
| Yong-Tai-Wen Natural Gas Pipeline Project, Zhejiang, China | 27,997 | 2014 |
| Changzhou Wujin Gas Storage Project, Suzhou, China | 6,035 | 2013–2014 |
| Middle East Projects, Beijing, China | 2,450 | 2013–2014 |
| Hangzhou Natural Gas Project, China | 4,500 | 2013–2014 |

## SELECTED ONSHORE PROJECTS FOR LSAW PIPE (continued)

| Projects | Quantity (MT) | Year |
|---|---|---|
| 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 |

## SELECTED ONSHORE PROJECTS FOR LSAW PIPE (continued)

| Projects | Quantity (MT) | Year |
|---|---|---|
| Syncrude, Canada | 24,352 | 2010–2011 |
| Zhejiang Gas Company, China | 6,904 | 2011 |
| Shell Nigeria | 9,304 | 2011 |
| Jingbian — XiAn Gas Pipeline Project, Phase III, CNPC, China | 4,575 | 2011 |
| ShangXi Guolin Coal Seam Gas Development Company Limited, China | 7,957 | 2011 |
| Turkmengas, Tukemenistan | 12,048 | 2011 |
| KOC/Petrofac, Kuwait | 1,250 | 2011 |
| Halfaya Project, CNPC, China | 3,237 | 2011 |
| KOC/ABB, Kuwait | 3,650 | 2011 |
| West – East Gas Pipeline Project, Phase II, CNPC, Hong Kong | 55,946 | 2011 |
| Crude Oil Pipeline SINOPEC, China | 10,523 | 2010–2011 |
| Inner Mongolia Gas, China | 14,412 | 2010–2011 |
| Columbia Gas Pipeline Project, Ecopetrol, Columbia | 144,669 | 2010–2011 |
| Shell Canada, Canada | 27,000 | 2008–2011 |
| China-Russia Oil Pipeline Project Phase II, CNPC, China | 12,182 | 2010 |
| Hangzhou Gas, China | 7,000 | 2010 |
| Anglo American, Brazil | 4,017 | 2010 |
| Guangdong Gas, China | 55,000 | 2010 |
| Foshang City Natural High Pressure Pipe Network Company, China | 6,272 | 2010 |
| Guangzhou Natural Gas Project Phase III, China | 5,387 | 2010 |
| East Siberia – Pacific Ocean, Russia | 10,078 | 2010 |
| Ampliacion Red Principal de Distribucion de Gas en Lima y Callao Project, Peru | 11,350 | 2010 |
| Kinteroni MIPAYA Pipeline Project, Repsol, Peru | 17,831 | 2010 |
| Syncrude, Canada | 13,968 | 2010 |
| West – East Gas Pipeline Project, Phase II, CNPC, China | 47,282 | 2010 |
| Guangdong Natural Gas Pipe Network, CNOOC, China | 61,855 | 2009–2010 |
| Guangdong LNG Company, CNOOC, China | 18,234 | 2009 |
| Guangdong Gas, China | 12,076 | 2009 |
| Guangdong LNG Company, CNOOC, China | 16,925 | 2009 |
| Shenzhen Gas Group Corporation Limited, China | 13,750 | 2009 |
| Yulin-Jinan Gas Pipeline, SINOPEC, China | 14,006 | 2009 |
| GTCL, Bangladesh | 35,000 | 2009 |
| Shell Canada, Canada | 20,000 | 2009 |
| Kazakhstan-China Pipeline, CNPC, China | 77,400 | 2009 |
| ESPERANZA Project, CNPC, Chile | 36,000 | 2008 |
| Yulin-Jinan Gas Pipeline, SINOPEC, China | 14,000 | 2008 |

## SELECTED ONSHORE PROJECTS FOR LSAW PIPE (continued)

| Projects | Quantity (MT) | Year |
|---|---|---|
| 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 |
| 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 (MT) | Year |
|---|---|---|
| Dubai pipeline installation works, Dubai | 7,092 | 2014–2015 |
| Gas Pipeline Project, Panama | 2,332 | 2014–2015 |
| Zhuhai Guishan Offshore Windmill Jacket Project, China | 2,405 | 2014 |
| 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 (MT) | Year |
|---|---|---|
| Crew Construction Project, Phase I, Southwest Hainan Power Plant, China | 2,270 | 2015 |
| The Nigerian National Petroleum OB3 Project, Nigeria | 6,000 | 2015 |
| Water Diversion Project, Nanning, China | 2,065 | 2014 |
| Piling Foundation Pipe Project, Humen Bridge II, Guangdong, China | 5,161 | 2014 |
| Gaolangang Area Container Terminal Project, Phase II, China | 4,200 | 2014 |

## SELECTED PROJECTS FOR SSAW PIPE (continued)

| Projects | Quantity (MT) | Year |
|---|---|---|
| Crew Construction Project, Phase I, Southwest Hainan Power Plant, China | 8,994 | 2014 |
| Hong Kong — Zhuhai — Macau Bridge Project, Guangdong-Scenic Hill Project, Hong Kong | 3,000 | 2014 |
| Pakistan Gas Pipeline Project, Pakistan | 7,537 | 2014 |
| Los Ramones Gas Pipeline Project, Mexico | 49,587 | 2014–2015 |
| Chemical Project, Jiangsu, China | 2,071 | 2014 |
| Yancheng Water Project, Jiangsu, China | 5,896 | 2014 |
| Water Irrigation Project, Venezuela | 565 | 2014 |
| Tuen Mun-Chek Lap Kok Link-southern Connection Viaduct Section Project, Hong Kong | 7,950 | 2014 |
| Zhuhai Port Temporary Construction Bridge Project for Hong Kong — Zhuhai — Macau Bridge Project, China | 9,115 | 2014 |
| Al Hallaniyat Island Project,Oman | 330 | 2014 |
| Hong Kong — Zhuhai — Macau Bridge Project, China | 360 | 2014 |
| Hong Kong — Zhuhai — Macau Bridge Project, China | 8,556 | 2013–2014 |
| Lianyungang City Drinking Water Project, Jiangsu, China | 3,700 | 2013–2014 |
| Tuen Mun-Chek Lap Kok Link-southern Connection Viaduct Section Project, Hong Kong | 313 | 2013–2014 |
| 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 (Km) | Year |
|---|---|---|
| Pstream Project, Australia | 49 | 2015 |
| Gasoducto Andino del Sur Project, Peru | 84 | 2015 |
| Phase II, Stage Product Oil Pipeline, The Pearl River Delta, SINOPEC, China | 30 | 2014 |
| Jiangxi Gas Network Project, Phase I, Qingyun-Wannian, Shanggao-Yifeng Branch, China | 26 | 2014 |
| The Expansion Project of Macau University of Science and Technology, Macau | 27 | 2014 |
| Catchment System Of Sea Water And Iodon Plant, Chile | 23 | 2014 |
| Flow line Pipes, PDO, Oman | 200 | 2014 |
| QNP Lateral Pipeline Project, Australia | 19 | 2014 |
| Eastern Goldfields Pipeline Project, APA, Australia | 298 | 2014 |
| Aviation Oil Pipeline Project, BP, Australia | 4 | 2014 |

## SELECTED PROJECTS FOR ERW PIPE (continued)

| Projects | Quantity (Km) | Year |
|---|---|---|
| Central Wan Chai bypass No. 8 Connection Line Tunnel Project, Hong Kong | 8 | 2014 |
| JQ AEP/ODP1 Project, Shell, China | 32 | 2014 |
| Scenic Hill-HKBCF-Airport Line Project, Hong Kong | 7 | 2014 |
| Mexico Project, Mexico | 123 | 2014 |
| Longquan – Taiyuan Section of Lanxian – Taiyuan Gas Pipeline Project, Shanxi, China | 45 | 2014 |
| Nakhon Sawan Project, CNPC, Thailand | 36 | 2014 |
| Natural Gas Pipeline Project, Phase I, CNOOC, China | 28 | 2014 |
| 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 |

## SELECTED PROJECTS FOR ERW PIPE (continued)

| Projects | Quantity (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, and 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 produced deep sea welded pipes for use under 1,500 m water depth. Our products are widely applicable to major oil and gas pipeline projects (both onshore and offshore) and infrastructure projects domestically and internationally.

Our Group is capable of manufacturing subsea pipes and drilling platform for offshore projects and is being classified under the Offshore Engineering Equipment Industry* (海洋工程裝備製造業) in the 12th Five-Year Plan. We are benefited and supported by China's strategic policies and received supports by policy banks and insurance institutions in China. We have maintained good relationships with and have obtained medium-term loans and credit facilities from the China Development Bank, the Export-Import Bank of China, and the China Export & Credit Insurance Corporation.

In July 2014, the Group has signed an agreement to acquire a piece of land in Indonesia of a size of 73,703m$^2$ at a value of approximately USD11.0 million for the construction of a production plant, which will tentatively accommodate a production line for cold rolled coil and hot rolled pickled oiled products. This forms part of the product diversification strategy of the Group and further penetrate into the Indonesia and South East Asia markets.

In November 2014, the Group entered into a strategic cooperation framework agreement with Guangxin Shipbuilding in relation to the development of the offshore engineering manufacturing in China. By entering into the strategic cooperation framework agreement with Guangxin Shipbuilding the Group can leverage both parties' competitive edges to further enhance our presence in the offshore engineering equipment business, further strengthen our position in the sector and be involved in the construction of offshore drilling platforms and offshore windmills.

In November 2014, the Group also entered into a cooperation agreement with CPPMEC, a subsidiary of the state-owned CNPC. Under the cooperation agreement, the Group became the preferred strategic supplier of CPPMEC and CPPMEC will support in bidding and quotation of pipelines projects.

In December 2014, the Group entered into a strategic cooperation agreement with China Railway Major Bridge Engineering Group Co. Ltd (中鐵大橋局集團有限公司) ("MBEC") focusing on marine engineering equipment manufacturing, transport infrastructure construction and marine engineering projects in Zhuhai, China. By entering into the strategic cooperation agreement with MBEC, each party can leverage on its respective competitive edges so as further enhance its presence in the offshore engineering equipment and bridge construction markets.

The Group has also partnered with Abdel Hadi Abdullah Al Qahtani & Sons. Co ("AHQ") to establish a joint venture company (the "JV Company") for the purpose of installing 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 manufacturing and sales of LSAW, and will commence trial operation by April 2015 and commercial operation in the second half of 2015. Forming the JV Company with AHQ will further develop, strengthen and expand the market penetration 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.

On 27 March 2015, the Group has entered into an agreement with 連雲港徐圩港口投資集團有限公司 ("Lianyungang Xuwei Port") to establish a joint venture company with registered capital of RMB100 million. The joint venture company will be owned as to 25% by the Group and 75% by Lianyungang Xuwei Port. The initial investment in the joint venture company by the Group is RMB25 million. The total investment commitment in the joint venture company by the Group will not exceed RMB200 million. The proposed principal business of the joint venture company will be construction and operation of port facilities and logistics services of the port located in Xuwei New District of Lianyungang. The Group has the priority to use the port and will make deliveries at a lower cost and at a faster pace. The investment will be recorded as investment in an associate in the account.

## Panyu Land Development

The Group plans to develop the first phase of the land of Panyu (the "Panyu Land") into an integrated commercial complex of offices, shops, serviced apartments and villas (the "Development"). Details of the first phase of the Development are set out as follows:

| | |
|---|---|
| Project name: | Golden Dragon Fortune Plaza* (金龍財富廣場) |
| Duration: | To be completed before 2016 |
| Land area: | 25,000 square metres |
| Total permitted construction area of the Panyu Land: | 82,500 square metres |
| Planned usage: | An integrated commercial complex of offices, shops, serviced apartments and villas will be built. The developed area will be used as investment property for providing rental income to the Group in the future.<br><br>The land size of the first phase of the Development accounts for approximately 20% of the total permitted construction area of the Panyu Land. The Development will be completed before 2016. The Group expects income from the Development to be recognised starting from 2015. |

The Development is part of the Group's strategy to widen its income sources. The Directors believe that the Development will maximise the potential economic return of the Panyu Land to the Group. Furthermore, upon the completion of the Development, the stable rental income will support the further development of the Group's steel pipe business. The steel pipe business will remain as the Group's core business.

The Group will relocate the production lines in Panyu to Lianyungang production site within 3 years. The Director will seek any further development opportunities on the Panyu Land in order to maximise its economic return. Lianyungang and Zhuhai production bases will be the major production bases of the Group in China, as both production bases are in proximity to the ports where it can save transportation cost.

## Order Status

In 2014, the Group received new orders of approximately 510,000 tonnes and approximately 57.4% was received from overseas customers. Some sizeable overseas orders obtained were related to Lukoil Company's Uzbekistan oil project, South America oil project, Central Asia gas project, Mexico gas project, Russia pipeline project, Australia gas project and Odebrecht E&P GmbH gas project in Peru. The Group delivered approximately 482,000 tonnes of welded steel pipes during 2014.

## LSAW Steel Pipes

The Group is the largest LSAW steel pipe manufacturer and exporter in the PRC. LSAW steel pipe was the largest revenue contributor to the Group and accounted for approximately 71.4% of our total revenue for the year ended 31 December 2014. For the year ended 31 December 2014, revenue from the sales and manufacturing service of LSAW steel pipes amounted to approximately RMB1,897.8 million and RMB13.7 million, respectively, representing an increase of approximately 31.8% and a decrease of 57.4%, respectively, as compared to that for the year ended 31 December 2013. The increase in sales of LSAW steel pipes was mainly due to the increase in overseas orders the Group has received. The Group has delivered pipes for the Thailand's gas project, South America's gas project and the Hong Kong – Zhuhai – Macau Bridge in Hong Kong.

## SSAW Steel Pipes

Our SSAW steel pipes produced in our plant in Lianyungang are using the pre-welding and precision welding SSAW technique, which is the most advanced standard among all SSAW technologies. Revenue from the sales and manufacturing service of SSAW steel pipes amounted to approximately RMB392.0 million and RMB11.1 million respectively. The total revenue from SSAW steel pipes accounted for approximately 15.0% of the total revenue for the year ended 31 December 2014.

