CHU KONG PETROLEUM AND NATURAL GAS STEEL PIPE HOLDINGS LIMITED
珠江石油天然氣鋼管控股有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock code: 1938)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2010	**2009**	**Change**
Revenue *(RMB'000)*	**1,681,473**	2,825,736	(40.5%)
Profit attributable to owners of the Company *(RMB'000)*	**70,237**	401,018	(82.5%)
Earnings per share attributable to owners of the Company *(RMB)*			
Basic and diluted	**0.07**	0.53	(86.8%)
Dividends *(HK cents per share)*			
– Final	**2.5**	-	N/A
– Interim	**-**	-	-

AUDITED FINANCIAL RESULTS

The board ("Board") of directors ("Directors") of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company") announces the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010 (the "Consolidated Financial Statements") together with the comparative figures for the previous financial year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the year ended 31 December 2010 RMB'000	2009 RMB'000
REVENUE	4	**1,681,473**	2,825,736
Cost of sales		**(1,417,097)**	(2,183,831)
Gross profit		**264,376**	641,905
Other income and gains		**11,466**	35,574
Selling and distribution costs		**(42,765)**	(87,628)
Administrative expenses		**(115,984)**	(79,940)
Other expenses		**(3,807)**	(827)
Finance costs		**(22,731)**	(41,893)
Exchange loss, net		**(1,576)**	(1,784)
PROFIT BEFORE TAX	5	**88,979**	465,407
Income tax expense	6	**(18,742)**	(64,389)
PROFIT FOR THE YEAR		**70,237**	401,018
Profit attributable to:			
Owners of the Company		**70,237**	401,018
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	8	**RMB0.07**	RMB0.53
OTHER COMPREHENSIVE INCOME:			
Exchange differences on translation of foreign operations		**(8,867)**	(18)
Income tax relating to component of other comprehensive income		**-**	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(8,867)**	(18)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**61,370**	401,000
Total comprehensive income attributable to:			
Owners of the Company		**61,370**	401,000

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at 31 December** **2010** ***RMB'000***	 2009 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,071,197**	499,891
Investment properties		**1,954**	-
Deposits paid		**64,914**	278,814
Prepaid land lease payments		**122,983**	84,659
Goodwill		**4,075**	4,075
Deferred tax assets		**1,261**	1,320
Pledged deposits		**4,410**	11,566
Total non-current assets		**1,270,794**	880,325
CURRENT ASSETS			
Inventories		**977,539**	520,157
Trade receivables	*9*	**355,025**	267,158
Prepayments, deposits and other receivables		**360,905**	116,223
Pledged deposits		**51,897**	201,056
Cash and bank balances		**599,178**	349,302
Total current assets		**2,344,544**	1,453,896

	Notes	As at 31 December 2010 RMB'000	2009 RMB'000
CURRENT LIABILITIES			
Trade and bills payables	*10*	**203,983**	395,570
Interest-bearing bank loans and government loans		**727,017**	292,953
Other payables and accruals		**394,499**	266,220
Tax payable		**19,333**	24,236
Due to the ultimate shareholder		**-**	20,540
Total current liabilities		**1,344,832**	999,519
NET CURRENT ASSETS		**999,712**	454,377
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,270,506**	1,334,702
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		**240,000**	377,000
Government grants		**37,224**	5,771
Deferred tax liabilities		**2,265**	-
Total non-current liabilities		**279,489**	382,771
Net assets		**1,991,017**	951,931
EQUITY			
Equity attributable to owners of the Company			
Issued capital		**88,856**	-
Reserves		**1,880,651**	951,931
Proposed final dividend	*7*	**21,510**	-
Total equity		**1,991,017**	951,931

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 initial authorised share capital of the Company was HK$100,000 divided into 1,000,000 shares of HK$0.10 each. The Company's registered office address is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company and its subsidiaries (together, the "Group") are involved in the manufacture and sale of welded steel pipes and the provision of related manufacturing services. There were no significant changes in the nature of the Group's principal activities during the year.

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), pursuant to which the Company became the holding company within the Group on 23 January 2010. Further details of the Group Reorganisation (the "Reorganisation") were set out in the Company's prospectus dated 28 January 2010. The shares of the Company were listed on the Stock Exchange on 10 February 2010.

In the opinion of the Directors, 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 disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The acquisitions of the subsidiaries pursuant to the Reorganisation were regarded as a business combination under common control. Accordingly, the consolidated financial statements have been prepared in accordance with the principles of merger accounting. On this basis, the Company has been treated as the holding company of its subsidiaries since the beginning of the financial periods presented rather than from their respective dates of acquisition. Accordingly, the consolidated results for the year ended 31 December 2010 include the results of the Company and its subsidiaries with effect from 1 January 2010 or since their respective dates of incorporation or establishment, whichever is shorter. The comparative consolidated statement of financial position as at 31 December 2009 was prepared as if the existing Group had been in place at that date.

