Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited

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

Contents

Corporate Information

Directors

Executive Directors

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

Independent Non-Executive Directors

Mr. CHEN Ping
Mr. LIANG Guo Yao
Mr. SEE Tak Wah

Registered Office

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

Company Secretary

Ms. WONG Pui Shan
FCCA, CPA, ACIS, ACS, Msc (Fin)

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

Authorised Representatives

Mr. CHEN Chang
Ms. CHEN Zhao Nian

Head Office and Principal Place of Business in the PRC

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

Principal Place of Business in Hong Kong

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

Auditor

Ernst & Young

Stock Code

1938

Company's Website

www.pck.com.cn
www.pck.todayir.com

Legal Advisers as to Hong Kong Law

Cheung & Lee in association with Locke Lord (HK) LLP

Principal Bankers

In Hong Kong:

Bank of China (Hong Kong) Limited
Cathy United Bank
China Citic Bank International Limited
China Development Bank Corporation
DBS Bank (Hong Kong) Limited
Deutsche Bank AG
The Royal Bank of Scotland N.A., (Hong Kong) Branch

In the People's Republic of China:

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

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
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

Chairman's Statement

Seize opportunities; Make ready for growth

Dear Shareholders,

On behalf of the board of directors (the "Board") of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company", together with its subsidiaries hereafter referred to as the "Group"), I would like to present to you the unaudited interim results of the Group for the six months ended 30 June 2013.

For the first half of 2013, China's GDP growth for the period slowed to 7.6%. Together with the continuing crisis in the euro zone, we believe 2013 would be a rather challenging and arduous year. Some planned national pipeline constructions in China originally set to commence during the first half of 2013 have been delayed, due to change of the China government. Such delays caused alterations of the tendering schedules for some of the projects. However, the demand for pipeline in the long-run shall remain unchanged. Turning to our overseas business, the negotiation for a number of projects, few of which have entered into the closing stage, have been prolonged and beyond our expectation. As a result, the Group's business performance has been adversely affected by lower output and a decrease in the number of new orders.

For the six months ended 30 June 2013, the Group recorded a turnover of approximately RMB1,200.1 million, down by approximately 41.7% compared with that for the same period in 2012 (1H2012: RMB2,057.5 million). Profit attributable to owners of the Company was approximately RMB71.0 million, down by approximately 58.3% compared with that for the same period in 2012 (1H2012: RMB170.4 million). Earnings per share was approximately RMB0.07 (1H2012: RMB0.17). The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2013 (1H2012: Nil).

Entering into 2013, the Group continued to implement its long term development strategies of enhancing its integrated strength and expansion. During the period, the Company tapped into the screw-thread steel manufacturing business by acquiring 100% stake in Nanjing Rongyu Group Market Management Company Limited* (南京鎔裕集團市場管理有限公司), Nanjing Rongyu Group Company Limited* (南京鎔裕集團有限公司), and Nanjing City Xixia Hill Roll Steeling Company Limited* (南京市棲霞山軋鋼有限公司) (collectively the "Nanjing Rongyu Group") for a consideration of approximately RMB80 million. The Nanjing Rongyu Group is a screw-thread steel producer in Nanjing and has an annual production capacity of 1 million tonnes. We believe this acquisition can extend the Group's product diversification and bring forth new business opportunities for the Group, and therefore achieving sustainable growth in both sales and profit by widening its income sources with better risk diversification. This will also strengthen the Group's brand name in the PRC and in the world.

* *for identification only*

Chairman's Statement

Despite the short-term setback in the first half of 2013, the Group will continue its expansion strategy in order to lay the foundation for future development. The Group has made satisfactory progress with its capacity upgrade project. At the production base of the Group located at Zhuhai Gaolan Port Economic Zone in Guangdong Province, one more Spiral Submerged Arc-Welded ("SSAW") steel pipe production line will be installed in the second half of this year, adding an annual capacity of 300,000 tonnes; the self-owned wharf for steel pipe transportation will also be ready for operation towards the end of this year. Under the "Integration of Steel Plates and Pipes" strategy, the Group has commenced the initial stage of the building of the steel plate process plant at Lianyungang. The development plan of the Lianyungang plant consists of one pre-welding and precision welding SSAW production line, one self-developed and patented Longitudinal Submerged Arc-Welded ("LSAW")-COE production line and a steel plate processing production line in planning with an annual production capacity of 2 million tonnes to manufacture steel plate for internal use. In Saudi Arabia, the setting up of the joint-venture with Abdel Hadi Abdullah Al Qahtani & Sons, Co. ("AHQ"), a Saudi Arabian company, for an installation of a LSAW production line with an annual capacity of 300,000 tonnes, which is expected to be completed in the first quarter of 2014. By implementing the above mentioned expansions and developments, the Group will be positioned as an vertically integrated enterprise with a comprehensive range of steel pipe products, wide and cross-industries product range, international reach and logistic capability. All these will give unparalleled advantages to the Group, not just domestically but internationally, in order to retain its leading position within the industry.

The Group has been as optimistic as ever on the prospect of steel pipes industry. The Group has been aggressively bidding for related projects and to achieve more orders to capture the growth in the industry. The Group has also been progressively gearing up its production capacity. By the end of 2013, the Group's production facilities is expected to include a total of six LSAW steel pipe production lines, two SSAW steel pipe production lines and one electric resistance welded ("ERW") steel pipe production line with an aggregate annual production capacity of 2.71 million tonnes, and two screw-thread steel production lines with an aggregate annual production capacity of 1 million tonnes.

In addition to the traditional oil and gas transmission pipes, the Group has also successfully produced pipes for use in nuclear power generation, clad pipes for transmission of crude oil and gas with high sulphur content, windmill foundation pillars and offshore oil platforms, etc., which widened the application range of the Group's products. In terms of the technological advancement, the Group is developing subsea LSAW steel pipes at a water depth of 3,000 metres to cope with the demand of deep sea exploration projects across the world. Besides, our own invention of COE, a unique and self-developed LSAW production method, has been adopted in our production process, which showcased our own research and development ability. Our products are also well adapted for the projects and technologies described in the Guide of Offshore Engineering Equipment Research 2013 (海洋工程裝備科研項目指南2013), which will serve as guidance for the emerging strategic industries for the country's development.

Other than the business development described above, the Group has completed the change of the land use of a piece of land owned by the Group in Panyu from industrial uses into commercial uses during the period under review. As at 30 June 2013, after the change of land use, the market value of the land was valued at RMB2.01 billion. Though the Group has no concrete plan for the development of the land, we believe it is a good opportunity to realise the true value of the land by changing its land use.