### ERW Steel Pipes

Market competition of ERW steel pipes has been very keen due to its relatively low technical and standardised requirements as entry barriers. For the year ended 31 December 2014, revenue from the sales and manufacturing service of ERW steel pipes amounted to approximately RMB147.4 million and RMB2.4 million, respectively. The total revenue from ERW steel pipes accounted for approximately 5.6% of the total revenue for the year ended 31 December 2014.

## FINANCIAL REVIEW

### Revenue and gross profit

For the year ended 31 December 2014, our revenue was approximately RMB2,679.2 million, representing an increase of approximately RMB652.1 million or 32.2% as compared with that of 2013. The increase in revenue was mainly due to the numerous overseas orders the Group has received.

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:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Revenue RMB'000** | **% to total** | Revenue RMB'000 | % to total |
| Sales of steel pipes | | | | |
| LSAW steel pipes | **1,897,809** | **70.9** | 1,440,276 | 71.0 |
| SSAW steel pipes | **392,036** | **14.6** | 136,835 | 6.8 |
| ERW steel pipes | **147,388** | **5.5** | 249,455 | 12.3 |
| Subtotal | **2,437,233** | **91.0** | 1,826,566 | 90.1 |
| Manufacturing services | | | | |
| LSAW steel pipes | **13,708** | **0.5** | 32,166 | 1.6 |
| SSAW steel pipes | **11,113** | **0.4** | – | – |
| ERW steel pipes | **2,369** | **0.1** | 6,037 | 0.3 |
| Subtotal | **27,190** | **1.0** | 38,203 | 1.9 |
| Others | **214,765** | **8.0** | 162,288 | 8.0 |
| Grand total | **2,679,188** | **100.0** | 2,027,057 | 100.0 |

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **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 | **277,006** | **312,423** | **887** | 240,310 | 240,895 | 998 |
| SSAW steel pipes | **15,831** | **102,749** | **154** | 6,316 | 23,925 | 264 |
| ERW steel pipes | **1,548** | **31,133** | **50** | 33,480 | 40,025 | 836 |
| Subtotal | **294,385** | **446,305** | | 280,106 | 304,845 | |
| Manufacturing services | | | | | | |
| LSAW steel pipes | **6,263** | **4,748** | **1,319** | 16,307 | 15,259 | 1,069 |
| SSAW Steel pipes | **1,476** | **26,933** | **55** | – | – | – |
| ERW steel pipes | **82** | **3,913** | **21** | 384 | 16,655 | 23 |
| Subtotal | **7,821** | **35,594** | | 16,691 | 31,914 | |
| Others | **9,407** | **N/A** | **N/A** | 16,147 | N/A | N/A |
| Grand total | **311,613** | **481,899** | | 312,944 | 336,759 | |

The revenue generated from the sales of steel pipes accounted for approximately 91.0% of our total revenue in 2014 as compared with approximately 90.1% in 2013. Steel pipe manufacturing services accounted for approximately 1.0% of our total revenue in 2014 as compared with approximately 1.9% in 2013. The revenue 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 2014 as compared with approximately 8.0% in 2013.

Gross profit for 2014 was approximately RMB311.6 million, representing a decrease of approximately 0.4% or RMB1.3 million as compared with approximately RMB312.9 million in 2013. Gross profit margin for 2014 was approximately 11.6% which was lower than that of last year was due to the change of product mix. The Group has delivered more SSAW pipes and orders for infrastructure projects with lower 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 overseas sales accounted for approximately 51.2% of our total revenue in 2014, as compared to approximately 17.6% in 2013. Increase in overseas sales was mainly due to the outstanding performance by the overseas sales team.

## SALES BY GEOGRAPHICAL AREAS

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Revenue RMB'000** | **% to total** | Revenue RMB'000 | % to total |
| Overseas sales | **1,372,417** | **51.2** | 355,848 | 17.6 |
| Domestic sales | **1,306,771** | **48.8** | 1,671,209 | 82.4 |
| Total | **2,679,188** | **100.0** | 2,027,057 | 100.0 |

## CHANGE IN FAIR VALUES OF INVESTMENT PROPERTIES

The Group has adopted the accounting policy to measure investment properties by using 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 2014 issued by RHL Appraisal Limited, the market value of the investment properties as at 31 December 2014 was RMB2.3 billion. There was an increase in the fair values of investment properties of approximately RMB99.6 million and was credited to profit or loss in 2014.

## OTHER INCOME AND GAINS

Other income and gains in 2014 mainly represents bank interest income and subsidy income from the PRC government. Other income and gains decreased by approximately 42.5% or RMB94.4 million from approximately RMB222.1 million in 2013 to approximately RMB127.7 million in 2014. Decrease in other income and gains was mainly due to (i) the decrease in government subsidies and (ii) decrease in fair value of derivative financial instruments. Government subsidies were mainly related to awards to the Group for its investment in Lianyungang as well as its high product quality.

Loss of approximately RMB1.8 million on derivative financial instruments was recorded in other expenses in 2014 (2013: gain of approximately RMB16.9 million in other income and gains). For more details, please refer to the section headed "Changes in fair value of derivative financial instruments" below.

## SELLING AND DISTRIBUTION COSTS

Selling and distribution costs increased by approximately 5.9% or RMB7.7 million from approximately RMB131.5 million in 2013 to approximately RMB139.2 million in 2014. The increase was mainly due to the increase in commission expenses for some overseas sales projects.

## ADMINISTRATIVE EXPENSES

Administrative expenses increased by approximately 34.4% or RMB116.1 million from approximately RMB337.5 million in 2013 to approximately RMB453.6 million in 2014. The increase was primarily due to the surge in salaries and wages and office expenses for the new production bases, increase in amortisation of land and increased provision of doubtful debts.

## FINANCE COSTS

Finance costs increased by approximately 49.8% or RMB86.6 million from approximately RMB173.8 million in 2013 to approximately RMB260.4 million in 2014. The effective interest rate in 2014 was approximately 4.4% (2013: 3.0%). 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 and increase in average borrowing cost.

## 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 and was terminated in February 2014. Realised change in fair value of such derivative instrument of approximately RMB1.8 million was charged to profit or loss (2013: RMB17.3 million gain).

## OTHER EXPENSES

Other expenses increased by approximately 485.4% or 31.6 million from approximately RMB6.5 million in 2013 to approximately 38.2 million in 2014. The increase was mainly due to provision for the Nanjing litigations. Details of litigations refers to litigation section.

## INCOME TAX EXPENSES

Income tax expenses decreased by approximately 85.4% or RMB34.5 million from approximately RMB40.4 million in 2013 to approximately RMB5.9 million in 2014. The decrease was mainly due to the decrease in our profit before tax and reverse of deferred tax assets for those subsidiaries which have losses for 2014. Panyu Chu Kong Steel Pipe Company Limited ("PCKSP") and Panyu Chu Kong Steel Pipe (Lianyungang) Co. Limited ("PCKSP (Lianyungang)"), wholly-owned subsidiaries of the Company, were qualified as High Technology Enterprises and thus entitled to a reduced tax rate of 15% in 2014 (2013: 15% (PCKSP), 25% ("PCKSP (Lianyungang)").

## LOSS FOR THE YEAR

As a result of the factors discussed above, the Group recorded a loss of RMB358.7 million in 2014 (2013: profit RMB41.5 million).

## 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 2013 and 2014:

| | Year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Net cash flows from/(used in) operating activities | **122,222** | (559,900) |
| Net cash flows used in investing activities | **(867,002)** | (1,551,103) |
| Net cash flows (used in)/from financing activities | **(233,876)** | 2,681,083 |
| Net (decrease)/increase in cash and cash equivalents | **(978,656)** | 570,080 |

## NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES

The Group's net cash flows from operating activities changed from an outflow of approximately RMB559.9 million in 2013 to an inflow of approximately RMB122.2 million in 2014. The net cash inflows from operating activities were primarily due to the combined effect of (i) decrease in inventories; and (ii) increases in trade and bills receivables, prepayments, deposits and other receivables, investment deposits, trade and bills payables and other payables and accruals.

## NET CASH FLOWS USED IN INVESTING ACTIVITIES

The Group's net cash flows used in investing activities decreased from approximately RMB1,551.1 million in 2013 to approximately RMB867.0 million in 2014. The net cash outflows were mainly due to the capital expenditure for the production bases in Lianyungang and Zhuhai of China, Indonesia and Saudi Arabia, as well as the acquisition of Ningbo Sanhe Steel Pipe Co. Ltd (寧波三合鋼管有限公司) ("Ningbo Sanhe") during the year.

## NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES

The Group's net cash flows from financing activities changed from an inflow of approximately RMB2,681.1 million in 2013 to an outflow of approximately RMB233.9 million in 2014. The net cash outflows were mainly resulted from the combined effect of (i) borrowing of new interest bearing loans and other borrowings, issue of bonds and short term note and cash received from finance lease of approximately RMB5,544.4 million and (ii) repayment of bank loans, government loans and finance lease of approximately RMB5,778.3 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. The Group did not adopt formal hedging policies nor instruments of foreign currency (except the one entered into in 2011 and was terminated in February 2014) for managing the exchange risk exposure during the year ended 31 December 2014.

## CAPITAL EXPENDITURE

For the year ended 31 December 2014, the Group invested approximately RMB867.0 million for the purchase of property, plant and equipment in Lianyungang and Zhuhai of China and Saudi Arabia, acquisition of Ningbo Sanhe and for payment of land use in Indonesia and Lianyungang. These capital expenditures were fully financed by internal resources and bank borrowings.

## CONTINGENT LIABILITIES

As at 31 December 2014, 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 RMB279.0 million (2013: RMB148.8 million) and RMB500.0 million (2013: RMB302.4 million) respectively as at 31 December 2014 to secure bank loans granted to the Group.

## 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 2014 and 2013 were 52.1% and 52.9%, respectively.

On 31 October 2012, the Group entered into a facility agreement for a 3-year term 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. The Group has terminated the facility agreement on April 2014 and Mr. Chen Chang is not required to maintain at least 60% of the voting right in the Company.

On April 2014, the Group entered into a finance lease arrangement with a leasing company. Under the finance lease arrangement, the Group sold the equipment to the leasing company at a consideration of RMB200 million and the Group leaseback the equipment at a total lease payments of approximately RMB233.74 million. The finance lease payments were payable in 20 quarterly instalments in arrears. The total interest payable under the finance lease arrangement amounts to RMB33.74 million, which is calculated at a fixed annual interest rate of 6.4%. Panyu Chu Kong Steel Pipe (Lianyungang) Co Limited has to provide guarantee in favour of the leasing company for the total lease payments of approximately RMB233.74 million.

On 2 May 2014, the Group issued bonds with a principal amount of HK$100,000,000 and the bonds will be repayable in full by 2 May 2017. The bonds may be redeemed at the option of the Group in whole. The bonds bear a fixed coupon interest rate at 5% per annum for three years payable semi-annually, commencing on 2 November 2014. The bonds are unsecured and were issued for refinancing the existing debt and for general corporate purposes.

As at 31 December 2014, the Group's total borrowings amounted to approximately RMB5,968.0 million, of which approximately 47% (2013: 44%) were long term borrowings and approximately 53% (2013: 56%) were short term borrowings. Approximately 61% of total borrowings of the Group were financing working capital of the Group, and approximately 39% of total borrowings of the Group were financing capital expenditure of the Group. The Group had 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 would then repay the short term borrowings. Taking into account the Group's cash in hand and the available banking facilities, the Group had sufficient liquidity and was in strong financial position to repay its short term borrowings.

As at 31 December 2014, the current liabilities of the Group exceeded its current assets by approximately RMB746.7 million. Subsequent to 31 December 2014, the Group has obtained a medium term loan of around RMB936.7 million from a bank to refinance the short term debts by this long term loan. The Group has sufficient cashflow to meet its short term obligations.

As at 31 December 2014, approximately 41% (2013: 55%) of the total borrowings was denominated in Renminbi, which carried interest rates linked to the benchmark lending rate published by the People's Bank of China; approximately 15% (2013: 14%) of the total borrowings were denominated in Renminbi which carried fixed interest rate; approximately 29% (2013: 19%) 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 15% (2013: 12%) of the total borrowings were denominated in US dollar which carried fixed interest rate.

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

In July 2014, the Group acquired 51% equity interest in Ningbo Sanhe from independent third parties. Ningbo Sanhe is principally engaged in the manufacture and sales of welded steel pipe. The consideration for the acquisition was approximately RMB11.4 million.

The acquisition of Ningbo Sanhe was to increase the market share in SSAW market and infrastructure market in China.

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

## LITIGATION

At 31 December 2014, the Group has four outstanding lawsuits as follows:

### (i) Nanjing Rongyu Group Company Limited (南京鎔裕集團有限公司) ("Nanjing Rongyu") and Nanjing City Xixia Hill Roll Steeling Company Limited (南京市棲霞山軋鋼有限公司) ("Xixia Hill")

南京源昌投資擔保發展有限公司 alleged Nanjing Rongyu and Xixia Hill of breaching and repudiating counter guarantee contract in the amount of RMB5.6 million. Such counter guarantee contract was signed by the ex-beneficial owners of Nanjing Rongyu Group (collectively, Nanjing Rongyu, Xixia Hill and Nanjing Rongyu Group Market Management Company Limited* (南京鎔裕集團市場管理有限公司) ("Market Management") prior to the Group's acquisition on May 2013. The Group was not informed of such counter guarantee contract at the time of acquisition. The claim is subject to the legal arbitration. The Group has fully provided the claim in the profit and loss account in 2014.

### (ii) Nanjing Rongyu

南京源昌投資擔保發展有限公司 alleged Nanjing Rongyu of breaching and repudiating counter guarantee contract in the amount of RMB7.6 million. Such counter guarantee contract was signed by the ex-beneficial owners of Nanjing Rongyu Group prior to the Group's acquisition on May 2013. The Group was not informed of such counter guarantee contract at the time of acquisition. The claim is subject to the legal arbitration. The Group has fully provided the claim in the profit and loss account in 2014.