In the opinion of the Directors, the consolidated financial statements prepared on the above basis present fairly the results and state of affairs of the Group as a whole.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs, which are effective for annual periods beginning on or after 1 January 2010, for the first time for the current year's financial statements:

IFRS1 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS1 Amendments	Amendments to IFRS1 *First-time Adoption of International Financial Reporting standards – Additional Exemptions for First-time Adopters*
IFRS2 Amendments	Amendments to IFRS2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
IFRIC 17	*Distributions of Non-cash Assets to Owners*
IFRS 5 Amendments included in Improvements to IFRSs issued in May 2008	*Amendments to IFRS 5 Non-current assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to IFRSs 2009	Amendments to a number of IFRSs issued in April 2009

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

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the financial statements:

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*[2]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[4]
IFRS 9	*Financial Instrument*[6]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[5]
IAS 24 (Revised)	*Related Party Disclosures*[3]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[3]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the IASB has issued Improvements to IFRSs 2010 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

The directors of the Company anticipate that the application of these new and revised standards and interpretations will have no material impact on the financial statements of the group.

4. REVENUE AND SEGMENT INFORMATION

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

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

Information about products

The revenue of the major products is analysed as follows:

	2010	2009
	RMB'000	*RMB'000*
Manufacture and sale of steel pipes:		
LSAW steel pipes	**1,439,529**	2,001,961
ERW steel pipes	**170,711**	669,719
Steel pipes manufacturing services:		
LSAW steel pipes	**35,607**	64,618
ERW steel pipes	**4,741**	8,999
Others*	**30,885**	80,439
	1,681,473	2,825,736

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

Information about geographical areas

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

The following table presents the revenue information for the Group's geographical segments:

	2010	2009
	RMB'000	*RMB'000*
Sales to external customers:		
Mainland China	**1,017,733**	1,059,621
America	**255,429**	164,626
European Union	**1,128**	104,286
Middle East	**90,750**	720,255
Other Asian countries	**312,684**	683,917
Others	**3,749**	93,031
	1,681,473	2,825,736

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

5. PROFIT BEFORE TAX

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

	2010	2009
	RMB'000	*RMB'000*
Cost of inventories sold	**1,255,883**	2,020,044
Depreciation	**39,815**	31,534
Amortisation of prepaid land lease payments	**2,392**	2,153
Minimum lease payments under operating leases in respect of buildings	**2,794**	787
Auditors' remuneration	**1,791**	2,212
Exchange loss, net	**1,576**	1,784
Finance costs	**22,731**	41,893
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	**84,413**	65,778
Retirement benefit scheme contributions	**6,977**	4,894
Impairment of trade receivables recognised/(reversed)	**(384)**	2,035
Reversal of impairment of deposits and other receivables	**–**	(555)
Bank interest income	**(7,737)**	(4,819)
Loss/(gain) on disposal of items of property, plant and equipment, net	**358**	(26,267)
Research and development costs	**24,652**	4,160

6. 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 and Lucknow Consultants Limited, which were incorporated in the British Virgin Islands, are not subject to income tax.

Crown Central Holdings Limited and Chu Kong Steel Pipe Group Co., Limited ("CKSPG"), which were incorporated in Hong Kong, were subject to profits tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

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

The PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") which was concluded on 16 March 2007 during the 5th Session of the 10th National People's Congress, was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Foreign investment enterprises of a production nature which have not fully utilised their five-year tax holiday will be allowed to continue to receive the benefits of tax exemption during the five-year transitional period. The State Council of the PRC passed the implementation guidance (the "Implementation Guidance") on 6 December 2007, which sets out the details of how the existing preferential income tax rate will be adjusted to the standard rate of 25%. The PRC subsidiaries of the Group are subject to the rate of 25% from 1 January 2008 onwards. According to the Implementation Guidance, the PRC subsidiaries of the Group, which are eligible for a 100% or 50% relief from enterprise income tax of the PRC, will continue to enjoy the preferential income tax rate up to the end of the transitional period, after which, the 25% standard rate applies.

Further to the New Corporate Income Tax Law, from 1 January 2008 onwards, non-resident enterprises without establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC will be subject to withholding tax at the rate of 20% on various types of passive income such as dividends derived from sources in the PRC. The Implementation Guidance of the New Corporate Income Tax Law reduces the withholding rate to 10%.