Appreciation

Looking forward, on the back of the enormous potential of the steel pipes industry, the Group has laid a solid foundation, formulated definite development strategies and improved its competitive strengths for its sustainable growth. The Group will adhere to its product diversification and "Integration of Steel Plates and Pipes" strategies and aspire to be a leading world class LSAW steel pipe manufacturer. On behalf of the Group, I would like to express my gratitude to all staff members for their valuable contribution to the Group's development. I would also like to thank our shareholders for their continuous tremendous support to the Group in this consolidation stage for accumulating strength to embrace the prosperities in the future. The Group and its staff members will work hard as a team to maintain the Group's leading position and market the name "PCK", which is one of the most reputable brand names in the steel pipe industry, aiming to further entrench our role model image in the industry.

Chen Chang
Chairman

Panyu, Guangdong Province, China
23 August 2013

Management Discussion and Analysis

Business Review

The Group mainly manufactures and sells longitudinal welded steel pipes and screw-thread steel and provides manufacturing service for processing raw materials into welded steel pipes. Our welded steel pipe products can be broadly categorised into LSAW steel pipes, SSAW steel pipes and ERW steel pipes. We are one of the largest LSAW steel pipes manufacturers in China. We are capable of manufacturing LSAW steel pipes that meet the X80 standard, and have also been accredited 11 certifications from international classification societies and industry associations such as Det Norske Veritas ("DNV") and American Petroleum Institute ("API"). In addition, we are the first and sole Chinese manufacturer that has successfully developed deep sea pipelines for use at a water depth of 1,500m. Our products are widely applicable in major oil and gas pipeline projects (both onshore and offshore) and infrastructure projects domestically and internationally.

Our Group is able to manufacture pipes for offshore projects and is classified as one of the companies in the offshore engineering equipment industry (海洋工程裝備製造業) during the 12th Five-Year Plan. We benefited and were supported by China's strategic policies. We were supported by policy banks and insurance institutions in China. We have maintained good relationship with China Development Bank, the Export-Import Bank of China and China Export & Credit Insurance Corporation and we have obtained medium-term loans and credit facilities from them.

The Group received new orders of approximately 113,000 tonnes for the period under review and approximately 27% were received from three major oil and gas companies in China. The Group has delivered approximately 200,000 tonnes of welded steel pipes during the period under review.

On May 2013, the Group acquired 100% equity interests in the Nanjing Rongyu Group from four independent third parties. The Nanjing Rongyu Group is engaged in the manufacture and sale of screw-thread steel mainly used as construction materials of buildings, bridges and roads. The consideration for the acquisition was approximately RMB80 million in cash, of which 90% of the consideration shall be payable within 30 days after the date of signing of the share transfer agreements and completion of registration for a change of ownership in the Nanjing Rongyu Group. The remaining 10% of the consideration shall be payable by cash after deducting the uncollectible account receivables and contingent liabilities owing to vendors, if any, within seven business days after the first anniversary of the date of the share transfer agreements. The Group has commenced production of screw-thread steel since completion of the acquisition but no sales of screw-thread steel has been recorded during the period under review.

Management Discussion and Analysis

During the period under review, the Group has completed the change of the permitted use of a piece of land (the "Land") in Panyu from industrial uses into commercial uses. The Land, with a total site area of approximately 125,000 square metres, is situated at the east of intersection of Changsha Road and Qinghe Road, Shiji Town, Panyu, Guangzhou, the PRC* (中國廣州番禺區石基鎮清河路與長沙路交滙處以東). The total permitted construction area of the Land is approximately 401,000 square metres. The Land, which comprises three parcels of land, is part of the 11 parcels of adjourning land on which the Group's factory complex and headquarters in Shiji Town, Panyu, Guangdong, the PRC were built, and accounts for approximately 27% of the total site area of approximately 461,000 square metres of these 11 parcels of land. The Land has been used by the Group for temporary storage of its products. The Land is free from any assignments, leases or encumbrances up to the date of this report. Total premium paid by the Company for the change of land use was approximately RMB425.5 million. After completion of the change of land use, the Land is now permitted for commercial uses. The net book value of the Land at cost as at the date of this report was approximately RMB452.2 million. According to the valuation report as at 30 June 2013 issued by RHL Appraisal Limited, an independent valuer, the market value of the Land was RMB2.01 billion. The Land was stated at market value as at 30 June 2013. Currently, the Group has no specific plan in developing the Land. The Company however will make an announcement, if any specific plan is materialised.

Financial Review

During the period under review, the turnover of the Group was approximately RMB1,200.1 million (1H2012: RMB2,057.5 million), representing a decrease of approximately 41.7% as compared with that for the corresponding period in 2012; gross profit amounted to approximately RMB222.9 million (1H2012: RMB355.0 million), representing a decrease of approximately 37.2% as compared with that for the corresponding period in 2012; net profit attributable to the owners of the Company was approximately RMB71.0 million (1H2012: RMB170.4 million), representing a decrease of approximately 58.3% as compared with that for the corresponding period in 2012; earnings per share were RMB0.07 (1H2012: RMB0.17), representing a decrease of approximately 58.8% as compared with that for the corresponding period in 2012.

* *for identification only*

Revenue

Sales by geography

	Six months ended 30 June			
	2013		2012	
	RMB'000 (unaudited)	**% of revenue**	RMB'000 (unaudited)	% of revenue
Domestic sales	**919,257**	**76.6%**	1,312,755	63.8%
Overseas sales	**280,854**	**23.4%**	744,768	36.2%
Total	**1,200,111**	**100.0%**	2,057,523	100.0%

Sales by products

	Six months ended 30 June			
	2013		2012	
	RMB'000 (unaudited)	**% of revenue**	RMB'000 (unaudited)	% of revenue
Manufacture and sale of steel pipes				
LSAW steel pipes	**884,842**	**73.7%**	1,913,977	93.0%
ERW steel pipes	**214,128**	**17.9%**	102,142	5.0%
SSAW steel pipes	**35,305**	**2.9%**	–	–
Sub total	**1,134,275**	**94.5%**	2,016,119	98.0%
Steel pipes manufacturing services				
LSAW steel pipes	**20,208**	**1.7%**	3,257	0.2%
ERW steel pipes	**4,070**	**0.3%**	2,666	0.1%
Sub total	**24,278**	**2.0%**	5,923	0.3%
Others	**41,558**	**3.5%**	35,481	1.7%
Total	**1,200,111**	**100.0%**	2,057,523	100.0%

During the period under review, our overseas sales were approximately RMB280.9 million (1H2012: RMB744.8 million), accounted for approximately 23.4% (1H2012: 36.2%) of our total revenue. Our domestic sales was approximately RMB919.3 million (1H2012: RMB1,312.8 million), accounted for 76.6% (1H2012: 63.8%) of our total revenue. The decreases in both overseas sales and domestic sales were mainly attributable to the decrease in both domestic and export sales orders received by the Group. This was due to the delay in the opening of the bidding processes of a number of pipeline projects in the PRC and overseas. As such, a number of contracts that the Group initially expected to bid for had not been made available.