### (iii) Nanjing Rongyu

南京源昌投資擔保發展有限公司 alleged Nanjing Rongyu of breaching and repudiating counter guarantee contract in the amount of RMB4 million. Such counter guarantee contract was signed by the ex-beneficial owners of Nanjing Rongyu Group prior to the Group's acquisition on May 2013. The Group was not informed of such counter guarantee contract at the time of acquisition. The claim is subject to the legal arbitration. The Group has fully provided the claim in the profit and loss account in 2014.

### (iv) Nanjing Rongyu and Xixia Hill

南京源昌投資擔保發展有限公司 alleged Nanjing Rongyu and Xixia Hill of breaching and repudiating counter guarantee contract in the amount of RMB4.2 million. Such counter guarantee contract was signed by the ex-beneficial owners of Nanjing Rongyu Group prior to the Group's acquisition on May 2013. The Group was not informed of such counter guarantee contract at the time of acquisition. The claim is subject to the legal arbitration. The Group has fully provided the claim in the profit and loss account in 2014.

## EVENT AFTER THE REPORTING PERIOD

On 27 March 2015, the Group has entered into the agreement with 連雲港徐圩港口投資集團有限公司 ("Lianyungang Xuwei Port") to establish a joint venture company with registered capital of RMB100 million. The joint venture company will be owned as to 25% by the Group and 75% by Lianyungang Xuwei Port. The initial investment in the joint venture company by the Group is RMB25 million. The total investment commitment in the joint venture company by the Group will not exceed RMB200 million. The proposed principal business of the joint venture company will be construction and operation of port facilities and logistics services of the port located in Xuwei New District of Lianyungang. The Group has the priority to use the port and will make deliveries at a lower cost and at a faster pace. The investment will be recorded as investment in an associate in the account.

Except the event mentioned above, there are no significant events subsequent to 31 December 2014 which would materially affect the Group's operating and financial performance as of the date of consolidated financial statements.

## EMPLOYEE AND REMUNERATION POLICY

For the year ended 31 December 2014, staff cost (including Directors' remuneration in the form of salaries and other benefits) was approximately RMB283.9 million (2013: RMB245.2 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 respectively for shares in the Company or share awards of the Company may be granted to eligible employees. No share option nor share award was granted under the share option scheme or share award scheme during the year ended 31 December 2014.

As at 31 December 2014, the Group had a total of 3,892 full time employees (2013: 4,024 employees). The following set forth the total number of our staff by functions:

| | **2014** | 2013 |
|---|---|---|
| Management | **274** | 241 |
| Production and logistics | **1,822** | 2,037 |
| Sales and marketing | **43** | 45 |
| Finance | **53** | 54 |
| Quality control | **515** | 545 |
| R&D | **337** | 396 |
| Procurement | **49** | 54 |
| General administration and others | **799** | 652 |
| Total | **3,892** | 4,024 |

## FUTURE PLANS AND PROSPECTS

We expect the demand in steel pipes for the oil and gas in the domestic market will increase in 2015 as it is the last year of the 12th-five-year-plan, and oil majors will attempt to fulfill the targeted length of pipeline that needed to be built. West-East-Pipeline Phase III, a pipeline over seven thousand kilometres long, is aiming to be completed sometime in 2015. As per the information publicly available, CNPC will also have Phase IV and Phase V to follow in the next few years. The Sino-Russian gas supply project, as agreed by both nations, will commence operation as early as 2018, meaning that the pipeline for transmitting the gas from Russia to Shanghai, China will need to be in place and ready to provide service before that. CNPC will also start building the fourth Shaanxi-Beijing pipeline with a total length of over a thousand kilometres long. The Xinjiang-Guangdong-Zhejiang pipeline for Sinopec's coal-to-gas project will likely to commence construction within 2015 and the length of the pipeline is set to be over eight thousand kilometres. CNOOC has been actively exploring the region of South China Sea, which may stimulate the demand for deep-sea pipes. Together with its Guangdong province pipeline network expansion, the regional demand is likely to increase in general.

With five production bases in China, one in Saudi Arabia and several offices in other overseas countries, the Company has evolved into a multinational corporation. The Company will take advantage on the strategically placed production locations of the plants and strive for more international exposures, with a view to enhancing the competitiveness of the brand name of PCK. The overseas sales segment shall be retained as a solid contribution to the Company; however, the domestic sales segment shall not be underestimated in the year of 2015, as some of the national as well as the cross-border pipeline projects will either resume or initiate constructions. The non-oil & gas transmission segment will continue to grow according to the growing trend of using pipes as building and construction materials, such as ultra-high-voltage towers, piling for bridges and other buildings, offshore drilling platform, wind farm foundations and etc.

Additional income from the development of the properties may also make certain financial contribution to the Company in late 2015. The Company will also seize the right opportunities to migrate the existing up and running productions lines in Panyu to Lianyungang and Zhuhai. Furthermore, the use of the destined to be emptied lands might have converted and hence the potential value of the previously unconverted land will be unlocked.

### 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 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 2016, 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.

The Group intends to fund the capital expenditure of the above project 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 3.38 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.

# PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

### Mr Chen Chang (陳昌)

Mr CHEN Chang (陳昌), aged 69, 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*)
- 全國五一勞動獎章 (Nationwide "May 1st" Labour Award*) (2014)
- 第八屆國際發明會金獎 (Gold Prize of the 8th International Invention Exhibition*) (2014)

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 38, 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:

public duties:

- 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)

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- 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)
- 廣州市女企業家協會會長 (Chairlady of the Guangzhou Association of Women Entrepreneurs*) (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)
- 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*) (2014)
- 廣州市工商聯青年企業家委員常務副主任 (Guangzhou Dupty Director of the Federation of Young Entrepreneurs Committee*) (2014)
- 廣東省婦聯第十二屆執委會常務委員 (Committee member of the 12th Guangdong Provincial Women's Federation, the Executive Committee*) (2014)

awards:

- 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)
- 全國巾幗建功標兵 (Female Pace Setter with Great Contribution (National Level)*) (2013)
- 感動廣州60年最具魅力女性 (Most Charismatic Woman in 60 years of Guangzhou Loving Hearts*) (2013)
- 廣州市優秀企業家 (Guangzhou Outstanding Entrepreneur Honors*) (2013)
- 廣東省"優秀女企業家" (Guangdong Outstanding Women Entrepreneur Honours*) (2013)
- 廣州市"三八紅旗手" ("March 8th Flag Bearer" of Guangzhou City*) (2010–2013)
- 傑出創業女性 (Outstanding Women Entrepreneur*) (2014)
- 廣東省"十大優秀書香之家" (Guangdong Province Top Ten Outstanding Scholarly Home*) (2014)

## Ms Chen Zhao Hua (陳兆華)

Ms CHEN Zhao Hua (陳兆華), aged 36, 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, the United Kingdom in June 2001, and a master's degree in International Business Law from the University of Nottingham, the United Kingdom in December 2002. Ms Chen is the vice president of the Chamber of Commerce, Panyu District, Guangzhou of the China Chamber of International Commerce, the executive vice president of the Guangdong International Overseas Chinese Chamber of Commerce and the deputy chairman of the 5th board of directors of the Guangdong Oil & Gas Association.

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## INDEPENDENT NON-EXECUTIVE DIRECTORS

### Mr Chen Ping (陳平)

Mr CHEN Ping (陳平), aged 49, 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, China in 1984 majoring in finance and later obtained a doctoral degree in finance in Nankai University, China in December 1990. Mr Chen has lectured at the Lingnan College, Sun Yat-Sen University in Guangdong Province, China, 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 and research achievements 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 talented person 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 寶鋼花旗優秀教師獎 (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 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, and resigned from such post with effect from 25 September 2014.

### Mr See Tak Wah (施德華)

Mr SEE Tak Wah (施德華), aged 51, 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 Australia and New Zealand, a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Hong Kong Institute of Directors. 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).

### Mr Tian Xiao Ren (田曉韌)

Mr Tian Xiao Ren (田曉韌), aged 61, was appointed as an independent non-executive Director on 1 August 2014. Mr Tian is also the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Company. Mr Tian was graduated from Zhejiang Radio and Television University in China in 1985 and studied the Master of Business Administration Degree at Hangzhou University in China from 1995 to 1998. He was appointed as vice chairman of Bank of China Group Investment Company Limited from 2006 to 2013. Prior to 2006, Mr Tian was the president of Bank of China of Guangdong Province and Jiangxi Province, China and the Vice-President of Bank of China of Zhejiang Province, China for 26 years. He has over 30 years of experience in the banking and financial field. Mr Tian is now a Senior Economist in China and is entitled to the special subsidy awarded by the State Council of the People's Republic of China in recognition of his contribution to the economy of China.

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## 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*), China 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*).

### Mr Wong Yu May (黃耀楣)

Mr WONG Yu May (黃耀楣), aged 62, 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 39 years of experience in the financial field.

### Mr Li Junqiang (李軍強)

Mr LI Junqiang (李軍強), aged 41, 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*), China 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.

* Unofficial transliteration from Chinese name for identification purposes only

## Ms Wong Pui Shan (王珮珊)

Ms WONG Pui Shan (王珮珊), aged 38, 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 12 years.

## Ms Liu Yonghe (劉詠荷)

Ms LIU Yonghe (劉詠荷), aged 46, 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, China 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).

## Mr Xu Qilin (徐啟林)

Mr XU Qilin (徐啟林), aged 57, 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, China 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 52, 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, China, 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 24 years of experience in non-destructive testing and quality control.

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## COMPANY SECRETARY

### Ms Wong Pui Shan (王珮珊)

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

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# REPORT OF DIRECTORS

The Directors hereby present their report and the audited financial statements of the Group for the year ended 31 December 2014.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries include manufacture and sales 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 2014 are set out in note 20 to the financial statements.

## RESULTS AND DIVIDEND

The Group's loss for the year ended 31 December 2014 and the state of affairs of the Group at that date are set out in the financial statements on pages 60 to 126.

The Directors did not recommend dividend for the year ended 31 December 2014.

## 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 127. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

## SHARE CAPITAL

Details of the movements in the Company's share capital during the year are set out in note 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 2014, the Company's reserves available for distribution to the shareholders in accordance with the Articles of Association were RMB426,559,000.

The reserves of the Group available for distribution depend on the dividend distributable by the Company's subsidiaries. For dividend purpose, the amount which the Company's subsidiaries in the PRC can legally distribute by way of 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 RMB3.1 million.

## 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 2014, 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 10.0%. Purchases from the Group's five largest suppliers accounted for 28.9% of the total cost of sales of the Group, and purchases from the largest supplier included therein amounted to 11.5%. None of the Directors 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 (resigned with effect from 1 August 2014)
Mr. See Tak Wah
Mr. Tian Xiao Ren (appointed with effect from 1 August 2014)

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from Messrs. Chen Ping, See Tak Wah and Tian Xiao Ren, 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 29 to 35 of this annual report.

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

Pursuant to article 109 of the Articles of Association, Mr. Tian Xiao Ren, being appointed by the Board as Director with effect from 1 August 2014, shall hold office until the AGM and is eligible to offer himself for re-relection at the AGM.

## 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 (except Mr. Tian Xiao Ren ("Mr. Tian") 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. Mr. Tian has been appointed as an independent non-executive Director by a letter of appointment for a term of two years from 1 August 2014 to 31 July 2016 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 and letters of appointment 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 2014, 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 Chang 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 2014.

## 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 or the "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 2014, 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 representing in excess of ten per cent. of the issued share capital of the Company as at the 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 2014, no share has been awarded or granted to any person under the Share Award Scheme.

## 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 2014, 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 2014, 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 45 to 53.

## 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 2014.

## 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 manufacture 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 2014, the Group purchased spare parts from GZMT of a total amount of RMB7,765,000, 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 manufacture 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. During the considerably long period of purchasing spare parts from GZMT, GZMT have been a reliable source of supply, in terms of being capable of providing spare parts with the required technical and quality standards that suit the Group's needs and for 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 2014 as set out in the Company's announcement dated 4 December 2012.

* Unofficial transliteration from Chinese name for identification purposes only.

## 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

On 27 March 2015, the Group has entered into the agreement with 連雲港徐圩港口投資集團有限公司 ("Lianyungang Xuwei Port") to establish a joint venture company with registered capital of RMB100 million. The joint venture company will be owned as to 25% by the Group and 75% by Lianyungang Xuwei Port. The initial investment in the joint venture company by the Group is RMB25 million. The total investment commitment in the joint venture company by the Group will not exceed RMB200 million. The proposed principal business of the joint venture company will be construction and operation of port facilities and logistics services of the port located in Xuwei New District of Lianyungang. The Group has the priority to use the port and will make deliveries at a lower cost and at a faster pace. The investment will be recorded as investment in an associate in the account.

Saved for disclosed above, there are no significant events subsequent to 31 December 2014 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 2014. 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
31 March 2015

# 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, monitoring the performance of senior management and determining the policy for corporate governance. 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 2014 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 (resigned with effect from 1 August 2014) | Chairman of the Remuneration Committee, Member of the Audit Committee and Nomination Committee |
| Mr. See Tak Wah | Chairman of the Audit Committee |
| Mr. Tian Xiao Ren (appointed with effect from 1 August 2014) | Chairman of the Remuneration Committee, Member of the Audit Committee and Nomination 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 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 2014.

*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 2014, seven 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 (except Mr. Tian) 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. Mr. Tian Xiao Ren has been appointed as independent non-executive Director for a term of two years commencing from 1 August 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/appointment 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 Nian and Mr. Tian Xiao Ren 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 2014.

During the year ended 31 December 2014, 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 2014.

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. See Tak Wah and Mr. Tian Xiao Ren (appointed on 1 August 2014). 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 2014 and the interim financial statements for the six months ended 30 June 2014, 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; and
- 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 2014, 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 2014 and interim results for the six months ended 30 June 2014 have been reviewed by the Audit Committee.

*Nomination Committee*

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 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. Tian Xiao Ren (appointed on 1 August 2014) 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 determined the policy for nomination of directors, nomination procedure process and criteria to select and recommend candidates.

The Nomination Committee held one meeting during the year ended 31 December 2014 and all members of the Committee attended the meeting.