番禺珠江鋼管有限公司(Panyu Chu Kong Steel Pipe Co., Limited*) ("PCKSP"), as a High and New Technology Enterprise ("HNTE") qualified on 16 December 2008, was entitled to a reduced rate of 15% from 1 January 2008 to 31 December 2010. If it cannot remain to be qualified as a HNTE, it will be subject to the rate of 25% from 1 January 2011 onwards.

廣州珍珠河石化管件有限公司(Guangzhou Pearl River Petro-fittings Co., Ltd.*) ("GPR Petrol-Fittings"), 廣州珍珠河石油套管有限公司(Guangzhou Pearl River OCTG Co., Ltd.*) ("GPR Casing Pipe"), 廣州珍珠河石油鋼管防腐有限公司(Guangzhou Pearl River Petroleum Steel Pipe Coating Co., Ltd.*) ("GPR Coating") and 廣州珍珠河石油鋼管有限公司(Guangzhou Pearl River Petroleum Steel Pipe Co., Ltd.*) ("GPR Steel Pipe"), which were established in 2006, are exempted from corporate income tax for two years commencing from the year 2008, and are entitled to a 50% tax exemption for the next three years in accordance with the relevant income tax laws and regulations of the PRC for manufacturing enterprises. Upon the implementation of the New Corporate Income Tax Law on 1 January 2008, the above companies continued to enjoy the preferential income tax rate up to the end of the transitional period, after which, the 25% standard rate applies.

番禺珠江鋼管(連雲港)有限公司(Panyu Chu Kong Steel Pipe (Lianyungang) Co., Ltd.*) and 番禺珠江鋼管(珠海)有限公司(Panyu Chu Kong Steel Pipe (Zhuhai) Co., Ltd.*) ("PCKSP (Zhuhai)"), which were established in 2009 and 2010, respectively, are subject to income tax at a rate of 25%.

廣州市番禺珠江華龍石油鋼管防腐有限公司 (Guangzhou Panyu Chu Kong Hualong Petroleum Steel Pipe Anti-Corrosion Co., Ltd.*), as a sino-foreign joint venture enterprise of a production nature established in a coastal economic open zone, is subject to the income tax rate of 25% upon the implementation of the New Corporate Income Tax Law on 1 January 2008.

Taxes on profits assessable in the 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:

	2010	2009
	RMB'000	*RMB'000*
Group:		
Current – Mainland China charged for the year	**16,418**	64,643
Deferred	**2,324**	(254)
Total tax charge for the year	**18,742**	64,389

7. DIVIDENDS

	2010	2009
	RMB'000	*RMB'000*
Proposed final – HK2.5 cents per ordinary share	**21,510**	–

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

No dividend has been paid or declared by the Company since the date of its incorporation.

The dividends paid by the Company's subsidiary to its then shareholders during the year were as follows:

	2010	2009
	RMB'000	*RMB'000*
Dividends	**–**	49,706

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year ended 31 December 2010 attributable to owners of the Company, and the weighted average number of ordinary shares of 981,852,126 (2009: 750,000,000) in issue during the year.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2010 includes the pro forma issued share capital of the Company of 750,000,000 shares, comprising:

(i) 100,000,000 shares issued and fully paid; and

(ii) the capitalisation issue of 650,000,000 shares.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2010 includes the weighted average of 222,602,740 shares issued upon the listing of the Company's shares on the Stock Exchange on 10 February 2010 and the weighted average of 9,249,386 shares issued upon the partial exercise of the Over-allotment Option on 4 March 2010 in addition to the aforementioned 750,000,000 ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2009 and 2010 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these years.

9. TRADE RECEIVABLES

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. Trade receivables are non-interest-bearing.

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

	2010	2009
	RMB'000	*RMB'000*
Within 60 days	**211,901**	159,643
61 to 90 days	**20,306**	8,676
91 to 180 days	**32,690**	43,582
181 to 365 days	**52,623**	25,337
1 to 2 years	**27,368**	34,663
2 to 3 years	**17,609**	3,113
	362,497	275,014
Less: Impairment of trade receivables	**(7,472)**	(7,856)
	355,025	267,158

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

	2010	2009
	RMB'000	*RMB'000*
At beginning of the year	**7,856**	5,821
Impairment losses recognised	**432**	2,035
Impairment losses reversed	**(816)**	–
At end of the year	**7,472**	7,856

The above provision for impairment of trade receivables is full provisions for individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in default or delinquency in interest or principal payments. The Group does not hold any collateral or other credit enhancements over these balances.