Gross Profit and Gross Profit Margin

	Six months ended 30 June			
	2013		2012	
	RMB'000 (unaudited)	**%**	RMB'000 (unaudited)	%
Manufacture and sale of steel pipes				
LSAW steel pipes	**163,916**	**18.5%**	327,710	17.1%
ERW steel pipes	**31,121**	**14.5%**	2,966	2.9%
SSAW steel pipes	**1,890**	**5.4%**	–	–
Sub total	**196,927**	**17.4%**	330,676	16.4%
Steel pipes manufacturing services				
LSAW steel pipes	**12,988**	**64.3%**	1,910	58.6%
ERW steel pipes	**249**	**6.1%**	337	12.6%
Sub total	**13,237**	**54.5%**	2,247	37.9%
Others	**12,727**	**30.6%**	22,055	62.2%
Total	**222,891**	**18.6%**	354,978	17.3%

During the period under review, the gross profit of the Group was approximately RMB222.9 million (1H2012: RMB355.0 million), representing a decrease of approximately 37.2% as compared with that for the corresponding period in 2012. The decrease was primarily attributable to the decrease in sales as compared with that for the corresponding period in 2012. The overall gross profit margin was approximately 18.6% which was higher than that of approximately 17.3% for the same period in 2012. The increase in gross profit margin was mainly due to the Group has delivered orders to a number of individual customers with higher profit margin during the period under review.

Other income and gains were approximately RMB131.5 million (1H2012: RMB55.7 million), representing an increase of approximately 136.3% as compared with that for the corresponding period in 2012. Such increase was due to the increase in subsidy from the PRC government for the period under review as compared with the corresponding period in 2012. Government subsidies were mainly related to awards for investment in Lianyungang.

Selling and distribution expenses were approximately RMB32.7 million (1H2012: RMB46.7 million), representing a decrease of approximately 30.0% as compared with that for the corresponding period in 2012. Such decrease in selling and distribution expenses was in line with the decrease in sales as compared with that for the corresponding period in 2012. The percentage of selling and distribution expenses to our revenue was approximately 2.7%, which was similar with that of 2.3% for the same period in 2012.

Administrative expenses were approximately RMB159.4 million (1H2012: RMB95.1 million), representing an increase of approximately 67.7% as compared with that for the corresponding period in 2012. The increase in administrative expenses was mainly due to (i) the new production bases in Zhuhai and Lianyungang where production had commenced since June 2012 and September 2012, respectively; and (ii) the increase in research and development expenses as compared with that for the corresponding period in 2012.

Finance costs were approximately RMB70.2 million (2012: RMB50.8 million), representing an increase of 38.2% as compared with that for the corresponding period in 2012. The increase was due to the increase in average borrowing balance to finance both the working capital and capital expenditure of the Group. The percentage of interest expenses (annualized) to our total borrowing was 3.0%, which was lower than that of 3.6% for the corresponding period in 2012.

The Group entered into a cross currency swap contract with a financial institution to manage the exchange rate exposure of the three-year term loan of RMB300 million. Unrealised change in fair value of such derivative instrument of approximately RMB7.1 million (1H2012: RMB7.7 million expenses) was recorded as income for the period under review.

Income tax expenses decreased by approximately 27.9% from approximately RMB37.9 million in 2012 to approximately RMB27.3 million in 2013. The decrease was mainly due to the decrease in our profit before tax. Panyu Chu Kong Steel Pipe Company Limited ("PCKSP"), a wholly-owned subsidiary of the Company, was qualified as a High Technology Enterprise and entitled to a reduced tax rate of 15% in 2013 (2012: 15%). The Group's effective tax rate for the period under review was approximately 27.8% which was higher than that for the corresponding period in 2012 of approximately 18.2%. This was mainly due to (i) some of the subsidiaries ceased to enjoy a 50% tax exemption from 2013 onwards; and (ii) the Lianyungang and Zhuhai production bases were subject to income tax at a standard rate of 25%.

Management Discussion and Analysis

Future Plan and Prospects

In the first half of 2013, the National Development and Reform Commission ("NDRC") promulgated the "12th Five-Year Plan of the Natural Gas", which stated that an additional 44,000km of trunk lines and branch lines for transmission of natural gas would be built under the 12th Five-Year Plan. In addition, according to the "12th Five-Year Plan of Energy Development" promulgated by the NDRC, an additional 29,000km of crude oil pipelines would be constructed under the 12th Five-Year Plan. The China government further plans to speed up the construction of oil and gas pipelines in the northwest, northeast and southwest regions of China and offshore areas as strategic channels to import oil and gas into China and further improve the pipeline network in China.

Furthermore, China plans to speed up the construction of coal seam gas pipeline networks and shale gas pipeline networks. China government targets to double its oil and gas pipelines from 77,000km in 2010 to 150,000km in 2015. Major oil and gas national projects such as the West-East Pipelines III, the Xinjiang-Guangdong-Zhejiang Pipeline and the Xinjiang-Shandong Pipeline are expected to commence construction during the period of the 12th Five-Year Plan. These will boost the demand for our pipes.

For maximising the utilisation of offshore resources in China, more deep sea exploration projects are expected in the future. It is expected that 2 to 3 deepwater wells will commence exploration and 15,000km of transmission network from offshore wells to the coastal LNG terminals will be constructed during the period of the 12th Five-Year Plan. As the Group is the only domestic LSAW supplier for deep sea oil and gas exploration projects at a water depth of 1,500m, we expect robust demand for the Group's products from offshore projects.

Pipelines are the most economical, environmental-friendly and efficient way of transmission of oil and gas. Apart from the transmission of oil and gas, our product range can be diversified into other areas such as construction of ultra-high voltage transmission towers, coal slurry pipelines, oil sand pipelines, crude gas and nuclear reactors transmission pipes, insulation coating pipes for air-conditioning systems, and oil platform construction.