*Remuneration Committee*

The Remuneration Committee consists of three members, namely Mr. Chen Ping, Mr. Tian Xiao Ren (appointed on 1 August 2014) and Mr. Chen Chang. Mr. Tian Xiao Ren 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 2014, one meeting of the Remuneration Committee was held and all members attended the meeting.

*Corporate Governance Function*

The Board is responsible for performing the corporate governance duties of the Company. Terms of reference adopted by the Board include the duties of the Board on corporate governance functions to develop and review the Group's policies and practices on corporate governance, to review and monitor the training and continuous professional development of the Directors and the senior management and to review the Group's compliance with the CG Code and disclosure in this Corporate Governance Report.

The attendance of individual members of the Board and other Board Committees meetings for the financial year ended 31 December 2014 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 | 7/7 | N/A | 1/1 | 1/1 |
| Ms. Chen Zhao Nian | 1/1 | 7/7 | N/A | N/A | N/A |
| Ms. Chen Zhao Hua | 0/1 | 6/7 | N/A | N/A | N/A |
| Independent Non-executive Directors | | | | | |
| Mr. Chen Ping | 1/1 | 7/7 | 4/4 | 1/1 | 1/1 |
| Mr. Liang Guo Yao *(resigned with effect from 1 August 2014)* | N/A | 4/4 | 2/2 | 1/1 | 1/1 |
| Mr. See Tak Wah | 1/1 | 7/7 | 4/4 | N/A | N/A |
| Mr. Tian Xiao Ren *(appointed with effect from 1 August 2014)* | 1/1 | 3/3 | 2/2 | 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 2014.

## (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 2014 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 2014, the remuneration paid or payable to the independent auditors, Ernst & Young, for services rendered is broken down below:

| | **2014**<br>**HK$'000** |
|---|---|
| Audit services | **3,180** |
| Non-audit services | — |
| Total | **3,180** |

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 2014. 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 29 to 35 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 2014.

## (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 29 May 2015. 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.

*2014 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 2014 AGM.

At the 2014 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 2013 together with the reports of the Directors and auditors of the Company; (ii) re-elected of Ms Chen Zhao Hua as executive Director and Mr Chen Ping as independent non-executive Director and authorised the Board to fix the Directors' remuneration; (iii) reappointed Ernst & Young as auditors of the Company and authorised the Directors to fix its remuneration; (iv) 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 2014 AGM; (v) 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 2014 AGM; (vi) 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 2014 AGM were available on the Company's website.

*2015 Annual General Meeting*

All shareholders are encouraged to attend the 2015 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 2015 AGM will be set out in a circular to be sent out to shareholders together with the 2014 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 2014.

*Sufficiency of Public Float*

The Company has maintained the prescribed public float under the Listing Rules as at 31 December 2014.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Group cares about the community and adheres to an ingrained culture of fulfilling its social responsibilities by giving a much-needed boost to the environment in Guangdong Province, China and other regions in which it operates.

## I. WORKING ENVIRONMENT

The Group has complied with the laws and regulations and adopted the Health Safety and Environmental ("HSE") management policy, in an effort to prevent 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 2014, the Group has 3,892 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, risk assessment and control procedures to manage our occupational safety 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 reference.

The company always finds great importance to occupational safety and regularly provides training for staffs. In 2014, the company had hosted trainings and rehearsals in productions bases for fire alert, so as to enhance safety awareness and emergency response; also held hazards identification programs and assembly of risk management activities.

*Staff 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. In the year, the company further improves site management level, achieve the goal of dedicated management, and further promote the 6S management model in the company. The project meetings had been kicked off in the production site of Panyu, Zhuhai, Jiangyin, and Lianyungang.

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.

The Company engaged with the Labour union, to further promotes spiritual positive energy with various social activities.

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 "Business Oral English", "Training and Assembly for Fire", "Sales Training", "Joint Training and Team Building Program for Financial Department", and "Annual Sales Meeting" etc.

We encourage our employees to take an active part in local 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 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 and discharge. All of the Company's production bases are equipped with complete ventilation facilities. We also installed built-in fan to reduce the air pollution caused during the process of our production.

*Use of materials*

We endeavour to calculate the amount of materials needed 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.

## 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 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 "Gold Cup Prize for Actual Quality of Metallurgical Products", "High and New Technology Enterprise", "National Recognized Enterprise Technology Center", "Academician Workstation" and "Key New Products". We are 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 products 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. The company's testing centre has passed the "National safety quality standardization" and obtained the "TUV SUD Metal Materials Laboratory Accreditation Certificate". 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, China and other regions in which we operate. During the year, with the organisation of a couple of educational, sports, cultural and charitable activities, we promoted the exuberance of Guangzhou City, thus enhancing foreign interest in Guangzhou and fostering urban development. These activities included:

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

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

- "Panyu District Mayor Quality Award Assessment Management Approach" granted with the Quality Award by the provincial government "
- "Guangdong Enterprise with integrity"
- "2013 Annual Credit Risk Management AA Level"

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

- Participating the sixth "Guangzhou's Mayor Cup" for table tennis tournament sponsored by 2014 Chu Kong Steel Pipe Group
- Joining the photographic contest arranged by the district
- Joining the "2014 Work and Skill Contest" and achieved distinctive record in Panyu District 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
- Participating the "Charity Hiking" activity arranged by the City of Guangzhou
- Arranging a "Paternity Day" on the Nation's Day
- Arranging the "Mid-Autumn Celebration" activity
- Arranging the "Mid-Autumn Celebration" activity The Labour Union of the Company has been honored as one of the "Model Union" in Panyu District
- Joining the "International Dragon Boat" competition arranged by the City of Guangzhou
- Participating in the Charity Projects of Guangzhou Association of Women Entrepreneurs

*Charity Fund*

In April 2013, the Company established a charitable fund, named as the "Chu Kong Steel Pipe Group Co., Ltd. – Blessing Charity Fund", aiming to improve 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 RMB3.12 million, which were mainly donated to this charitable fund.

# INDEPENDENT AUDITORS' REPORT

EY 安永

22/F, 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 60 to 126, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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.

## 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 2014, and of the Group's loss 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
31 March 2015

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2014

| | Notes | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|---|
| **REVENUE** | 7 | **2,679,188** | 2,027,057 |
| Cost of sales | | **(2,367,575)** | (1,714,113) |
| Gross profit | | **311,613** | 312,944 |
| Fair value gains on investment properties | 16 | **99,587** | 196,501 |
| Other income and gains | 7 | **127,690** | 222,098 |
| Selling and distribution expenses | | **(139,232)** | (131,511) |
| Administrative expenses | | **(453,637)** | (337,537) |
| Other expenses | | **(38,156)** | (6,518) |
| Finance costs | 8 | **(260,365)** | (173,777) |
| Share of loss of a joint venture | 21 | **(263)** | (299) |
| **PROFIT/(LOSS) BEFORE TAX** | 9 | **(352,763)** | 81,901 |
| Income tax expense | 12 | **(5,914)** | (40,430) |
| **PROFIT/(LOSS) FOR THE YEAR** | | **(358,677)** | 41,471 |
| **Profit/(loss) attributable to:** | | | |
| Owners of the parent | 13 | **(359,247)** | 41,471 |
| Non-controlling interests | | **570** | – |
| | | **(358,677)** | 41,471 |
| **EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | | | |
| Basic and diluted | 14 | **RMB(0.36)** | RMB0.04 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2014

| | Note | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| **PROFIT/(LOSS) FOR THE YEAR** | | **(358,677)** | 41,471 |
| **OTHER COMPREHENSIVE INCOME/(LOSS)** | | | |
| *Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:* | | | |
| Exchange differences on translation of foreign operations | | **(2,189)** | 22,219 |
| Income tax effect | | **–** | – |
| Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods | | **(2,189)** | 22,219 |
| *Other comprehensive income not to be reclassified to profit or loss in subsequent periods:* | | | |
| Gains on property revaluation | 18 | **–** | 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/(LOSS) FOR THE YEAR, NET OF TAX** | | **(2,189)** | 1,175,934 |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR** | | **(360,866)** | 1,217,405 |
| **Total comprehensive income/(loss) attributable to:** | | | |
| Owners of the parent | | **(361,436)** | 1,217,405 |
| Non-controlling interests | | **570** | – |
| | | **(360,866)** | 1,217,405 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

| | Notes | 31 December 2014 RMB'000 | 31 December 2013 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 15 | **3,547,707** | 2,903,523 |
| Investment properties | 16 | **2,333,627** | 2,216,313 |
| Long term prepayments and deposits | 17 | **228,424** | 211,650 |
| Prepaid land lease payments | 18 | **1,051,625** | 859,617 |
| Goodwill | 19 | **4,075** | 4,075 |
| Investment in a joint venture | 21 | **39,493** | 75,647 |
| Due from a joint venture | 41 | **140,050** | – |
| Deferred tax assets | 22 | **61,987** | 43,954 |
| Pledged deposits | 27 | **22,313** | 5,907 |
| **Total non-current assets** | | **7,429,301** | 6,320,686 |
| **CURRENT ASSETS** | | | |
| Inventories | 23 | **921,526** | 1,148,337 |
| Trade and bills receivables | 24 | **1,342,668** | 1,219,104 |
| Prepayments, deposits and other receivables | 25 | **648,344** | 535,226 |
| Investment deposits | 26 | **26,000** | – |
| Pledged deposits | 27 | **456,192** | 127,596 |
| Derivative financial instruments | | **–** | 13,675 |
| Cash and bank balances | 27 | **637,577** | 1,609,517 |
| **Total current assets** | | **4,032,307** | 4,653,455 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 28 | **922,551** | 535,443 |
| Interest-bearing bank loans and other borrowings | 29 | **2,830,164** | 3,017,516 |
| Other payables and accruals | 31 | **616,348** | 393,757 |
| Provision | 32 | **29,960** | – |
| Tax payable | | **66,362** | 67,080 |
| Derivative financial instruments | | **–** | 480 |
| Short term notes | 33 | **313,608** | 206,926 |
| **Total current liabilities** | | **4,778,993** | 4,221,202 |
| **NET CURRENT ASSETS/(LIABILITIES)** | | **(746,686)** | 432,253 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **6,682,615** | 6,752,939 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank loans and other borrowings | 29 | **2,319,038** | 2,148,077 |
| Fixed rate bonds | 34 | **505,174** | 431,453 |
| Government grants | 35 | **112,728** | 106,345 |
| Deferred tax liabilities | 22 | **476,559** | 447,995 |
| **Total non-current liabilities** | | **3,413,499** | 3,133,870 |
| **Net assets** | | **3,269,116** | 3,619,069 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 36 | **88,856** | 88,856 |
| Reserves | 37(a) | **3,168,777** | 3,530,213 |
| | | **3,257,633** | 3,619,069 |
| Non-controlling interests | | **11,483** | – |
| **Total equity** | | **3,269,116** | 3,619,069 |

**Chen Chang**
*Director*

**Chen Zhao Nian**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

| | Attributable to owners of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 Equity RMB'000 |
| At 1 January 2013 | 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 |

| | | **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** | **Total RMB'000** | **Non-controlling interests RMB'000** | **Total Equity RMB'000** |
| At 1 January 2014 | | **88,856** | **767,097** | **1,154,425** | **224,589** | **57,607** | **133,745** | **1,175,521** | **17,229** | **3,619,069** | **-** | **3,619,069** |
| Profit/(loss) for the year | | **-** | **-** | **-** | **-** | **-** | **-** | **(359,247)** | **-** | **(359,247)** | **570** | **(358,677)** |
| Other comprehensive loss for the year | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Exchange differences on translation of foreign operations | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(2,189)** | **(2,189)** | **-** | **(2,189)** |
| Total comprehensive income/(loss) for the year | | **-** | **-** | **-** | **-** | **-** | **-** | **(359,247)** | **(2,189)** | **(361,436)** | **570** | **(360,866)** |
| Acquisition of a subsidiary | 38 | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **10,913** | **10,913** |
| At 31 December 2014 | | **88,856** | **767,097*** | **1,154,425*** | **224,589*** | **57,607*** | **133,745*** | **816,274*** | **15,040*** | **3,257,633** | **11,483** | **3,269,116** |

# 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 RMB3,168,777,000 (2013: RMB3,530,213,000) in the consolidated statement of financial position.