An aged analysis of trade receivables that were past due but not impaired is as follows:

	2010	2009
	RMB'000	*RMB'000*
Neither past due nor impaired	**260,655**	218,387
Past due but not impaired		
1 to 180 days	**67,823**	44,479
181 to 365 days	**14,095**	2,359
Over 365 days	**12,452**	1,933
	355,025	267,158

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. The Group does not hold any collateral or other credit enhancements over these balances.

10. 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:

	2010	2009
	RMB'000	*RMB'000*
Within 90 days	**138,355**	57,286
91 to 180 days	**9,429**	3,410
181 to 365 days	**16,881**	3,306
1 to 2 years	**854**	9,385
2 to 3 years	**6,868**	1,686
	172,387	75,073
Bills payable	**31,596**	320,497
	203,983	395,570

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

All the bills payable bear maturity dates within 180 days.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Despite the gradual recovery of the global economy from the global financial crisis in 2010, the operating environment in the steel pipe industry is still challenging, especially in the international market. Under the spectre of slowing down of the economy and tightened credit market due to the financial crisis in Europe emerged in early 2010, many major oil and gas projects were suspended thus affecting the steel pipe industry.

The Group is principally engaged in the manufacture and sale of longitudinal welded steel pipes, as well as providing steel pipe processing services and ancillary services such as coating and fittings. Our steel pipes products can be broadly categorized into longitudinal submerged arc welded steel pipes formed by submerged arc welding technology ("LSAW steel pipes") and steel pipes formed by electric resistance welding technology ("ERW steel pipes").

LSAW Steel Pipes

The Group is one of the largest LSAW steel pipes manufacturers in the Mainland China. LSAW steel pipes are the largest revenue contributor to the Group and accounted for approximately 87.7% of our total revenue for the year ended 31 December 2010. For the year ended 31 December 2010, revenue from the sales and manufacturing service of LSAW steel pipes amounted to approximately RMB1,439.5 million and RMB35.6 million, respectively, representing a decrease of 28.1% and 44.9%, respectively, as compared to that for the year ended 31 December 2009. The decrease in sales of LSAW steel pipes was mainly due to the decline in our international orders resulted from the delay of many oil and gas projects across the globe. The decrease in the revenue from the manufacturing service of LSAW steel pipes was mainly attributable to the decline in orders from China Petroleum and Chemical Corporation after its completion of the gas pipeline project near Sichuan Province, the PRC, during the year.

ERW Steel Pipes

After achieving the record-high revenue derived from the sales of ERW steel pipes in 2009 as a result of the lucrative orders of our customer in the Sultanate of Oman, the revenue from the sales and manufacturing service of ERW steel pipes retreated to normal level in 2010. In general, market competition of ERW steel pipes is very keen due to its relatively low technical and standardized requirements. For the year ended 31 December 2010, revenue from the sales and manufacturing service of ERW steel pipes amounted to approximately RMB170.7 million and RMB4.7 million, respectively, representing a decrease of 74.5% and 47.3%, respectively, as compared to that of 2009. The total revenue from ERW steel pipes accounted for approximately 10.4% of the total revenue for the year ended 31 December 2010.

Despite the slowdown in 2010, steel pipe market still has enormous growth potential in the long run for the following reasons: (i) pipeline transmission is the most economical, convenient and widely applied method for conveying oil and gas, (ii) pipeline penetration in developing countries is still low as compared to developed countries, (iii) the expected replacement demand in the US and Russia as most of their pipelines had been laid in late 1960s and 1970s and pipes used for oil and gas transportation usually have an average lifespan of approximately 25 to 30 years.

In anticipation of the growing demand in the coming years, the Group plans to boost its production capacity in the coming year. The resulting economy of scale will enable us to seize a higher market share and enhance market recognition, thereby reinforcing our industry leadership.

During the year ended 31 December 2010, the installation of a new LSAW steel pipes production line designed for manufacturing of infrastructure pipes, with 300,000 tonnes annual capacity, was completed in Panyu, Guangdong Province, the PRC. This new production line commenced operation in June 2010. Furthermore, we have also acquired a parcel of land in Zhuhai, Guangdong Province, the PRC, for establishing of a new production base.

Financial review

Revenue and gross profit

For the year ended 31 December 2010, our revenue was approximately RMB1,681.5 million, representing a decrease of RMB1,144.2 million or 40.5% as compared to that of approximately RMB2,825.7 million in 2009. The decrease in revenue was mainly attributable to the decrease in sales volume and the average selling price of LSAW steel pipes and ERW steel pipes.