For overseas market, given the rising volume in natural gas pipeline construction in South America, the Middle East, Australia and Russia, the Group expects that those oil and gas companies will continue investing in pipeline construction projects.

The Board is confident of the future prospect of the steel pipe industry and aims to provide one-stop service of providing different kinds of high quality welded steel pipes to buyers. The Group has strategically located its new production bases in Zhuhai and Lianyungang, China and Saudi Arabia to capture the rising demands. The Group has planned to further construct one new SSAW production line and wharf in Zhuhai in the second half of 2013 and one new LSAW production line in Saudi Arabia in the first quarter 2014. The SSAW production line in Zhuhai is expected to commence production in the third quarter of 2013. The LSAW production line at Saudi Arabia, in the form of joint venture in which the Group has 50% stake is expected to commence production in the first quarter of 2014.

Apart from the steel pipes production lines, the Group has implemented the "Integration of Steel Plates and Pipes" strategy and planned to construct a steel plate processing production line with a planned annual capacity of 2 million tonnes at Lianyungang, which is expected to be completed by 2015. This steel plate processing production line is capable of producing API-grade steel plate and is expected to meet our own consumption requirement. By vertically integrating our supply chain, it will improve our steel pipe profitability and enable us to secure stable supply of quality steel plates for production of steel pipes.

Benefited from the urbanisation with intensive construction of buildings, bridges and roads in China, we expect robust demand for the screw-thread steel provided by the newly-acquired Nanjing Rongyu Group. The Board expects the Nanjing Rongyu Group will make considerable contributions to the Group in the future.

The Group intends to fund the capital expenditure by internally generated funds and bank borrowings.

The Group strives to be the leading manufacturer of high quality welded steel pipes in both domestic and international markets and will continue to seek opportunities to realise sustainable growth of our business. Based on our experienced management team, research and development capabilities, well established relationship with our major suppliers and customers, and our diversified and high quality product range, the Group is well-positioned to capture the tremendous growth of the domestic and global steel pipe markets.

Employees

As at 30 June 2013, the Group had 4,076 full time employees in total (at 31 December 2012: 3,964). The Group provides competitive remuneration package to retain its employees including 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.

Exchange Risk Exposure

During the period under review, most of the Group's operating transactions are settled in RMB except for the export sales which are mostly denominated in US dollars. Most of the Group's assets and liabilities are denominated in RMB. 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. Apart from a cross currency swap contract to manage the exchange rate exposure of the three-year term loan of RMB300 million entered by the Group in 2012, the Group did not adopt other hedging policies nor instruments of foreign currency for hedging purposes during the period under review.

Management Discussion and Analysis

Interim Dividend

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: nil) to the shareholders.

Contingent Liabilities

As at 30 June 2013, the Group did not have any material contingent liabilities or guarantees.

Pledge of Assets

As at 30 June 2013, the Group pledged certain property, plant, equipment and land use rights with an aggregate net book value of RMB150,960,000 (at 31 December 2012: RMB141,765,000) and RMB342,643,000 (at 31 December 2012: RMB114,981,000) respectively, to secure bank loans granted to the Group.

Liquidity and Financial Resources

As at 30 June 2013, the cash and cash equivalents and current ratio of the Group, as a ratio of current assets to current liabilities, were approximately RMB1,240.1 million (at 31 December 2012: RMB1,039.3 million) and 1.44 (at 31 December 2012: 1.48) respectively.

As at 30 June 2013, the Group's aggregate borrowings were approximately RMB4,588.6 million (at 31 December 2012: approximately RMB2,799.4 million), of which approximately RMB3,553.5 million (at 31 December 2012: RMB2,395.4 million) were bank borrowings, approximately RMB87.4 million (at 31 December 2012: RMB102.8 million) were for obligations under finance leases, approximately RMB511.0 million (at 31 December 2012: RMB301.2 million) were short term notes and approximately RMB436.7 million (at 31 December 2012: nil) were USD bonds.

The gearing ratio, expressed as a percentage of the summation of interest-bearing borrowings, finance lease, bonds and short term notes over total assets of approximately RMB10,116.2 million (at 31 December 2012: RMB6,785.2 million) is approximately 45.4% (at 31 December 2012: 41.3%).

On 31 October 2012, the Group entered into a facility agreement for a three-year term loan of USD36 million with a syndicate of banks. The loan carried interest rates linked to London Interbank Offered Rate and is repayable by four 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 rights in the Company free from any security, otherwise it will constitute a default.

The maturity profile of the Group's total borrowings as at 30 June 2013 was spread over a period of five years, with approximately 40% (at 31 December 2012: 42%) of the total borrowings repayable within one year, and the remaining 60% (at 31 December 2012: 58%) repayable between two to five years. The Group has to finance its working capital by short term borrowings as around 90% of the cost of sales was incurred on the procurement of steel plates and steel coils. Once the Group receives sales proceeds from its customers, it will repay the short term borrowings. Taking into account cash held at the balance sheet date and available banking facilities, the Group has sufficient liquidity and strong financial position to repay its short term borrowings.

As at 30 June 2013, approximately 38% (at 31 December 2012: 33%) of the Group's total borrowings were denominated in RMB which carried interest rates linked to the benchmark lending rate published by the People's Bank of China, approximately 26% (at 31 December 2012: 37%) of total borrowings were denominated in RMB which carried fixed interest rate, approximately 20% (at 31 December 2012: 30%) of total borrowings as at 30 June 2013 were denominated in US dollars and HK dollars with interest rates linked to the London Interbank Offered Rate for US-dollar loans and Hong Kong Interbank Offered Rate for HK-dollar loans and approximately 16% (at 31 December 2012: nil) of the total borrowings as at 30 June 2013 were denominated in US dollars which carried fixed interest rate.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries and Associated Companies

On May 2013, the Group acquired 100% equity interests in the Nanjing Rongyu Group from four independent third parties. The Nanjing Rongyu Group is engaged in the manufacture and sale of screw-thread steel mainly used as construction materials of buildings, bridges and roads. The consideration for the acquisition was approximately RMB80 million in cash, of which 90% of the consideration shall be payable within 30 days after the date of signing of the share transfer agreements and completion of registration of change of ownership in the Nanjing Rongyu Group. The remaining 10% of the consideration shall be payable by cash after deducting the uncollectible account receivables and contingent liabilities owing to vendor, if any, within seven business days after the first anniversary of the date of the share transfer agreements.