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 2014

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit/(loss) before tax | | **(352,763)** | 81,901 |
| **Adjustments for:** | | | |
| Finance costs | 8 | **260,365** | 173,777 |
| Share of loss of a joint venture | 9 | **263** | 299 |
| Bank interest income | 7 | **(9,971)** | (14,861) |
| Depreciation | 15 | **117,744** | 87,228 |
| Amortisation of prepaid land lease payments | 18 | **21,026** | 19,110 |
| Changes in fair value of investment properties | 16 | **(99,587)** | (196,501) |
| Impairment/(reversal of impairment) of trade receivables | 24 | **22,568** | (208) |
| Impairment of deposits and other receivables | 25 | **20,886** | – |
| Fair value (gain)/loss of derivative instruments – transactions not qualifying as hedge | | **1,846** | (16,926) |
| | | **(17,623)** | 133,819 |
| Increase in an amount due from a joint venture | | **(140,050)** | – |
| (Increase)/decrease in inventories | | **256,786** | (307,222) |
| (Increase)/decrease in trade and bills receivables | | **(139,113)** | 171,223 |
| (Increase)/decrease in prepayments, deposits and other receivables | | **(106,659)** | 198,231 |
| Increase in pledged deposits | | **(345,002)** | (7,219) |
| Increase/(decrease) in trade and bills payables | | **381,529** | (342,682) |
| Increase/(decrease) in other payables and accruals | | **182,182** | (391,939) |
| Increase in provision | | **29,960** | – |
| Increase in government grants | | **6,383** | 2,312 |
| Cash generated from/(used in) operations | | **108,393** | (543,477) |
| Interest received | 7 | **9,971** | 14,861 |
| Corporate income tax refunded/(paid) | | **3,858** | (31,284) |
| **Net cash flows from/(used in) operating activities** | | **122,222** | (559,900) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of items of property, plant and equipment | | **(602,918)** | (604,385) |
| Addition to investment properties | 16 | **(17,706)** | (3,792) |
| Acquisition of subsidiaries | 38 | **(9,371)** | (28,556) |
| Addition to prepaid land lease payments | | **(219,900)** | (844,413) |
| Investment in a joint venture | | **(4,747)** | (70,092) |
| Proceeds from disposal of items of property, plant and equipment | | **2,291** | 135 |
| Payment for investment deposits | | **(2,035,000)** | – |
| Collection of investment deposits | | **2,009,000** | – |
| Proceeds from settlement of forward contracts | | **11,349** | – |
| **Net cash flows used in investing activities** | | **(867,002)** | (1,551,103) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| New bank loans and other borrowings | | **5,013,316** | 4,525,404 |
| Repayment of bank loans and other borrowings | | **(5,207,766)** | (1,862,201) |
| Proceeds from issue of bonds | | **68,659** | 430,452 |
| Proceeds from issue of short term note | | **298,450** | 223,310 |
| Repayment of short term note | | **(200,000)** | (317,600) |
| Dividend paid | | **–** | (62,311) |
| Interest paid | | **(309,178)** | (218,139) |
| Interest element of finance lease rental payments | | **(9,889)** | (6,242) |
| Cash received from sales and lease back finance lease | | **164,000** | – |
| Capital element of finance lease rental payments | | **(51,468)** | (31,590) |
| **Net cash flows from/(used in) financing activities** | | **(233,876)** | 2,681,083 |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **(978,656)** | 570,080 |
| Effect of foreign exchange rate changes, net | | **6,716** | 89 |
| Cash and cash equivalents at beginning of year | | **1,609,517** | 1,039,348 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **637,577** | 1,609,517 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | 27 | **637,577** | 1,609,517 |

# STATEMENT OF FINANCIAL POSITION

31 December 2014

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investments in subsidiaries | 20 | **1,778,636** | 1,778,636 |
| Total non-current assets | | **1,778,636** | 1,778,636 |
| **CURRENT ASSETS** | | | |
| Prepayments, deposits and other receivables | 25 | **746** | 1,576 |
| Due from subsidiaries | 20 | **1,147,451** | 1,113,776 |
| Cash and bank balances | 27 | **106** | 98 |
| Total current assets | | **1,148,303** | 1,115,450 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accruals | 31 | **4,848** | 4,170 |
| Total current liabilities | | **4,848** | 4,170 |
| **NET CURRENT ASSETS** | | **1,143,455** | 1,111,280 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **2,922,091** | 2,889,916 |
| **NON-CURRENT LIABILITIES** | | | |
| Fixed rate bonds | 34 | **505,174** | 431,453 |
| Total non-current liabilities | | **505,174** | 431,453 |
| Net assets | | **2,416,917** | 2,458,463 |
| **EQUITY** | | | |
| Issued capital | 36 | **88,856** | 88,856 |
| Reserves | 37(b) | **2,328,061** | 2,369,607 |
| Total equity | | **2,416,917** | 2,458,463 |

## 1. CORPORATE INFORMATION

Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (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 Company and its subsidiaries (together, the "Group") are principally involved in the manufacture and sale of welded steel pipes and the provision of related manufacturing services. There were no significant changes in the nature of the Group's principal activities during the year.

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

## 2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), and the International Accounting Standards and Standing Interpretations Committee Interpretations approved by the International Accounting Standards Committee that remain in effect. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements 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 2014. 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.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. 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.

## 2. BASIS OF PREPARATION (continued)

### Going concern basis

Notwithstanding that the Group had consolidated net current liabilities of approximately RMB746,686,000 at 31 December 2014, the financial statements have been prepared by the directors of the Company on a going concern basis, because:

(i) subsequent to the reporting period, the Group has obtained long-term loans of RMB936,696,000 which could be used to finance its operation;

(ii) as at 31 December 2014, the Group had unutilised credit facilities from banks of approximately RMB5,740,163,000; and

(iii) the directors of the Company continue to take action to tighten cost controls over various operating expenses, and are actively seeking new investment and business opportunities with an aim to attaining profitable and positive cash flow operations.

In the opinion of the directors of the Company, in light of the measures taken to date together with the expected results of other measures in progress, the Group is able to fulfil its financial obligations upon fall due. Accordingly, it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial and liquidity positions at 31 December 2014.

## 3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards and new interpretation for the first time for the current year's financial statements:

| | |
|---|---|
| Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) | *Investment Entities* |
| Amendments to IAS 32 | *Offsetting Financial Assets And Financial Liabilities* |
| Amendments to IAS 39 | *Novation of Derivatives and Continuation of Hedge Accounting* |
| IFRIC 21 | *Levies* |
| Amendment to IFRS 2 included in *Annual Improvements 2010–2012 Cycle* | *Definition of Vesting Condition*[1] |
| Amendment to IFRS 3 included in *Annual Improvements 2010–2012 Cycle* | *Accounting for Contingent Consideration in a Business Combination*[1] |
| Amendment to IFRS 13 included in *Annual Improvements 2010–2012 Cycle* | *Short-term Receivables and Payables* |
| Amendment to IFRS 1 included in *Annual Improvements 2011–2013 Cycle* | *Meaning of Effective IFRSs* |
| Amendments to IFRS 10 and IAS 28 (Revised) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Early adopted) |

[1] Effective from 1 July 2014

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

## 3.2 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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] |
| Amendments to IFRS 10, IFRS 12 and IAS 28 (Revised) | *Investment Entities: Applying the Consolidation Exception*[2] |
| Amendments to IFRS 11 | *Accounting for Acquisitions of Interests in Joint Operations*[2] |
| IFRS 14 | *Regulatory Deferral Accounts*[5] |
| IFRS 15 | *Revenue from Contracts with Customers*[3] |
| Amendments to IAS 1 | *Disclosure Initiative*[2] |
| Amendments to IAS 16 and IAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation*[2] |
| Amendments to IAS 16 and IAS 41 | *Agriculture: Bearer Plants*[2] |
| Amendments to IAS 19 | *Defined Benefit Plans: Employee Contributions*[1] |
| Amendments to IAS 27 (Revised) | *Equity Method in Separate Financial Statements*[2] |
| *Annual Improvements 2010–2012 Cycle* | Amendments to a number of IFRSs[1] |
| *Annual Improvements 2011–2013 Cycle* | Amendments to a number of IFRSs[1] |
| *Annual Improvements 2012–2014 Cycle* | Amendments to a number of IFRSs[2] |

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

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

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

## 3.2 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (continued)

The amendments to IFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in IFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The Group expects to adopt IFRS 15 on 1 January 2017 and is currently assessing the impact of IFRS 15 upon adoption.

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The *Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle* sets out amendments to a number of IFRSs. Except for those described in note 3.1, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

IFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

The *Annual Improvements to IFRSs 2012–2014 Cycle* sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2016. 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 *Non-current Assets Held for Sale and Discontinued Operations* 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 assets 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.

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*.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 measure 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 of 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 | 5~50 years | 5%~10% |
| Plant and machinery | 3~16 years | 1%~10% |
| Office and other equipment | 3~16 years | 1%~10% |
| Motor vehicles | 4~10 years | 5%~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 costs 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 the statement of 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 in IAS 39 are satisfied.

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

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

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. 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).

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets (continued)

*Financial assets carried at amortised cost (continued)*

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.

### 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 amortisation process.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial liabilities (continued)

*Loans and borrowings (continued)*

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.

### 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.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derivative financial instruments (continued)

*Current versus non-current classification*

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

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

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

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

### 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.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 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.

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, 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.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

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.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee benefits (continued)

*Other benefits*

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

### Borrowing costs

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

### Foreign currencies

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies (continued)

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 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 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.

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### 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 19.

*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.

*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.

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Estimation uncertainty (continued)

*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/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that head office and corporate expenses are excluded from such measurement.

## 6. OPERATING SEGMENT INFORMATION (continued)

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 2014

| | Steel pipes RMB'000 | Property development and investment RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Segment revenue:** | | | |
| Sales to external customers | 2,679,188 | – | 2,679,188 |
| **Segment results:** | (382,195) | 73,455 | (308,740) |
| *Reconciliation:* | | | |
| Corporate and other unallocated expenses | | | (44,023) |
| Loss before tax | | | (352,763) |
| **Segment assets:** | 6,244,369 | 2,534,654 | 8,779,023 |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | | | (244,354) |
| Corporate and other unallocated assets | | | 2,926,939 |
| Total assets | | | 11,461,608 |
| **Segment liabilities:** | 7,242,034 | 684,790 | 7,926,824 |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | | | (244,354) |
| Corporate and other unallocated liabilities | | | 510,022 |
| Total liabilities | | | 8,192,492 |
| **Other segment information:** | | | |
| Share of loss of a joint venture | (263) | – | (263) |
| Impairment losses recognised in the statement of profit or loss | (43,627) | – | (43,627) |
| Impairment losses reversed in the statement of profit or loss | 231 | – | 231 |
| Depreciation and amortisation | (138,591) | (179) | (138,770) |
| Investment in a joint venture | 39,493 | – | 39,493 |
| Capital expenditure* | 983,490 | 18,206 | 1,001,696 |

## 6. OPERATING SEGMENT INFORMATION (continued)

### Year ended 31 December 2013

| | Steel pipes RMB'000 | Property development and investment 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:** | 6,075,263 | 2,545,032 | 8,620,295 |
| *Reconciliation:* | | | |
| Elimination of intersegment receivables | | | (540,240) |
| Corporate and other unallocated assets | | | 2,894,086 |
| Total assets | | | 10,974,141 |
| **Segment liabilities:** | 6,733,978 | 725,711 | 7,459,689 |
| *Reconciliation:* | | | |
| Elimination of intersegment payables | | | (540,240) |
| Corporate and other unallocated liabilities | | | 435,623 |
| Total liabilities | | | 7,355,072 |
| **Other segment information:** | | | |
| Share of 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 |

* 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 from the major products is analysed as follows:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| **Manufacture and sale of steel pipes:** | | |
| LSAW steel pipes | **1,897,809** | 1,440,276 |
| SSAW steel pipes | **392,036** | 136,835 |
| ERW steel pipes | **147,388** | 249,455 |
| **Steel pipe manufacturing services:** | | |
| LSAW steel pipes | **13,708** | 32,166 |
| SSAW steel pipes | **11,113** | – |
| ERW steel pipes | **2,369** | 6,037 |
| Others* | **214,765** | 162,288 |
| | **2,679,188** | 2,027,057 |

* 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:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Sales to external customers: | | |
| Mainland China | **1,306,771** | 1,671,209 |
| America | **429,643** | 83,145 |
| European Union | **6,717** | 1,788 |
| Middle East | **152,834** | 114,589 |
| Other Asian countries | **655,669** | 91,395 |
| Oceania | **120,355** | – |
| Others | **7,199** | 64,931 |
| | **2,679,188** | 2,027,057 |

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

### Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue for the year, is set out below:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Customer A | * | 382,864 |
| Customer B | **266,921** | * |

* Less than 10%

## 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:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| **Revenue** | | |
| Manufacture and sale of welded steel pipes and the provision of related manufacturing services | **2,679,188** | 2,027,057 |
| **Other income** | | |
| Bank interest income | **9,971** | 14,861 |
| Subsidy income from the PRC government (note 35) | **112,101** | 173,938 |
| Compensation | **2,464** | – |
| Rental income | **243** | 240 |
| Others | **1,061** | 60 |
| | **125,840** | 189,099 |
| **Gains** | | |
| Fair value gain, net: | | |
| Derivative instruments – transactions not qualifying as hedge | **–** | 16,926 |
| Exchange gain, net | **1,850** | 16,073 |
| | **1,850** | 32,999 |
| | **127,690** | 222,098 |

The subsidy income represented subsidies granted by the local finance bureaus to PCKSP (Lianyungang), PCKSP, Lianyungang Pearl River Petrol-Fittings Co., Ltd. (GPR Petrol-Fittings (Lianyungang)), Panyu Chu Kong Steel Pipe (Zhuhai) Co., Ltd. (PCKSP (Zhuhai)), Lianyungang Aike New Construction Materials Limited and Nanjing Rongyu Group Co., Ltd, 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 | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Interest on bank loans and government loans | **273,363** | 183,013 |
| Interest on other loans (including bonds and short term notes) | **49,120** | 40,262 |
| Interest on finance leases | **11,539** | 6,242 |
| Interest on discounted bills | **10,338** | – |
| Total interest expense on financial liabilities not at fair value through profit or loss | **344,360** | 229,517 |
| Less: Interest capitalised | **(83,995)** | (55,740) |
| | **260,365** | 173,777 |

## 9. PROFIT/(LOSS) BEFORE TAX

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

| | Notes | **2014** **RMB'000** | 2013 RMB'000 |
|---|---|---|---|
| Cost of inventories sold | | **2,111,016** | 1,503,018 |
| Depreciation | 15 | **117,744** | 87,228 |
| Share of loss of a joint venture | | **263** | 299 |
| Amortisation of prepaid land lease payments | 18 | **21,026** | 19,110 |
| Minimum lease payments under operating leases in respect of buildings | | **8,009** | 5,297 |
| Auditors' remuneration | | **2,520** | 2,415 |
| Exchange gain, net | 7 | **(1,850)** | (16,073) |
| Finance costs | 8 | **260,365** | 173,777 |
| Employee benefit expenses (including directors' remuneration (note 10)): | | | |
| Wages and salaries | | **252,971** | 217,363 |
| Retirement benefit scheme contributions | | **30,943** | 27,826 |
| Impairment/(reversal of impairment) of trade receivables | | **22,512** | (208) |
| Impairment of deposits and other receivables | 25 | **20,884** | – |
| Changes in fair value of investment properties | 16 | **(99,587)** | (196,501) |
| Fair value (gain)/loss of derivative instruments – transactions not qualifying as hedges | | **1,846** | (16,926) |
| Rental income on investment properties less direct operating expenses of RMB42,458 (2013: RMB22,990) | | **(200)** | (217) |
| Bank interest income | 7 | **(9,971)** | (14,861) |
| Research and development costs | | **85,132** | 92,762 |

## 10. DIRECTORS' REMUNERATION

Details of directors' remuneration for the year, disclosure pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

| | **2014** **RMB'000** | 2013 RMB'000 |
|---|---|---|
| Fees | **571** | 566 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **5,130** | 5,349 |
| Retirement benefit scheme contributions | **68** | 54 |
| | **5,198** | 5,403 |
| | **5,769** | 5,969 |

### (a) Independent non-executive directors

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

| | **2014** **RMB'000** | 2013 RMB'000 |
|---|---|---|
| Mr. Chen Ping | **198** | 197 |
| Mr. Liang Guo Yao (resigned on 1 August 2014) | **116** | 197 |
| Mr. See Tak Wah | **174** | 172 |
| Mr. Tian Xiao Ren (appointed on 1 August 2014) | **83** | – |
| | **571** | 566 |

There were no other emoluments payable to the independent non-executive directors during the year (2013: Nil).