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:

	2010		2009	
	Revenue (RMB'000)	***% to total***	Revenue *(RMB'000)*	*% to total*
Sales of steel pipes:				
LSAW steel pipes	**1,439,529**	**85.6**	2,001,961	70.8
ERW steel pipes	**170,711**	**10.2**	669,719	23.7
Subtotal	**1,610,240**	**95.8**	2,671,680	94.5
Manufacturing services:				
LSAW steel pipes	**35,607**	**2.1**	64,618	2.3
ERW steel pipes	**4,741**	**0.3**	8,999	0.3
Subtotal	**40,348**	**2.4**	73,617	2.6
Others	**30,885**	**1.8**	80,439	2.9
Grand Total	**1,681,473**	**100**	2,825,736	100

	2010			2009		
	Gross profit *(RMB'000)*	**Sales volume *(tonnes)***	**Average gross profit *(RMB/ton)***	Gross profit *(RMB'000)*	Sales volume *(tonnes)*	Average gross profit *(RMB/ton)*
Sales of steel pipes:						
LSAW steel pipes	**244,813**	**184,528**	**1,327**	390,498	230,331	1,695
ERW steel pipes	**(2,627)**	**34,094**	**(77)**	195,534	75,107	2,603
Subtotal	**242,186**	**218,622**		586,032	305,438	
Manufacturing services:						
LSAW steel pipes	**18,757**	**18,253**	**1,028**	35,922	31,157	1,153
ERW steel pipes	**370**	**8,745**	**42**	4,294	17,200	250
Subtotal	**19,127**	**26,998**		40,216	48,357	
Others	**3,063**	**N/A**	**N/A**	15,657	N/A	N/A
Grand Total	**264,376**	**245,620**		641,905	353,795	

The revenue generated from the sales of steel pipes accounted for approximately 95.8% of our total revenue in 2010 as compared to approximately 94.5% in 2009. Steel pipes manufacturing services accounted for approximately 2.4% of our total revenue in 2010 as compared to approximately 2.6% in 2009. The revenues denoted by "Others" mainly represent the sale of steel fittings, trading of steel pipes and sale of scrap materials which accounted for approximately 1.8% of our total revenue in 2010 as compared to 2.9% in 2009.

Gross profit for 2010 was approximately RMB264.4 million, representing a decrease of 58.8% or RMB377.5 million as compared to approximately RMB641.9 million in 2009. Gross profit margin decreased from 22.7% for 2009 to 15.7% for 2010.

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

The average gross profit per tonne for LSAW steel pipes decreased by 21.7% from approximately RMB1,695 in 2009 to approximately RMB1,327 in 2010. This was primarily attributable to (i) the decrease in overseas orders which generally commands higher margin due to their higher requirements; and (ii) lower operational efficiency in 2010 because we increased the sales to city gas operators, in order to maintain our market share and production volume under the unprecedented challenging economy. However, their orders were smaller and have more varieties in the production specifications.

The average gross profit per tonne for ERW steel pipes decreased by 103.0% from approximately RMB2,603 in 2009 to an average gross loss of approximately RMB77 in 2010. This was mainly because of a large order of approximately RMB550.5 million of ERW steel pipes received in 2009 from a customer in Sultanate of Oman, which order generated a gross profit margin of approximately 34%. However, the Group received no order of such kind of ERW steel pipes in 2010.

The average gross profit per tonne for manufacturing services of LSAW steel pipes decreased by 10.8% from approximately RMB1,153 in 2009 to approximately RMB1,028 in 2010. The average gross profit per tonne for manufacturing services of ERW steel pipes decreased by 83.2% from approximately RMB250 in 2009 to RMB42 in 2010. The decrease was mainly due to higher average manufacturing cost per tonne resulted from lower production volume for both LSAW steel pipes and ERW steel pipes in 2010.

Our overseas sales accounted for 62.5% of our total revenue in 2009, but only 39.5% in 2010. This was mainly attributable to the suspension and delay of major global oil and gas projects due to the uncertainty induced by the European financial crisis in early 2010.

Sales by geographical areas

	2010		2009	
	RMB'000	%	*RMB'000*	%
Overseas sales	**663,740**	**39.5**	1,766,115	62.5
Domestic sales	**1,017,733**	**60.5**	1,059,621	37.5
Total	**1,681,473**	**100.0**	2,825,736	100.0

Other income and gains

Other income and gains decreased by 67.7% or RMB24.1 million from approximately RMB35.6 million in 2009 to approximately RMB11.5 million in 2010. Other income in 2010 mainly represents bank interest income and subsidy income from the PRC government. The relative higher other income and gains recorded in 2009 was mainly attributable to a one-off gain from the disposal of certain property, plant and equipment that amounted to approximately RMB26.6 million in 2009.