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

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

Other Information

Directors' Interests in Competing Business

As at the date of this report, none of the directors of the Company (the "Directors") are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures

As at 30 June 2013, the interests or short positions of the Directors and chief executive of the Company in the shares or underlying shares or, as the case may be, the percentage in the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571) (the "SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (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 of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Shares of the Company

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

Note:

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

Shares of Associated Corporation

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

Interest and Short Positions of Substantial Shareholders in Shares, Underlying Shares and Debentures

As at 30 June 2013, so far as the Directors are aware, save as disclosed above, the persons or corporations (not being a Director or a chief executive of the Company) who have interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or have otherwise notified to the Company were as follows:

Name of shareholder	Capacity	Position	Number of shares	Approximately percentage of voting power
Su Xing Fang	Interest of spouse (note 1)	Long	703,549,000	69.58%
Bournam Profits Limited	Beneficial owner (note 2)	Long	701,911,000	69.42%

Notes:

1. Madam Su Xing Fang, the spouse of Mr. Chen Chang, is also deemed under the SFO to be interested in such 703,549,000 shares in which Mr. Chen is deemed to be interested.

2. The entire share capital of Bournam is solely and beneficially owned by Mr. Chen Chang. Mr. Chen is deemed under the SFO to be interested 701,911,000 shares.

Share Option and Share Award Schemes

We adopted a share option scheme on 23 January 2010 and a share award scheme on 22 March 2012 (together, the "Schemes") for the purpose of providing incentives and rewards to eligible participants who contribute to the growth of the Group. Eligible participants of the Schemes include, without limitation, employees, Directors and any other eligible persons as defined in the Schemes. As at 30 June 2013, no share option or share has been granted or awarded or agreed to be granted or awarded to any person under the Schemes.

Corporate Governance

Save as disclosed below, the Company has complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2013.

Other Information

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

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

Compliance with Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code throughout the six months ended 30 June 2013.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities for the six months ended 30 June 2013.

Audit Committee

The Company's Audit Committee comprises Mr. See Tak Wah (Chairman), Mr. Chen Ping and Mr. Liang Guo Yao who are the independent non-executive Directors of the Company.

The Audit Committee has reviewed the Group's unaudited consolidated interim results for the six months ended 30 June 2013 in conjunction with the Company's external auditor.

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed and reviewed the adequacy and effectiveness of the Group's internal control system and financial reporting system.

Report on Review of Interim Condensed Consolidated Financial Statements

22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

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

Introduction

We have reviewed the interim financial information set out on pages 21 to 48, which comprises the condensed consolidated statement of financial position of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2013 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express such opinion.

Report on Review of Interim Condensed Consolidated Financial Statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants
Hong Kong

23 August 2013

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013

	Notes	Six months ended 30 June 2013 (Unaudited) RMB'000	 2012 (Unaudited) RMB'000 (Restated)
REVENUE	5	**1,200,111**	2,057,523
Cost of sales		**(977,220)**	(1,702,545)
Gross profit		**222,891**	354,978
Other income and gains	5	**131,498**	55,655
Selling and distribution costs		**(32,722)**	(46,715)
Administrative expenses		**(159,433)**	(95,098)
Other expenses		**(1,897)**	(1,765)
Finance costs	6	**(70,169)**	(50,756)
Changes in fair value of derivative financial instruments		**7,102**	(7,676)
Exchange gain/(loss), net		**1,061**	(375)
PROFIT BEFORE TAX	7	**98,331**	208,248
Income tax expense	8	**(27,310)**	(37,891)
PROFIT FOR THE PERIOD		**71,021**	170,357
Other comprehensive income/(loss):			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations		**9,833**	(1,958)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Gain on revaluation of properties		**1,538,287**	–
Income tax effect		**(384,572)**	–
Other comprehensive income/(loss) for the period, net of tax		**1,163,548**	(1,958)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**1,234,569**	168,399

Interim Condensed Consolidated Statement of Comprehensive Income (continued)

For the six months ended 30 June 2013

		Six months ended 30 June	
		2013	2012
		(Unaudited)	(Unaudited)
	Notes	**RMB'000**	RMB'000
			(Restated)
Profit attributable to:			
Owners of the parent		**71,021**	170,357
Total comprehensive income attributable to:			
Owners of the parent		**1,234,569**	168,399
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	**RMB0.07**	RMB0.17

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2013

	Notes	**30 June 2013 (Unaudited) RMB'000**	31 December 2012 (Audited) RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**2,656,296**	2,211,264
Investment properties	11	**2,016,207**	6,159
Long-term prepayments and deposits		**167,451**	209,114
Prepaid land lease payments		**654,098**	506,725
Goodwill		**4,075**	4,075
Deferred tax assets		**17,221**	7,806
Pledged deposits		**51,194**	5,904
Total non-current assets		**5,566,542**	2,951,047
CURRENT ASSETS			
Inventories	12	**1,026,555**	807,872
Trade and bills receivables	13	**1,635,938**	1,385,829
Prepayments, deposits and other receivables		**522,041**	480,712
Pledged deposits		**121,560**	120,380
Derivative financial instruments	16	**3,409**	–
Cash and bank balances		**1,240,105**	1,039,348
Total current assets		**4,549,608**	3,834,141
CURRENT LIABILITIES			
Trade and bills payables	14	**665,533**	863,623
Interest-bearing loans and other borrowings	15	**1,324,054**	862,126
Other payables and accruals		**536,074**	484,219
Tax payable		**125,934**	71,093
Derivative financial instruments	16	**89**	3,784
Short-term notes	17	**511,019**	301,216
Total current liabilities		**3,162,703**	2,586,061
NET CURRENT ASSETS		**1,386,905**	1,248,080
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,953,447**	4,199,127

Interim Condensed Consolidated Statement of Financial Position (continued)

As at 30 June 2013

	Notes	**30 June 2013 (Unaudited) RMB'000**	31 December 2012 (Audited) RMB'000 (Restated)
NON-CURRENT LIABILITIES			
Interest-bearing loans and other borrowings	15	**2,753,548**	1,636,096
Deferred tax liabilities		**398,682**	2,974
Government grants		**102,673**	96,082
Total non-current liabilities		**3,254,903**	1,735,152
Net assets		**3,698,544**	2,463,975
EQUITY			
Equity attributable to owners of the parent			
Issued capital	18	**88,856**	88,856
Reserves		**3,547,377**	2,312,808
Proposed final dividend		**62,311**	62,311
Total equity		**3,698,544**	2,463,975