### (b) Executive directors

| | **Fees** RMB'000 | **Salaries, allowances and benefits in kind** RMB'000 | **Retirement benefit scheme contributions** RMB'000 | **Total remuneration** RMB'000 |
|---|---|---|---|---|
| **Year ended 31 December 2014** | | | | |
| Executive directors: | | | | |
| Mr. Chen Chang | **–** | **2,636** | **–** | **2,636** |
| Ms. Chen Zhao Nian | **–** | **1,247** | **34** | **1,281** |
| Ms. Chen Zhao Hua | **–** | **1,247** | **34** | **1,281** |
| | **–** | **5,130** | **68** | **5,198** |
| **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 |

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 | |
|---|---|---|
| | **2014** | 2013 |
| Directors | **3** | 3 |
| Non-director highest paid employees | **2** | 2 |
| | **5** | 5 |

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

| | **2014** | 2013 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Salaries, allowances and benefits in kind | **2,537** | 2,505 |
| Retirement benefit scheme contributions | **26** | 24 |
| | **2,563** | 2,529 |

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

| | Number of employees | |
|---|---|---|
| | **2014** | 2013 |
| Nil to RMB1,000,000 | **1** | 1 |
| RMB1,600,001 to RMB2,100,000 | **1** | 1 |
| | **2** | 2 |

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

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

| | Number of employees | |
|---|---|---|
| | **2014** | 2013 |
| RMB200,001 to RMB300,000 | **1** | 1 |
| RMB300,001 to RMB400,000 | **1** | 2 |
| RMB400,001 to RMB600,000 | **3** | 2 |
| | **5** | 5 |

## 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 operate.

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.

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 the years from 2013 to 2028 according to the preferential corporate tax policy in Jebel Ali Free Zone in the United Arab Emirates.

PT. Chu Kong Steel Indonesia ("PT. Chu Kong") and Sino Richfield Pte. Ltd ("Sino Richfield"), which were incorporated in Indonesia and Singapore in year 2014, are subject to income tax at a rate of 30% and 17%, respectively.

No provision for Dubai, Indonesia and Singapore profits tax has been made as the Group had no assessable profits derived from or earned in these countries during the year.

PCKSP, as a High and New Technology Enterprise ("HNTE") qualified on 16 December 2008 and renewed in 2011 and 2014, was entitled to a reduced tax rate of 15% from 1 January 2014 to 31 December 2016. PCKSP (Lianyungang), as a HNTE qualified on 30 June 2014, was entitled to a reduced tax rate of 15% from 1 January 2014 to 31 December 2016.

Pursuant to the PRC Income Tax Law and the respective regulations, except for certain preferential tax treatments available to PCKSP and PCKSP (Lianyungang), the companies of the Group which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on their respective taxable income for the year ended 31 December 2014.

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:

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| **Group:** | | |
| Current – Mainland China | | |
| Charged for the year | **523** | 27,248 |
| Overprovision in prior years | **(5,116)** | – |
| Deferred | **10,507** | 13,182 |
| Total tax charge for the year | **5,914** | 40,430 |

## 12. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit/(loss) 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 2014

| | Mainland China RMB'000 | % | Hong Kong and others RMB'000 | % | Total RMB'000 | % |
|---|---|---|---|---|---|---|
| Loss before tax | **(245,208)** | | **(107,555)** | | **(352,763)** | |
| Tax at the statutory tax rate | **(61,302)** | **25.0** | **(10,339)** | **9.6** | **(71,641)** | **20.3** |
| Tax effect of: | | | | | | |
| Lower tax rate for HNTEs | **14,256** | **(5.8)** | **–** | **–** | **14,256** | **(4.0)** |
| Expenses not deductible for tax | **1,971** | **(0.8)** | **–** | **–** | **1,971** | **(0.6)** |
| Adjustments in respect of current tax of previous periods | **(5,116)** | **2.1** | **–** | **–** | **(5,116)** | **1.5** |
| Super-deduction of research and development costs | **(1,723)** | **0.7** | **–** | **–** | **(1,723)** | **0.5** |
| Profit and loss attributable to a joint venture | **39** | **–** | **–** | **–** | **39** | **–** |
| Tax losses utilised from previous periods | **(273)** | **0.1** | **–** | **–** | **(273)** | **0.1** |
| Tax losses not recognised | **58,013** | **(23.7)** | **10,388** | **(9.7)** | **68,401** | **(19.4)** |
| Tax charge at the Group's effective tax rate | **5,865** | **(2.4)** | **49** | **(0.1)** | **5,914** | **(1.7)** |

### 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 | 25.0 | (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 losses 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 |

## 13. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated loss attributable to owners of the parent for the year ended 31 December 2014 includes a loss of RMB44,021,000 (2013: RMB26,489,000) which has been dealt with in the financial statements of the Company (note 37(b)).

## 14. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share is based on the loss for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 1,011,142,000 (2013: 1,011,142,000) in issue during the year.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2013 and 2014, respectively, in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

## 15. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Land and buildings RMB'000 | Plant and machinery RMB'000 | Office and other equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | |
| At 31 December 2013 and 1 January 2014: | | | | | | |
| 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 |
| At 1 January 2014, net of accumulated depreciation and impairment | 946,398 | 690,790 | 20,259 | 37,348 | 1,208,728 | 2,903,523 |
| Additions | 4,281 | 38,438 | 4,771 | 6,920 | 684,303 | 738,713 |
| Acquisition of a subsidiary (note 38) | 12,121 | 13,055 | 117 | 68 | 16 | 25,377 |
| Disposals | (408) | (135) | (341) | (1,407) | – | (2,291) |
| Depreciation provided during the year | (58,025) | (47,685) | (7,401) | (4,633) | – | (117,744) |
| Transfers | 214,747 | 264,598 | 37 | – | (479,382) | – |
| Exchange realignment | – | 18 | – | 11 | 100 | 129 |
| At 31 December 2014, net of accumulated depreciation and impairment | 1,119,114 | 959,079 | 17,442 | 38,307 | 1,413,765 | 3,547,707 |
| At 31 December 2014: | | | | | | |
| Cost | 1,224,617 | 1,428,456 | 46,970 | 58,552 | 1,413,765 | 4,172,360 |
| Accumulated depreciation and impairment | (105,503) | (469,377) | (29,528) | (20,245) | – | (624,653) |
| Net carrying amount | 1,119,114 | 959,079 | 17,442 | 38,307 | 1,413,765 | 3,547,707 |

## 15. PROPERTY, PLANT AND EQUIPMENT (continued)

### Group

| | Land and buildings RMB'000 | Plant and machinery RMB'000 | Office and other equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **31 December 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) |
| 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 | 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 |

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 RMB182,781,000 (2013: RMB98,786,000) as at 31 December 2014.

Included in the total costs of plant and machinery are certain assets acquired in prior years for which government grants of RMB5,950,000 (2013: 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 (2013: RMB117,183,000) as at 31 December 2014.

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, Lianyungang and Ningbo with a total net carrying amount of approximately RMB279,023,000 (2013: RMB149,616,000) as at 31 December 2014, 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.

## 15. PROPERTY, PLANT AND EQUIPMENT (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 2014 amounted to RMB142,560,000 (2013: RMB81,207,000) and RMB195,000 (2013: RMB195,000), respectively.

## 16. INVESTMENT PROPERTIES

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Building | | |
| Carrying amount at 1 January | **6,313** | 6,159 |
| Net gain from a fair value adjustment | **293** | 343 |
| Exchange realignment | **21** | (189) |
| Carrying amount at 31 December | **6,627** | 6,313 |
| Land | | |
| Carrying amount at 1 January | **2,210,000** | – |
| Transfers from owner-occupied properties (note 18) | **–** | 2,010,050 |
| Additions | **17,706** | 3,792 |
| Net gain from a fair value adjustment | **99,294** | 196,158 |
| Carrying amount at 31 December | **2,327,000** | 2,210,000 |
| | **2,333,627** | 2,216,313 |

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 2013 and 2014, the fair values of investment properties were based on the valuation by RHL Appraisal Limited, an independent professionally qualified valuer, at RMB2,216,313,000 and RMB2,333,627,000, 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.

## 16. 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 2014 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 | **–** | **–** | **2,333,627** | **2,333,627** |

| | 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 (2013: Nil).

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 gain from a fair value adjustment recognised in other income and gains in profit or loss | 196,501 |
| Exchange realignment | (189) |
| Carrying amount at 31 December 2013 and 1 January 2014 | 2,216,313 |
| Additions | 17,706 |
| Net gain from a fair value adjustment recognised in other income and gains in profit or loss | 99,587 |
| Exchange realignment | 21 |
| Carrying amount at 31 December 2014 | 2,333,627 |

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

## 16. INVESTMENT PROPERTIES (continued)

### Fair value hierarchy (continued)

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

| | Significant unobservable inputs | Range or weighted average | |
|---|---|---|---|
| | | **2014** | 2013 |
| Retail | Market unit sale rate (RMB/sq.m.) | **5,038~5,664** | 5,038~5,664 |
| Office | Market unit sale rate (HK$/sq.ft.) | **5,729~7,500** | 4,258~4,608 |

## 17. LONG TERM PREPAYMENTS AND DEPOSITS

| | Group | |
|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 |
| Prepayments for property, plant and equipment | **201,780** | 187,007 |
| Deposits paid | **26,644** | 24,643 |
| | **228,424** | 211,650 |

## 18. PREPAID LAND LEASE PAYMENTS

| | Group | |
|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 |
| Carrying amount at 1 January | **875,517** | 517,901 |
| Additions | **219,900** | 378,305 |
| Payment for change of permitted use | **–** | 454,932 |
| Acquisition of subsidiaries | **–** | 15,252 |
| Asset revaluation | **–** | 1,538,287 |
| Transfer to investment properties (note 16) | **–** | (2,010,050) |
| Amortisation provided during the year | **(21,026)** | (19,110) |
| Carrying amount at 31 December | **1,074,391** | 875,517 |
| Current portion included in prepayments, deposits and other receivables (note 25) | **(22,766)** | (15,900) |
| Non-current portion | **1,051,625** | 859,617 |

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.

## 19. GOODWILL

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| At 1 January and 31 December | **4,075** | 4,075 |

### Impairment testing of goodwill

Goodwill acquired through a business combination is 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 11.1% (2013: 16.1%). Cash flows beyond the five-year period were extrapolated using the estimated growth rate of 5% (2013: 5%). 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 2014. 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 2% to 2.5%.

## 20. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | 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 RMB1,147,451,000 at 31 December 2014 (2013: RMB1,113,776,000) are unsecured, interest-free and have no fixed terms of repayment.

## 20. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

| Company name | Place and date of incorporation/ establishment and business | Issued ordinary/ registered share 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 |
| 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 |

## 20. INVESTMENTS IN SUBSIDIARIES (continued)

| Company name | Place and date of incorporation/ establishment and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| 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 | RMB100,000,000 | – | 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 |
| 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 2010 | 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 |

## 20. INVESTMENTS IN SUBSIDIARIES (continued)

| Company name | Place and date of incorporation/ establishment and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| 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 Dirhams1,000,000 | – | 100 | Trading of steel products |
| View Sharp International Limited* | Hong Kong 8 April 2013 | HK$10,000 | – | 100 | Investment holding |
| Guangdong Zhu Jing Industrial Company Limited 廣東珠景實業投資有限公司* | The PRC/ Mainland China 14 January 2014 | RMB20,000,000 | – | 100 | Investment management |
| Guangdong Zhu Xin Industrial Company Limited 廣東珠鑫實業投資有限公司* | The PRC/ Mainland China 17 March 2014 | RMB10,000,000 | – | 100 | Investment management |
| PT. Chu Kong Steel Indonesia* 珠江鋼鐵印尼有限公司* | Indonesia 27 June 2014 | US$500,000 | – | 100 | Manufacture and sale of cold rolled coil and hot rolled pickled oiled products |
| Sino Richfield Pte. Ltd. * | Singapore 21 November 2014 | SGD100 | – | 100 | Trading of steel products |
| Ningbo Sanhe Steel Pipe Company Limited 寧波三合鋼管有限公司 | The PRC/ Mainland China 29 June 2005 | RMB20,000,000 | – | 51 | Manufacture and sale of welded steel pipes |

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, Kaili, Zhu Jing Industrial, Zhu Xin and Ningbo Sanhe, which were established as domestic-invested enterprises, all the above PRC companies are wholly-foreign-invested enterprises.

During the year, the Group acquired Ningbo Sanhe 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 2014.