Selling and distribution costs

Selling and distribution expenses decreased by 51.1% or RMB44.8 million from approximately RMB87.6 million in 2009 to approximately RMB42.8 million in 2010. The selling and distribution expenses as a percentage of our total revenue were approximately 3.1% in 2009 and 2.5% in 2010 respectively. The decrease was mainly due to the reduced amount of commission paid to our sales agent of overseas market, which is in line with the decline in overseas sales.

Administrative expenses

Administrative expenses increased by 45.2% or RMB36.1 million from approximately RMB79.9 million in 2009 to approximately RMB116.0 million in 2010. The increase was primarily due to the composite effect of (i) an increase in research and development expenses from approximately RMB4.2 million in 2009 to approximately RMB24.7 million in 2010, a substantial portion of which was related to the research and development expenses of deep sea application for steel pipes; and (ii) the increase in salary and wages from approximately RMB15.7 million in 2009 to approximately RMB23.4 million in 2010 which was primarily due to the increase in a number of senior managements.

Other expenses

Other expenses increased by 375.0% or RMB3.0 million from approximately RMB0.8 million in 2009 to approximately RMB3.8 million in 2010. The increase was mainly due to the increase in donations to charity amounted to approximately RMB3.3 million in 2010.

Finance costs

Finance costs decreased by 45.8% or RMB19.2 million from approximately RMB41.9 million in 2009 to approximately RMB22.7 million in 2010. The decrease was mainly attributable to the capitalization of interest that amounted to RMB15.6 million on a specific loan in 2010.

Exchange loss, net

Exchange loss decreased by 11.1% or RMB0.2 million from approximately RMB1.8 million in 2009 to approximately RMB1.6 million in 2010. The appreciation of Renminbi resulted in an increase in exchange loss because our overseas sales revenue was mostly denominated in US dollar. However, this was offset by the exchange gain arising from the borrowing of foreign currency loans during the year.

Income tax expenses

Income tax expenses decreased by 71.0% or RMB45.7 million from approximately RMB64.4 million in 2009 to approximately RMB18.7 million in 2010. The decrease is mainly due to the drop in our profit before tax. The Group's effective tax rate for 2010 was approximately 21.1% as compared to approximately 13.8% in 2009. This was mainly because (i) GPR Petrol-Fittings, GPR Casing Pipe, GPR Coating, and GPR Steel Pipe were no longer entitled to full tax exemption but only to a 50% tax exemption commencing from 2010, (ii) there is an increase in non-deductible expenses in our overseas operations.

Total comprehensive income for the year

As a result of the factors discussed above, our total comprehensive income for the year 2010 decreased by 84.7% or RMB339.6 million from approximately RMB401.0 million in 2009 to approximately RMB61.4 million in 2010. Net profit margin decreased from 14.2% in 2009 to 3.6% in 2010.

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 2009 and 2010:

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Net cash flows (used in)/from operating activities	**(586,388)**	634,459
Net cash flows used in investing activities	**(400,283)**	(274,271)
Net cash flows from/(used in) financing activities	**1,236,207**	(170,881)
Net increase in cash and cash equivalents	**249,536**	189,307

Net cash flows (used in)/from operating activities

The Group's net cash flows from operating activities decreased by 192.4% or RMB1220.9 million from approximately RMB634.5 million in 2009 to approximately negative RMB586.4 million in 2010. The net cash flows from operating activities are primarily due to the combined effect of (i) operating profit before changes in working capital of approximately RMB146.2 million, (ii) increase in inventories and prepayments of approximately RMB701.1 million resulted from the increase in order received to be delivered in the first quarter of 2011, (iii) decrease in trade and bills payables of approximately RMB191.6 million.

Net cash flows used in investing activities

The Group's net cash flows used in investing activities increased by 45.9% or RMB126.0 million from approximately RMB274.3 million in 2009 to approximately RMB400.3 million in 2010. The net cash outflow was mainly resulted from the combined effect of (i) the payment of the balance of approximately RMB321.0 million for steel plate processing machines; (ii) the payment of approximately RMB21.9 million and approximately RMB49.6 million for a parcel of land in Jiangyin and Zhuhai, respectively, (iii) the purchase and installation of an infrastructure pipe production line that amounted to approximately RMB40.0 million, and (iv) the receipt of government grants amounted to approximately RMB30.7 million.