Director

Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

	Attributable to Owners of the parent									
	Issued capital RMB'000 (Note 18)	Share premium RMB'000	Revaluation surplus RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000 (Note (a))	Statutory reserve fund RMB'000 (Note (b))	Retained profits RMB'000	Proposed final dividend RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 31 December 2012	**88,856**	**767,097**	**–**	**224,589**	**57,607**	**133,745**	**1,130,994**	**62,311**	**(4,909)**	**2,460,290**
Change in accounting policy (Note 11)	**–**	**–**	**710**	**–**	**–**	**–**	**3,056**	**–**	**(81)**	**3,685**
At 1 January 2013	**88,856**	**767,097**	**710**	**224,589**	**57,607**	**133,745**	**1,134,050**	**62,311**	**(4,990)**	**2,463,975**
Total comprehensive income for the period	**–**	**–**	**1,153,715**	**–**	**–**	**–**	**71,021**	**–**	**9,833**	**1,234,569**
At 30 June 2013 (unaudited)	**88,856**	**767,097***	**1,154,425***	**224,589***	**57,607***	**133,745***	**1,205,071***	**62,311**	**4,843***	**3,698,544**

* These reserve accounts comprise the consolidated reserves of RMB3,547,377,000 (31 December 2012: RMB2,312,808,000) in the interim condensed consolidated statement of financial position as at 30 June 2013.

For the six months ended 30 June 2012

	Attributable to Owners of the parent									
	Issued capital RMB'000 (Note 18)	Share premium RMB'000	Revaluation surplus RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000 (Note (a))	Statutory reserve fund RMB'000 (Note (b))	Retained profits RMB'000	Proposed final dividend RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 31 December 2011 (restated)	88,856	829,408	–	224,589	57,607	104,225	850,436	46,725	(4,190)	2,197,656
Change in accounting policy (Note 11)	–	–	710	–	–	–	1,924	–	(78)	2,556
At 1 January 2012	88,856	829,408	710	224,589	57,607	104,225	852,360	46,725	(4,268)	2,200,212
Total comprehensive income for the period	–	–	–	–	–	–	170,357	–	(1,958)	168,399
Final 2011 dividends declared	–	–	–	–	–	–	–	(46,725)	–	(46,725)
At 30 June 2012 (unaudited)	88,856	829,408	710	224,589	57,607	104,225	1,022,717	–	(6,226)	2,321,886

Interim Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2013

Notes:

(a) Capital reserve represents the excess capital paid over the registered capital of Panyu Chu Kong Steel Pipe Co., Ltd. ("PCKSP") by Lessonstart Enterprises Limited ("Lessonstart").

(b) 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 the statutory reserve fund reaches 50% of each entity's 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.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB’000	RMB’000
		(Restated)
Net cash flows from/(used in) operating activities	**(544,578)**	86,265
Net cash flows used in investing activities	**(912,686)**	(568,972)
Net cash flows from/(used in) financing activities	**1,657,943**	(69,741)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**200,679**	(552,448)
Exchange realignment	**78**	(25)
Cash and cash equivalents at beginning of period	**1,039,348**	981,779
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,240,105**	429,306

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

1. Corporate Information

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

In the opinion of the Directors, the ultimate holding company of the Company is Bournam Profits Limited, which was incorporated in the British Virgin Islands.

2. Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2013 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and International Accounting Standards ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "IASB").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2012.

3. Changes in Accounting Policy and Disclosures

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012, except for the accounting policy change of investment properties in Note 11 and the adoption of the standards, amendments and interpretations issued by the IASB effective for annual periods beginning 1 January 2013 as noted below:

IFRS 1 Amendments	Amendments to IFRS 1 *Government loans*
IFRS 7 Amendments	Amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 13	*Fair Value Measurement*
Amendments to IFRS 10, IFRS 11 and IFRS 12	*Consolidated Financial Statements, Joint Arrangement and Disclosure of Interests in Other Entities: Transition Guidance*
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*
IAS 19 (Revised 2011)	*Employee Benefits*
IAS 27 (Revised 2011)	*Separate Financial Statements*
IAS 28 (Revised 2011)	*Investments in Associates and Joint Ventures*
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*
IFRSs Amendments	*Annual Improvements to IFRSs 2009 – 2011 Cycle*

The effect of the adoption of these standards, amendments and interpretations was not material to the Group's results of operations or financial position.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services, and has one reportable operating segment: the manufacture and sale of seam welded steel pipes and the provision of related manufacturing services. Management monitors the operating results of the Group's business unit 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:

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Manufacture and sale of steel pipes:		
LSAW steel pipes	**884,842**	1,913,977
ERW steel pipes	**214,128**	102,142
SSAW steel pipes	**35,305**	–
Steel pipe manufacturing services:		
LSAW steel pipes	**20,208**	3,257
ERW steel pipes	**4,070**	2,666
Others*	**41,558**	35,481
	1,200,111	2,057,523

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

4. Operating Segment Information (Continued)

Geographical information

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

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sales to external customers:		
Mainland China	**919,257**	1,312,755
America	**59,597**	202,230
European Union	**5,772**	20,792
Middle East	**175,096**	171,190
Other Asian countries	**40,389**	347,671
Others	**–**	2,885
	1,200,111	2,057,523

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

Information about a major customer

For the six months ended 30 June 2013, revenue from one customer of the Group amounting to RMB232,141,000 had individually accounted for over 19% of the Group's total revenue.

5. 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 period.

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

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Manufacture and sale of seam welded steel pipes and the provision of related manufacturing services	**1,200,111**	2,057,523
Other income and gains		
Bank interest income	**8,622**	3,178
Subsidy income from the PRC government	**122,170**	51,205
Compensation	**27**	47
Others	**679**	1,225
	131,498	55,655

The subsidy income represented subsidies granted by the local finance bureau to Panyu Chu Kong Steel Pipe (Lianyungang) Co Ltd. (番禺珠江鋼管（連雲港）有限公司) and PCKSP as awards for their investment and high product quality, respectively. There are no unfulfilled conditions or contingencies relating to such subsidies.

6. Finance Costs

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on interest-bearing loans and other borrowings	**89,077**	52,580
Interest on finance lease	**4,317**	4,615
Total interest expense on financial liabilities not at fair value through profit or loss	**93,394**	57,195
Less: Interest capitalised	**(23,225)**	(6,439)
	70,169	50,756

7. Profit Before Tax

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

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	**808,143**	1,506,840
Depreciation	**39,501**	22,174
Impairment of trade receivables (reversed)/recognised	**(150)**	185

8. Income Tax

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

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 period.