## 21. INVESTMENT IN A JOINT VENTURE

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Share of net assets | **40,121** | 74,896 |
| Exchange realignment | **(628)** | 751 |
| | **39,493** | 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:

| | **2014** | 2013 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Amounts due from a shareholder | **–** | 60,990 |
| Other receivables | **117** | 4,299 |
| Cash and bank balances | **1,262** | – |
| Total current assets | **1,379** | 65,289 |
| Property, plant and equipment | **364,643** | 96,221 |
| Total non-current assets | **364,643** | 96,221 |
| Amounts due to a shareholder | **51,848** | 597 |
| Amount due to PCKSP | **140,050** | – |
| Other payables | **7,150** | – |
| Tax payable | **3,082** | – |
| Total current liabilities | **202,130** | 597 |
| Net assets | **163,892** | 160,913 |
| Reconciliation to the Group's interest in the joint venture: | | |
| The profit from contribution of non-monetary assets | **(83,650)** | (11,122) |
| Net assets after reconciliation | **80,242** | 149,791 |
| Proportion of the Group's ownership | **50%** | 50% |
| Group's share of net assets of the joint venture | **40,121** | 74,896 |
| Carrying amount of the investment | **40,121** | 74,896 |
| Administrative expenses | **(526)** | (597) |
| Loss and total comprehensive loss for the year | **(526)** | (597) |

## 22. DEFERRED TAX

Deferred tax assets

Group:

| | Impairment of trade and other receivables RMB'000 | Losses available for offsetting against future taxable profits RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 1 January 2014 | **1,086** | **42,868** | **43,954** |
| Deferred tax credited to the consolidated statement of profit or loss during the year | **3,673** | **12,554** | **16,227** |
| Acquisition of a subsidiary (note 38) | **25** | **1,781** | **1,806** |
| At 31 December 2014 | **4,784** | **57,203** | **61,987** |

| | 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 during the year | (31) | 36,179 | 36,148 |
| At 31 December 2013 | 1,086 | 42,868 | 43,954 |

As at 31 December 2014, the Group had tax losses arising in Hong Kong of RMB120,345,000 (2013: RMB59,729,000), which are available indefinitely for offsetting against future taxable profits of the company in which the losses arose. The Group also has tax losses arising in Mainland China of RMB215,746,000 (2013: RMB4,831,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries 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.

## 22. DEFERRED TAX (continued)

Deferred tax liabilities

Group:

| | **Changes in fair value of investment properties RMB'000** | **Appreciation of property, plant and equipment and lands RMB'000** | **Withholding tax RMB'000** | **Total RMB'000** |
|---|---|---|---|---|
| At 1 January 2014 | **434,598** | **11,132** | **2,265** | **447,995** |
| Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year | **26,967** | **(233)** | **–** | **26,734** |
| Acquisition of a subsidiary (note 38) | **–** | **1,834** | **–** | **1,834** |
| Exchange realignment | **(4)** | **–** | **–** | **(4)** |
| Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2014 | **461,561** | **12,733** | **2,265** | **476,559** |

| | Changes in fair value of investment properties RMB'000 | Appreciation of property, plant and equipment and lands RMB'000 | Withholding tax RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2013 | 709 | – | 2,265 | 2,974 |
| Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year | 49,340 | (10) | – | 49,330 |
| Deferred tax charged to the consolidated statement of comprehensive income during the year | 384,572 | – | – | 384,572 |
| Acquisition of subsidiaries | – | 11,142 | – | 11,142 |
| Exchange realignment | (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 |

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.

## 22. 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. At 31 December 2014, the Group has not recognised deferred tax liabilities of RMB80 million (2013: RMB104 million) in respect of temporary differences relating to the unremitted profits of the Group's subsidiaries established in the PRC that would be payable on the distribution of these profits.

## 23. INVENTORIES

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Raw materials | **278,261** | 340,459 |
| Work in progress | **212,650** | 233,848 |
| Finished goods | **430,615** | 574,030 |
| | **921,526** | 1,148,337 |

## 24. TRADE AND BILLS RECEIVABLES

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Trade receivables | **1,329,720** | 1,225,399 |
| Impairment | **(28,963)** | (6,395) |
| Trade receivables, net | **1,300,757** | 1,219,004 |
| Bills receivable | **41,911** | 100 |
| | **1,342,668** | 1,219,104 |

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.

## 24. 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 | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Within 60 days | **676,460** | 561,766 |
| 61 to 90 days | **108,877** | 32,895 |
| 91 to 180 days | **151,551** | 143,039 |
| 181 to 365 days | **126,577** | 295,377 |
| 1 to 2 years | **196,833** | 126,400 |
| 2 to 3 years | **26,153** | 50,069 |
| Over 3 years | **14,306** | 9,458 |
| | **1,300,757** | 1,219,004 |

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

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| At 1 January | **6,395** | 6,603 |
| Impairment losses recognised | **22,743** | 35 |
| Acquisition of a subsidiary | **56** | – |
| Impairment losses reversed | **(231)** | (243) |
| At 31 December | **28,963** | 6,395 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB28,963,000 (2013: RMB6,395,000) with a carrying amount before provision of RMB28,963,000 (2013: RMB6,395,000).

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

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Neither past due nor impaired | **978,344** | 666,333 |
| Past due but not impaired | | |
| 1 to 180 days | **174,494** | 380,674 |
| 181 to 365 days | **78,400** | 104,748 |
| Over 365 days | **69,519** | 67,249 |
| | **1,300,757** | 1,219,004 |

The Group's neither past due nor impaired trade receivables mainly represent sales made to recognised and creditworthy customers for whom there was no recent history of default. These customers who trade on credit terms are subject to credit verification procedures.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

## 25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Prepayments | **126,593** | 197,132 | **746** | 1,576 |
| Deposits and other receivables | **284,981** | 106,340 | **–** | – |
| Tax recoverable | **235,343** | 216,307 | **–** | – |
| Current portion of land lease payments (note 18) | **22,766** | 15,900 | **–** | – |
| | **669,683** | 535,679 | **746** | 1,576 |
| Less: Impairment of deposits and other receivables | **(21,339)** | (453) | **–** | – |
| | **648,344** | 535,226 | **746** | 1,576 |

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

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| At 1 January | **453** | 453 |
| Impairment losses recognised (note 9) | **20,884** | – |
| Acquisition of a subsidiary | **2** | – |
| At 31 December | **21,339** | 453 |

As at 31 December 2014, the net balance of deposits and other receivables was neither past due nor impaired. Financial assets included in the above balance relate to receivables for which there was no recent history of default.

## 26. INVESTMENT DEPOSITS

| | **2014** | 2013 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Investment deposits, with licensed banks in Mainland China, at amortised cost | **26,000** | – |

Investment deposits as at 31 December 2014 represented investments in financial products purchased from licensed banks in Mainland China, at a consideration of RMB26,000,000. The investment deposits were classified by the Group as loans and receivables and measured at amortised cost. The principals of the investment deposits were guaranteed by licensed banks in Mainland China. The investment deposits bore variable interest return rates and have expected interest return rates in the range of 2.3% to 2.8% per annum and have matured in January 2015.

## 27. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | **2014 RMB'000** | 2013 RMB'000 | **2014 RMB'000** | 2013 RMB'000 |
| Cash and bank balances | | **637,577** | 1,609,517 | **106** | 98 |
| Pledged deposits | (a) | **478,505** | 133,503 | **–** | – |
| | | **1,116,082** | 1,743,020 | **106** | 98 |
| Less: | | | | | |
| Pledged deposits with original maturity of over three months when acquired | | **(478,505)** | (133,503) | **–** | – |
| Cash and cash equivalents | (b) | **637,577** | 1,609,517 | **106** | 98 |

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 2014, the Group's cash and cash equivalents denominated in RMB amounted to RMB380,404,000 (2013: RMB1,506,803,000). 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 | |
|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 |
| Within 90 days | **280,708** | 180,620 |
| 91 to 180 days | **48,837** | 13,952 |
| 181 to 365 days | **16,543** | 5,628 |
| 1 to 2 years | **16,806** | 11,504 |
| 2 to 3 years | **8,576** | 3,942 |
| Over 3 years | **3,070** | 2,721 |
| | **374,540** | 218,367 |
| Bills payable | **548,011** | 317,076 |
| | **922,551** | 535,443 |

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 2014 | Group 2013 |
|---|---|---|---|---|
| | % | | RMB'000 | RMB'000 |
| **Current** | | | | |
| **Finance lease payables (note 30)** | 6.66~6.87 | 2015 | **72,539** | 34,095 |
| **Bank loans** | | | | |
| – secured | 2.07~7.59 | 2015 | **607,513** | 583,572 |
| – unsecured | 2.30~7.59 | 2015 | **1,932,112** | 2,139,849 |
| **Government loans** | | | | |
| – unsecured | 4.2 | 2015 | **218,000** | 260,000 |
| | | | **2,830,164** | 3,017,516 |
| **Non-current** | | | | |
| **Finance lease payables (note 30)** | 6.66 | 2016~2019 | **148,901** | 37,163 |
| **Bank loans** | | | | |
| – secured | 6.40~7.59 | 2016~2028 | **918,339** | 934,858 |
| – unsecured | 2.50~6.15 | 2016 | **1,122,298** | 937,056 |
| **Government loans** | | | | |
| – unsecured | 4.2 | 2016 | **129,500** | 239,000 |
| | | | **2,319,038** | 2,148,077 |
| | | | **5,149,202** | 5,165,593 |

| | Group 2014 | Group 2013 |
|---|---|---|
| | RMB'000 | RMB'000 |
| **Analysed into:** | | |
| **Bank loans repayable:** | | |
| Within one year | **2,539,625** | 2,723,421 |
| In the second year | **1,503,352** | 827,406 |
| In the third to fifth years, inclusive | **389,285** | 1,044,508 |
| Beyond five years | **148,000** | – |
| | **4,580,262** | 4,595,335 |
| **Government loans repayable:** | | |
| Within one year | **218,000** | 260,000 |
| In the second year | **129,500** | 239,000 |
| | **347,500** | 499,000 |
| **Finance lease repayables:** | | |
| Within one year | **72,539** | 34,095 |
| In the second year | **41,505** | 37,163 |
| In the third to fifth years, inclusive | **107,396** | – |
| | **221,440** | 71,258 |
| | **5,149,202** | 5,165,593 |

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

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 RMB278,969,000 (2013: RMB148,775,000) as at the end of the reporting period; and

(b) certain leasehold lands of the Group with a net carrying amount of approximately RMB500,049,000 (2013: RMB302,399,000) as at the end of the reporting period.

In addition, the Company has guaranteed certain of the Group's bank loans up to RMB2,249,650,000 (2013: RMB1,745,093,000) as at the end of the reporting period.

Except for the bank loans of RMB446,844,000 (2013: RMB31,449,000) and RMB1,725,821,000 (2013: RMB1,449,181,000) as at 31 December 2014, 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 | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| **Floating rate** | | |
| – expiring within one year | **5,740,163** | 6,938,407 |

## 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 ranging from 12 to 54 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.

On 21 April 2014, PCKSP entered into an equipment transfer contract and a finance lease contract (collectively the "2014 finance lease arrangement") with CDB Leasing Co., Ltd ("國銀金融租賃有限公司") (the "Lessor"). Pursuant to the 2014 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 RMB200 million, and PCKSP paid a guarantee deposit of RMB26 million and a service charge of RMB10 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 PBOC.

According to the 2014 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 RMB100 upon expiration of the lease term.

## 30. FINANCE LEASE PAYABLES (continued)

At 31 December 2014, the total future minimum lease payments under finance leases and their present values were as follows:

| Group | Minimum lease payments 2014 RMB'000 | Minimum lease payments 2013 RMB'000 | Present value of minimum lease payments 2014 RMB'000 | Present value of minimum lease payments 2013 RMB'000 |
|---|---|---|---|---|
| Amounts payable: | | | | |
| Within one year | **86,204** | 37,832 | **72,539** | 34,095 |
| In the second year | **48,077** | 38,696 | **41,505** | 37,163 |
| In the third to fifth years, inclusive | **118,338** | – | **107,396** | – |
| Total minimum finance lease payments | **252,619** | 76,528 | **221,440** | 71,258 |
| Future finance charges | **(31,179)** | (5,270) | | |
| Total net finance lease payables | **221,440** | 71,258 | | |
| Portion classified as current liabilities (note 29) | **(72,539)** | (34,095) | | |
| Non-current portion (note 29) | **148,901** | 37,163 | | |

## 31. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 | **2014 RMB'000** | 2013 RMB'000 |
| Deposits received and receipts in advance | **268,931** | 123,301 | **–** | – |
| Other payables* | **236,724** | 189,176 | **–** | – |
| Payroll payables | **25,577** | 18,216 | **–** | – |
| Accruals and other liabilities | **50,499** | 17,199 | **4,848** | 4,170 |
| Other tax payables | **34,617** | 45,865 | **–** | – |
| | **616,348** | 393,757 | **4,848** | 4,170 |

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

## 32. PROVISION

### Group

| | Legal proceedings RMB'000 |
|---|---|
| At 1 January 2014 | – |
| Additional provision | **29,960** |
| At 31 December 2014 | **29,960** |

Two subsidiaries of the Group are currently defendants in lawsuits brought by a third party alleging that the subsidiaries breached and repudiated certain counter guarantee contracts. The claim is subject to the legal arbitration and is only expected to be finalised in late 2015. As at the reporting date, a provision of RMB29,960,000 (including related interest) was recognised in profit or loss based on the expected probable outcome as advised by the Group's legal counsel.

## 33. SHORT TERM NOTES

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

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| The Second Tranche Notes 2012–5.1% fixed rate notes maturing in May 2014 – unsecured | – | 206,926 |
| The First Tranche Notes 2014–8.3% fixed rate notes maturing in June 2015 – unsecured | **313,608** | – |
| | **313,608** | 206,926 |

In September 2012, PCKSP completed the registration with the National Association of Financial Market Institutional Investors for a RMB500 million unsecured short-term notes ("Notes 2012") facility issuable in two years from the date of registration. In December 2012, PCKSP issued the First Tranche Notes of RMB300 million in the PRC with a tenure of one year, carrying interest at a fixed rate of 5.1% per annum, which matured in November 2013 and was repaid. In May 2013, PCKSP issued the Second Tranche Notes of RMB200 million in the PRC with a tenure of one year, carrying interest at a fixed rate of 5.1% per annum, which matured in May 2014 and was repaid.

In May 2014, PCKSP completed the registration with the National Association of Financial Market Institutional Investors for a RMB500 million unsecured short-term notes ("Notes 2014") facility issuable in two years from the date of registration. In June 2014, PCKSP issued the First Tranche Notes of RMB300 million in the PRC with a tenure of one year, carrying interest at a fixed rate of 8.3% per annum.