Net cash flows from/(used in) financing activities

The Group's net cash flows used in financing activities increased by 823.3% or RMB1,407.1 million from approximately negative RMB170.9 million in 2009 to approximately RMB1,236.2 million in 2010. The net cash outflow was mainly resulted from the combined effect of (i) net proceeds of approximately RMB977.7 million from the issue of shares during the global offering in February 2010; (ii) borrowing of new bank loans of approximately RMB1,101.2 million and (iii) repayment of bank loans of approximately RMB804.2 million.

Exchange risk exposure

The Group mainly operates in the PRC and most of its operating transactions are settled in Renminbi except for export sales which are mostly denominated in US dollar. Most of its assets and liabilities are denominated in Renminbi. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group did not adopt formal hedging policies and no instruments were applied for foreign currency hedging purposes during the year ended 31 December 2010.

Capital expenditure

For the year ended 31 December 2010, the Group invested approximately RMB432.6 million for the purchase of property, plant and equipment and land use rights. These capital expenditures were fully financed by internal resources and net proceeds from the issue of shares.

Contingent liabilities

As at 31 December 2010, 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 RMB52,781,000 (2009:RMB65,601,000) and RMB81,638,000 (2009:RMB83,713,000) as at 31 December 2010 respectively to secure bank loans granted to the Group.

Financial instruments

The Group did not have any hedging contracts or financial derivatives outstanding for the year ended 31 December 2010.

Gearing ratio

The Group's gearing ratio is calculated based on the summation of bank and government loans, government grants and amount due to the ultimate shareholders divided by total assets. The gearing ratio of the Group as at 31 December 2010 and 2009 are 27.8% and 29.8%, respectively.

As at 31 December 2010, total borrowings of the Group amounted to approximately RMB967.0 million, of which 24.8% were long term borrowings.

The net debt-to-equity ratio, defined as a percentage of net interest bearing borrowings over shareholders' equity, improved from 33.7% to 18.5% as at the end of the reporting years.

The Group's banks borrowings are mainly denominated in Renminbi which carry interest rates that is referred to the benchmark lending rate published by the People's Bank of China. There are also some banks borrowings denominated in US dollar and HK dollar during the year with interest rates benchmarked to the London interbank offered rates for US dollar loans and Hong Kong interbank offered rates for HK dollar loans.

Significant investments, material acquisitions and disposals of subsidiaries and associated companies

On 21 June 2010, PCKSP (Zhuhai) was established as a wholly owned subsidiary of CKSPG with a registered capital of RMB300 million, which will be payable in cash, to engage in the manufacture and sale of steel pipes.

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

Event after the reporting period

On 1 March 2011, PCKSP entered into an equipment transfer contract and a finance lease contract, collectively the finance lease arrangement, with 華融金融租賃股份有限公司 (China Huarong Financial Leasing Co., Ltd.*) (the "lessor"). Pursuant to the 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.

Use of net proceeds from the global offering

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

	Net proceeds from the global offering	
	Available to utilize *(RMB' million)*	**Utilized (up to 31 Dec 2010** *(RMB' million)*
Use of proceeds		
Establishment of a new production base in Lianyungang	684.4	321.0
Construction of new LSAW steel pipes production line and modification of an ancillary production line into a completed LSAW steel pipes production line	97.7	40.0
Repayment of bank loans	48.9	48.7
Expansion of overseas distribution network	19.6	8.4
Enhancement of our research and development capabilities	29.3	24.7
Working capital	97.8	97.3
Total	977.7	540.1

Employee and remuneration policy

As at 31 December 2010, the Group had a total of 2,081 dedicated full time employees (2009:1,816 employees). The following set forth the total number of our staff by functions:

	2010	2009
Management	**42**	24
Production and logistic	**1,214**	1,075
Sales and marketing	**38**	32
Finance	**21**	15
Quality control	**395**	372
Research and development	**89**	45
Procurement	**31**	29
General administration and others	**251**	224
Total	**2,081**	1,816

For the year ended 31 December 2010, staff cost (including director's remuneration in the form of salaries and other benefits) was RMB91.4 million (2009: RMB70.7 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, other benefits as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

Future plans and prospects

Our Group strives for becoming a leading LSAW steel pipes manufacturer internationally and domestically with a strong focus on seeking opportunities across the globe where we have or can develop significant competitive advantage. Leverage on our experienced management team, research and development capabilities, state-of-the-art technology, well established client base and reputation of excellence, we are the only Chinese company qualified for undertaking most of the internationally large orders. The kind of projects that we bid for and received substantiates not only our order book position but also sets us apart from other domestic players.