The major components of the income tax expense in the interim condensed consolidated statement of comprehensive income are as follows:

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – Mainland China charge for the period	**36,719**	39,284
Deferred	**(9,409)**	(1,393)
Total tax charge for the period	**27,310**	37,891

9. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent of RMB71,021,000 (2012: RMB170,357,000), and the weighted average number of ordinary shares of 1,011,142,000 (2012: 1,011,142,000) in issue during the period.

No adjustment has been made to the basic earnings per share amounts presented for the periods ended 30 June 2013 and 2012 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those periods.

10. Property, Plant and Equipment

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
At beginning of the period/year	**2,211,264**	1,420,346
Additions	**364,231**	825,659
Acquisition of subsidiaries (Note 19)	**120,222**	17,568
Disposals	**–**	(236)
Depreciation	**(39,343)**	(52,075)
Exchange realignment	**(78)**	2
At end of the period/year	**2,656,296**	2,211,264

11. Investment Properties

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000 (Restated)
Buildings		
At beginning of the period/year	**6,159**	4,864
Change in fair value	**(2)**	1,295
At end of the period/year	**6,157**	6,159
Land		
At beginning of the period/year	**–**	–
Transfer from own properties	**2,010,050**	–
At end of the period/year	**2,010,050**	–
	2,016,207	6,159

11. Investment Properties (Continued)

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

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

This change in accounting policy has been applied retrospectively. The effects of the change in accounting policy in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2012, the condensed consolidated statements of financial position at 31 December 2012 are set out below.

Impact on Condensed Consolidated Statement of Financial Position

	31 December 2012 RMB'000
Increase in investment property	4,394
Increase in deferred tax liabilities	709
Increase in revaluation surplus	710
Increase in retained profits	3,056
Decrease in exchange fluctuation reserve	81

Impact on Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June 2012 RMB'000
Decrease in administrative expenses	20

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

11. Investment Properties (Continued)

The Group's investment properties are held under medium term leases and are situated in the PRC and Hong Kong. The investment properties of building are leased to third parties under operating leases, further details of which are summarised in note 20.

At 30 June 2013, the fair value of investment properties was based on the valuation by RHL Appraisal Limited, an independent professionally qualified valuer, on an open market, existing use basis.

12. Inventories

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Raw materials	**382,239**	227,868
Work in progress	**269,925**	229,681
Finished goods	**374,391**	350,323
	1,026,555	807,872

13. Trade and Bills Receivables

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Trade receivables	**1,624,674**	1,369,152
Impairment	**(6,453)**	(6,603)
Trade receivables, net	**1,618,221**	1,362,549
Bills receivable	**17,717**	23,280
	1,635,938	1,385,829

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is averagely 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.

13. 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:

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Within 60 days	**987,076**	1,052,706
61 to 90 days	**222,764**	85,426
91 to 180 days	**118,911**	48,475
181 to 365 days	**180,217**	94,378
1 to 2 years	**88,072**	71,737
2 to 3 years	**20,453**	8,870
Over 3 years	**728**	957
	1,618,221	1,362,549

14. 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:

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Within 90 days	**149,505**	169,427
91 to 180 days	**9,000**	7,895
181 to 365 days	**21,044**	6,771
1 to 2 years	**16,236**	6,870
2 to 3 years	**2,615**	641
Over 3 years	**2,212**	4,580
	200,612	196,184
Bills payable	**464,921**	667,439
	665,533	863,623

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.

15. Interest-Bearing Loans and Other Borrowings

	Effective interest rate %	Maturity	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Current				
Finance lease payables	7.02	2013 – 2014	**33,015**	31,970
Bank loans				
– secured	6.6~7.59	2013 – 2014	**144,000**	41,000
– unsecured	4.2~7.8	2013 – 2014	**1,035,979**	689,156
Government loans				
– unsecured	4.2	2014	**111,060**	100,000
			1,324,054	862,126
Non-current				
Finance lease payables	7.02	2014 – 2015	**54,397**	70,878
Bank loans				
– secured	2.07~7.59	2014 – 2016	**913,098**	537,000
– unsecured	4.2~6.6	2014 – 2018	**1,070,321**	698,218
Government loans				
– unsecured	4.2	2014	**279,000**	330,000
Bonds payables	6.05	2018	**436,732**	–
			2,753,548	1,636,096
			4,077,602	2,498,222

15. Interest-Bearing Loans and Other Borrowings (Continued)

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**1,179,979**	730,156
In the second year	**490,098**	35,000
In the third to fifth years, inclusive	**1,493,321**	1,200,218
	3,163,398	1,965,374
Government loans repayable:		
Within one year	**111,060**	100,000
In the second year	**279,000**	330,000
	390,060	430,000
Finance lease payables:		
Within one year	**33,015**	31,970
In the second year	**35,946**	33,964
In the third to fifth years, inclusive	**18,451**	36,914
	87,412	102,848
Bonds payables:		
In the fifth year	**436,732**	–
	4,077,602	2,498,222

The Group's bank loans are secured by:

(a) certain property, plant and equipment of the Group with a net carrying amount of approximately RMB150,960,000 (31 December 2012: RMB141,765,000) as at the end of the reporting period;

(b) certain leasehold lands of the Group with a net carrying amount of approximately RMB342,643,000 (31 December 2012: RMB114,981,000) as at the end of the reporting period.

In addition, the Company has guaranteed certain of the Group's bank loans up to RMB1,894,473,000 (31 December 2012: RMB1,028,218,000) as at the end of the reporting period.

15. Interest-Bearing Loans and Other Borrowings (Continued)

On 30 April 2013, the Group issued bonds with a principal amount of US$72,000,000. The bonds will be repayable in full by 30 April 2018 and 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 bond, at their principal amount, together with interest accrued to the date of redemption. The bonds, which are unsecured, bear fixed coupon interest rate at 5.6% per annum for five years payable semiannually.

16. Derivative Financial Instrument

	30 June 2013	
	Assets (Unaudited) RMB'000	**Liabilities (Unaudited) RMB'000**
Cross currency swap	**3,409**	**–**
Interest rate swap	**–**	**89**
	3,409	**89**

The Group has entered into a cross currency swap contract and interest rate swap contract to manage its exchange rate and interest rate exposures. Those contracts are not designated for hedge purpose and are measured at fair value through profit or loss. Changes in the fair value of non-hedging derivatives amounting to RMB7,104,000 were credited to the consolidated statement of comprehensive income during the six months ended 30 June 2013 (Six months ended 30 June 2012: RMB7,676,000 as expenses).