## 34. FIXED RATE BONDS

### US dollar 72,000,000 5.6% Bonds due 2018

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 "2013 Bonds"). 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 the 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 were for general corporate purposes. The net proceeds of the bonds after deducting issue expenses amounted to approximately RMB438,381,000.

### HK dollar 100,000,000 5% Bonds due 2017

On 2 May 2014, the Group issued bonds with a principal amount of HK dollar 100,000,000, which were subscribed at a price equal to HK dollar 86,500,000 and the bonds will be repayable in full by 2 May 2017 (the "2014 Bonds"). 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 the interest accrued to the date fixed for redemption. The bonds bear a fixed coupon interest rate at 5% per annum for three years payable semi-annually, commencing on 2 November 2014. The bonds are unsecured.

The bonds were issued for refinancing the existing debt and were for general corporate purposes. The net proceeds from the bonds after deducting issue expenses amounted to approximately RMB68,597,000.

### 2013 Bonds

| | **Group and Company** | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Carrying amount as at 1 January | **431,453** | – |
| Newly issued | **–** | 446,990 |
| Issue expenses | **–** | (8,609) |
| Amortisation | **1,569** | 1,001 |
| Exchange realignment | **1,610** | (7,929) |
| Carrying amount as at 31 December | **434,632** | 431,453 |

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

### 2014 Bonds

| | **Group and Company** | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Carrying amount as at 1 January | **–** | – |
| Newly issued | **68,659** | – |
| Issue expenses | **(62)** | – |
| Amortisation | **2,377** | – |
| Exchange realignment | **(432)** | – |
| Carrying amount as at 31 December | **70,542** | – |

The effective interest rate of the bonds is 10.62% per annum.

## 35. GOVERNMENT GRANTS

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| At 1 January | **106,345** | 96,082 |
| Grants received during the year | **118,484** | 184,201 |
| Recognised as income during the year (note 7) | **(112,101)** | (173,938) |
| At 31 December | **112,728** | 106,345 |

Government grants have been received for the encouragement for technological innovation and improvements, the purchase of land premiums, the construction of production plants and awards for investment encouragement. There are no unfulfilled conditions or contingencies attached to these grants. Related assets associated with the above grants have not yet been completed.

## 36. ISSUED CAPITAL

| | **2014** | 2013 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Authorised:** | | |
| 10,000,000,000 (2013: 10,000,000,000) ordinary shares of HK$0.10 each | **878,335** | 878,335 |
| **Issued and fully paid:** | | |
| 1,011,142,000 (2013: 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** | **Contributed surplus** | **Accumulated losses** | **Exchange fluctuation reserve** | **Total** |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2013 | 824,219 | 1,712,731 | (47,045) | (72,125) | 2,417,780 |
| Total comprehensive loss for the year | – | – | (26,489) | (21,684) | (48,173) |
| At 31 December 2013 and 1 January 2014 | **824,219** | **1,712,731** | **(73,534)** | **(93,809)** | **2,369,607** |
| Total comprehensive income/(loss) for the year | **–** | **–** | **(44,021)** | **2,475** | **(41,546)** |
| At 31 December 2014 | **824,219** | **1,712,731** | **(117,555)** | **(91,334)** | **2,328,061** |

## 38. BUSINESS COMBINATION

On 14 July 2014, the Group acquired 51% equity interests in Ningbo Sanhe from independent third parties. Ningbo Sanhe is engaged in the manufacture and sale of welded steel pipes. The consideration for the acquisition was RMB11,359,000 in the form of cash.

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

| | **Fair value recognised on acquisition** RMB'000 |
|---|---|
| Property, plant and equipment (note 15) | 25,377 |
| Long term prepayments and deposits | 1,029 |
| Deferred tax assets (note 22) | 1,806 |
| Inventories | 29,975 |
| Trade and bills receivables | 7,019 |
| Prepayments, deposits and other receivables | 1,998 |
| Cash and bank balances | 852 |
| Interest-bearing loans and other borrowings | (20,000) |
| Trade and bills payables | (5,579) |
| Other payables and accruals | (18,358) |
| Tax payable | (13) |
| Deferred tax liabilities (note 22) | (1,834) |
| Total identifiable net assets at fair value | 22,272 |
| Non-controlling interests | (10,913) |
| | 11,359 |
| Satisfied by cash | 10,223 |
| Consideration payable | 1,136 |
| | 11,359 |

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

| | RMB'000 |
|---|---|
| Cash consideration | (10,223) |
| Cash and bank balances acquired | 852 |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | (9,371) |

## 39. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties (note 16) under operating lease arrangements, with leases negotiated for terms of two years.

At 31 December 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Within one year | **282** | 150 |
| In the second to fifth years, inclusive | **165** | – |
| | **447** | 150 |

### (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 thirty years with an option for renewal after that date, at which time all terms will be renegotiated.

As at 31 December 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Within one year | **5,611** | 7,050 |
| In the second to fifth years, inclusive | **3,643** | 4,632 |
| After five years | **14,821** | – |
| | **24,075** | 11,682 |

## 40. COMMITMENTS

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

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| **Contracted, but not provided for:** | | |
| Land and buildings | **593,983** | 356,422 |
| Plant and machinery | **128,249** | 142,535 |
| | **722,232** | 498,957 |
| **Contracted, but not provided for:** | | |
| Capital contributions payable for establishment of a joint venture | **102,377** | 231,972 |
| | **824,609** | 730,929 |

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 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. |
| Al-Qahtani PCK Pipe Company | Al-Qahtani PCK Pipe Company is a joint venture of the Group. |

(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 | |
|---|---|---|---|---|
| | | | **2014** | 2013 |
| **Name of party** | **Nature of transaction** | Notes | **RMB'000** | RMB'000 |
| GZMT | Purchases of spare parts | (i) | **7,765** | 18,035 |
| Al-Qahtani PCK Pipe Company | Sales of plant and machinery | (ii) | **140,050** | – |

Notes:

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

(ii) This transaction was carried out after negotiations between the Group and the joint venture in the ordinary course of business and on the basis of estimated market value as determined by the directors.

## 41. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balance with a related party:

As disclosed in the consolidated statement of financial position, the Group had an outstanding balance due from a joint venture of RMB140,050,000 (2013: Nil) as at the end of the reporting period. The balance is unsecured, interest-free and has no fixed terms of repayment.

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

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **9,652** | 9,762 |
| Retirement benefit scheme contributions | **197** | 157 |
| Total compensation paid to key management personnel | **9,849** | 9,919 |

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 | |
|---|---|---|
| | **2014<br>RMB'000** | 2013<br>RMB'000 |
| Financial assets included in long term prepayments and deposits (note 17) | **26,644** | 24,643 |
| Trade and bills receivables (note 24) | **1,342,668** | 1,219,104 |
| Financial assets included in prepayments, deposits and other receivables (note 25) | **284,981** | 106,340 |
| Investment deposits | **26,000** | – |
| Derivative financial instruments | **–** | 13,675 |
| Pledged deposits (note 27) | **478,505** | 133,503 |
| Cash and bank balances (note 27) | **637,577** | 1,609,517 |
| | **2,796,375** | 3,106,782 |

*Financial liabilities*

| | Financial liabilities at amortised cost | |
|---|---|---|
| | **2014<br>RMB'000** | 2013<br>RMB'000 |
| Trade and bills payables (note 28) | **922,551** | 535,443 |
| Financial liabilities included in other payables and accruals (note 31) | **236,724** | 189,176 |
| Interest-bearing bank loans and other borrowings (note 29) | **5,149,202** | 5,165,593 |
| Fixed rate bonds (note 34) | **505,174** | 431,453 |
| Derivative financial instruments | **–** | 480 |
| Short term notes (note 33) | **313,608** | 206,926 |
| | **7,127,259** | 6,529,071 |

## 42. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

### Company

*Financial assets*

| | Loans and receivables | |
|---|---|---|
| | **2014** **RMB'000** | 2013 RMB'000 |
| Due from subsidiaries (note 20) | **1,147,451** | 1,113,776 |
| Cash and bank balances (note 27) | **106** | 98 |
| | **1,147,557** | 1,113,874 |

*Financial liabilities*

| | Financial liabilities at amortised cost | |
|---|---|---|
| | **2014** **RMB'000** | 2013 RMB'000 |
| Other payables and accruals (note 31) | **4,848** | 4,170 |

## 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 | |
|---|---|---|---|---|
| | **2014** **RMB'000** | 2013 RMB'000 | **2014** **RMB'000** | 2013 RMB'000 |
| **Financial assets** | | | | |
| Derivative financial instruments | – | 13,675 | – | 13,675 |
| **Financial liabilities** | | | | |
| Derivative financial instruments | – | 480 | – | 480 |

Management has assessed that the fair values of cash and bank balances, the current portion of pledged deposits, investment deposits, trade and bill receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, 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 assets included in long term prepayments and deposits, 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 2014 was assessed to be insignificant. The carrying amounts of these financial instruments carried at amortised cost are not materially different from their fair values as at 31 December 2014 and 31 December 2013.

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

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 2014, 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 2014.

*Liabilities 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 |

The Group did not have any financial liability measured at fair value as at 31 December 2014.

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 (2013: Nil).

## 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.

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 RMB16.2 million (2013: RMB25.7 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 51% (2013: 18%) 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/(loss) before tax.

*Effect on profit/(loss) before tax*

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Increase in the US dollar rate of 3% | **(48,871)** | 40,910 |
| Decrease in the US dollar rate of 3% | **48,871** | (40,910) |

### (c) Credit risk

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

The carrying amounts of trade and other receivables, investment deposits 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.

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (c) Credit risk (continued)

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

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

### (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 RMB7,938 million as at 31 December 2014, of which an amount of approximately RMB2,198 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 2014** | | | |
|---|---|---|---|---|
| | **On demand RMB'000** | **Less than 1 year RMB'000** | **Over 1 year RMB'000** | **Total RMB'000** |
| Trade and bills payables | **–** | **922,551** | **–** | **922,551** |
| Other payables | **–** | **236,724** | **–** | **236,724** |
| Interest-bearing bank loans and other borrowings | **–** | **3,016,000** | **2,634,117** | **5,650,117** |
| Fixed rate bonds | **–** | **–** | **505,174** | **505,174** |
| Short term notes | **–** | **313,608** | **–** | **313,608** |
| | **–** | **4,488,883** | **3,139,291** | **7,628,174** |

| | 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)

### (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 debts include interest-bearing bank loans and other borrowings, short term notes and fixed rate bonds. The gearing ratios as at the end of the reporting periods are as follows:

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Interest-bearing bank loans and other borrowings (note 29) | **5,149,202** | 5,165,593 |
| Fixed rate bonds (note 34) | **505,174** | 431,453 |
| Short term notes (note 33) | **313,608** | 206,926 |
| Total debts | **5,967,984** | 5,803,972 |
| Total assets | **11,461,608** | 10,974,141 |
| Gearing ratio | **52.1%** | 52.9% |

## 45. EVENT AFTER THE REPORTING PERIOD

On 27 March 2015, the Group entered into an agreement with Lianyungang Xuwei Port to establish a new company ("New Company") with registered capital of RMB100 million. The New Company will be owned as to 25% by the Group and 75% by Lianyungang Xuwei Port. The initial investment in the New Company by the Group is RMB25 million. The total investment commitment in the New Company by the Group will not exceed RMB200 million. The proposed principal business of the New Company will be construction and operation of port facilities and logistics services of the port located in Xuwei New District of Lianyungang. The Group has the priority to use the port.

## 46. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

## 47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2015.

## 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 | | | | |
|---|---|---|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 | 2012 RMB'000 (Restated) | 2011 RMB'000 | 2010 RMB'000 |
| Revenue | **2,679,188** | 2,027,057 | 3,925,995 | 3,376,865 | 1,681,473 |
| Cost of sales | **(2,367,575)** | (1,714,113) | (3,259,406) | (2,866,517) | (1,417,097) |
| Gross profit | **311,613** | 312,944 | 666,589 | 510,348 | 264,376 |
| Fair value gains on investment properties | **99,587** | 196,501 | 1,302 | – | – |
| Other income and gains | **127,690** | 222,098 | 102,840 | 68,972 | 11,466 |
| Selling and distribution expenses | **(139,232)** | (131,511) | (88,493) | (71,023) | (42,765) |
| Administrative expenses | **(453,637)** | (337,537) | (217,240) | (165,925) | (115,984) |
| Other expenses | **(38,156)** | (6,518) | (5,566) | (3,087) | (3,807) |
| Finance costs | **(260,365)** | (173,777) | (77,361) | (65,196) | (22,731) |
| Share of loss of a joint venture | **(263)** | (299) | – | – | – |
| Exchange gain/(loss), net | **–** | – | – | 5,413 | (1,576) |
| Profit/(loss) before tax | **(352,763)** | 81,901 | 382,071 | 279,502 | 88,979 |
| Income tax expense | **(5,914)** | (40,430) | (70,861) | (48,775) | (18,742) |
| Profit/(loss) for the year | **(358,677)** | 41,471 | 311,210 | 230,727 | 70,237 |
| Other comprehensive income/(loss) for the year | **(2,189)** | 1,175,934 | (722) | (2,578) | (8,867) |
| Total comprehensive income/(loss) for the year | **(360,866)** | 1,217,405 | 310,488 | 228,149 | 61,370 |
| Earnings/(loss) per share (RMB) – basic | **(0.36)** | 0.04 | 0.31 | 0.23 | 0.07 |

### Assets and Liabilities

| | 31 December | | | | |
|---|---|---|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 | 2012 RMB'000 (Restated) | 2011 RMB'000 | 2010 RMB'000 |
| Non-current assets | **7,429,301** | 6,320,686 | 2,951,047 | 1,945,542 | 1,270,794 |
| Current assets | **4,032,307** | 4,653,455 | 3,834,141 | 3,485,175 | 2,344,544 |
| Current liabilities | **(4,778,993)** | (4,221,202) | (2,586,061) | (2,464,354) | (1,344,832) |
| Non-current liabilities | **(3,413,499)** | (3,133,870) | (1,735,152) | (768,707) | (279,489) |
| Total Equity | **3,269,116** | 3,619,069 | 2,463,975 | 2,197,656 | 1,991,017 |