By capitalizing on the following strategies, the Group is poised to achieve excellent performance:

Construction of steel plates processing facilities

The Group intends to construct a steel plates processing production line with a planned annual capacity of 2 million tonnes. It will be located in Lianyungang and is expected to be completed by end of 2013. This steel plates processing production line is capable of producing American Petroleum Institute (API)-grade steel plates and is expected to meet our captive consumption requirement. It will not only improve our steel pipes profitability but also secure stable supply of quality steel plates for production even when market conditions are tight.

Construction of new oil and gas LSAW steel pipes production lines

The Group intends to construct two oil and gas LSAW steel pipes production lines with a planned annual capacity of 300,000 tonnes each. These two production lines will be located in Zhuhai and Lianyungang and are expected to be completed by the 4th quarter of 2011 and the 3rd quarter of 2012, respectively. Upon completion of these two production lines in 2012, our annual capacity of oil and gas LSAW steel pipes will be enhanced to 1.6 million tonnes in catering to the increasing demand for oil and gas LSAW steel pipes.

Selective acquisition and partnership

Apart from relying on the expansion of the scale of our operations and introducing new products and technology, the Group also intends to conduct selective acquisition. The targets of which may include other steel pipes manufacturers and/or other complementary production facilities in the PRC or worldwide, with an aim to increase our production capability and market share. Alternatively, by establishing partnership with other market players in areas such as production, material sourcing, sales and research, the synergy effect could enable the Group to be benefited from lower costs of materials or sales and strengthening of technical capabilities.

The capital expenditure for the above future plans is expected to be funded by the proceeds raised from the global offering, internally generated funds and bank borrowings.

Looking forward, the global steel pipeline market is expected to grow dramatically because (i) pipeline penetration in developing countries is expected to rise due to the increase in energy consumption resulted from high economic growth and development, (ii) more capital expenditure will be spent on pipeline projects by oil and gas companies given the current high oil and gas price and (iii) increasing oil and gas exploration activities in difficult and distant locations will boost the demand for pipeline laying for oil and gas transportation to refineries.

Domestically, with the commencement of the 12th Five-Year Plan, we expect to see a spurt in construction of pipeline infrastructure, these include not only onshore but also offshore projects. Furthermore, State Grid's commencement of large-scale construction of smart grid projects which includes the building of several ultra-high-voltage power transmission lines nationwide in the coming five years will also facilitate the demand for our infrastructure pipe. All these, together with the continuing robust demand for city gas network, contributed to the positive prospects of the domestic market for steel pipes.

Against the backdrop of favorable market dynamics, we are committed to leveraging our strong production capacity, advanced research and development capability, as well as diversified and quality products, so as to achieve mighty growth in 2011.

CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, the Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices ("the CG Code") to the Listing Rules since the listing of shares of the Company on the Stock Exchange on 10 February 2010.

CG CODE A.2.1

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

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

NON-COMPETITION UNDERTAKINGS

The independent non-executive Directors have also reviewed the confirmation given by Mr. Chen Chang and Bournam Profits Limited, being controlling shareholders of the Company, in respect of each of their compliance with the Non-Competition Undertakings as disclosed and as defined in the Prospectus.

AUDIT COMMITTEE

The Company established the Audit Committee on 23 January 2010 in compliance with Rule 3.21 and Appendix 14 to the Listing Rules. The Audit Committee consists of three Independent Non-Executive Directors, namely Mr. Chen Ping, Mr. Liang Guo Yao and Mr. See Tak Wah. Mr. See Tak Wah is the Chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and the internal control procedures of our Group. The Audit Committee has reviewed the Company's financial statements and the Group's consolidated financial statements for the year ended 31 December 2010 and the interim financial statements for the six months ended 30 June 2010, including the accounting principles and practices adopted by the Company and Group.

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

Since the listing of the shares of the Company on the Stock Exchange from 10 February 2010, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2010.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has since 23 January 2010 adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2010.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board recommended the payment of a final dividend of HK$0.025 per share for the year ended 31 December 2010 payable to the shareholders whose names appear on the register of members of the Company at the close of business on 10 June 2011. The register of members will be closed from 8 June 2011 to 10 June 2011, both days inclusive, during which period no transfer of shares will be registered. To qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 7 June 2011. The relevant dividend warrant will be despatched to shareholders on 28 June 2011.

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

The results announcement is required to be published on the websites of the Stock Exchange at www.hkexnews.hk under "Listed Company Information" and the designated website of the Company at http://www.pck.com.cn respectively. The annual report of the Company for the year ended 31 December 2010 will be dispatched to the shareholders and published on the Stock Exchange's and the Company's websites in due course.

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

Hong Kong, 29 March 2011

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