17. Short-term Notes

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

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
The First Tranche Notes – 5.6% fixed rate notes maturing in November 2013 – unsecured	**310,142**	301,216
The Second Tranche Notes – 5.1% fixed rate notes maturing in May 2014 – unsecured	**200,877**	–
	511,019	301,216

In September 2012, PCKSP completed the registration with the National Association of Financial Market Institutional Investors for a RMB500 million unsecured short-term notes facility issuable in two years from the date of registration. In December 2012, PCKSP issued the First Tranche Notes of RMB300 million in the PRC with a tenure of one year and carrying interest at a fixed rate of 5.6% per annum. In May 2013, PCKSP issued the Second Tranche Notes of RMB200 million in the PRC with a tenure of one year and carrying interest at a fixed rate of 5.1% per annum.

18. Issued Capital

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Authorised: 10,000,000,000 (31 December 2012: 10,000,000,000) ordinary shares of HK$0.10 each	**878,335**	878,335
Issued and fully paid: 1,011,142,000 (31 December 2012: 1,011,142,000) ordinary shares of HK$0.10 each	**88,856**	88,856

19. Business Combination

On 29 May 2013, the Group acquired 100% equity interests in Nanjing Rongyu Group Limited and its two subsidiaries, Nanjing Rongyu Group Market Management Company Limited and Nanjing Xixia Hill Roll Steeling Company Limited (the "Nanjing Rongyu Group") from four independent third parties. The Nanjing Rongyu Group is engaged in the manufacture and sale of screw-thread steels which are mainly used as construction materials of building, bridge and roads. The purchase consideration for the acquisition was RMB80,366,500 in the form of cash, with RMB50,366,500 paid at the acquisition date and the remaining RMB30,000,000 was outstanding as at 30 June 2013.

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

	Fair value recognized on acquisition RMB'000
Property, plant and equipment (note 10)	120,222
Prepaid land premiums	15,252
Deposit paid for purchase of property, plant and equipment	1,900
Inventories	33,243
Trade and bills receivables	4,290
Prepayment, deposits and other receivables	214,439
Cash and bank balance	51,811
Interest-bearing loans and other borrowings	(42,000)
Trade and bills payables	(14,502)
Other payables and accruals	(285,195)
Government Grants	(7,951)
Deferred tax liabilities	(11,142)
Total identifiable net assets at fair value	80,367
Satisfied by cash	50,367
Consideration payables	30,000
	80,367

19. Business Combination (Continued)

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

	RMB'000
Cash consideration paid	(50,367)
Cash and bank balance acquired	51,811
Net inflow of cash and cash equivalents included in cash flows from investing activities	1,444

20. Operating Lease Arrangements

(a) As lessor

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

As at 30 June 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Within one year	**239**	243
In the second to fifth years, inclusive	**32**	154
	271	397

20. Operating Lease Arrangements (Continued)

(b) As lessee

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

As at 30 June 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Within one year	**7,170**	2,475
In the second to fifth years, inclusive	**8,393**	1,217
	15,563	3,692

21. Commitments

In addition to the operating lease commitments detailed in note 20 above, the Group had the following capital commitments:

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Contracted, but not provided for:		
Purchase of land and buildings	**216,113**	123,417
Purchase of plant and machinery	**76,540**	106,127
Investment in a jointly-controlled entity	**308,725**	333,132
	601,378	562,676

22. Related Party Transactions

During the current period, the directors are of the view that the following companies are related parties which entered into material transactions with the Group:

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 party controlled by Group's ultimate controlling shareholder.

In addition to the related party information disclosed elsewhere in the interim condensed consolidated financial statements, the Group entered into the following material related party transactions during the period:

(a) Recurring transactions

		Six months ended 30 June	
Name of party	**Nature of transaction**	**2013 (Unaudited) RMB'000**	2012 (Unaudited) RMB'000
GZMT	Purchases of spare parts	**10,112**	3,769

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

(b) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2013 (Unaudited) RMB'000	2012 (Unaudited) RMB'000
Salaries, allowances and benefits in kind	**3,903**	3,527
Retirement benefit scheme contributions	**94**	88
Total compensation paid to key management personnel	**3,997**	3,615

23. Fair Value

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

	Carrying amounts		Fair values	
	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000	**30 June 2013 (Unaudited) RMB'000**	31 December 2012 (Audited) RMB'000
Financial assets				
Financial asset included in long term prepayments and deposits	**24,643**	24,643	**23,341**	22,262
Cash and bank balances	**1,240,105**	1,039,348	**1,240,105**	1,039,348
Pledged deposits, current portion	**121,560**	120,380	**121,560**	120,380
Pledged deposits, non-current portion	**51,194**	5,904	**51,194**	5,904
Derivative financial instrument	**3,409**	–	**3,409**	–
Trade and bills receivables	**1,635,938**	1,385,829	**1,635,050**	1,383,166
Financial assets included in prepayments, deposits and other receivables	**93,022**	88,459	**93,022**	88,459
	3,169,871	2,664,563	**3,167,681**	2,659,519
Financial liabilities				
Trade and bills payables	**665,533**	863,623	**665,533**	863,623
Financial liabilities included in other payables and accruals	**10,825**	112,490	**10,825**	112,490
Interest-bearing bank loans and other borrowings	**4,077,602**	2,498,222	**4,076,983**	2,496,754
Derivative financial instrument	**89**	3,784	**89**	3,784
Short-term notes	**511,019**	301,216	**511,019**	301,216
	5,265,068	3,779,335	**5,264,449**	3,777,867

23. Fair Value (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 30 June 2013, the marked to market value of the derivatives is net of credit/debit valuation adjustment attributable to derivative counterparty default risk.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

23. Fair Value (Continued)

Asset measured at fair value:

As at 30 June 2013 (Unaudited)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instrument	–	3,409	–	3,409

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2012: Nil).

Liability measured at fair value:

As at 30 June 2013 (Unaudited)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instrument	–	89	–	89

24. Comparative Amounts

As further explained in note 11 to the interim condensed consolidated financial statements, due to the change in accounting policy of investment properties during the current period, the accounting treatment and presentation of certain items and balances in the interim condensed consolidated financial statements have been revised or added to comply with the changed accounting policy. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current period's presentation and accounting treatment.

25. Approval of Interim Condensed Consolidated Financial Statements

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 23 August 2013.