Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited

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

RISE TO THE CHALLENGES
POISE FOR FUTURE GROWTH

2016
Interim Report

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. SEE Tak Wah
Mr. TIAN Xiao Ren

Registered Office

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

Company Secretary

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

Audit Committee

Mr. SEE Tak Wah *(Chairman)*
Mr. CHEN Ping
Mr. TIAN Xiao Ren

Nomination Committee

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

Remuneration Committee

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

Authorised Representatives

Mr. CHEN Chang
Ms. CHEN Zhao Nian

Head Office and Principal Place of Business in the PRC

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

Principal Place of Business in Hong Kong

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

Auditor

Ernst & Young

Stock Code

1938

Company's Website

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

Legal Advisers as to Hong Kong Law

Locke Lord

Corporate Information

Principal Bankers

In Hong Kong:

China Citic Bank International Limited
China Development Bank Corporation
Industrial and Commercial Bank of China (Asia) Limited

In the PRC:

Bank of China Limited
Bank of Communications
Bank of Jiangsu
China Construction Bank
Guangzhou Rural Commercial Bank
Industrial and Commercial Bank of China
Ping An Bank Co Ltd
Shanghai Pudong Development Bank
The Export-Import Bank of China

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road
George Town
Grand Cayman
KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Center
183 Queen's Road East
Hong Kong

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited ("our Company" or "us", together with its subsidiaries hereafter referred to as "our Group"), I would like to present to you our Group's unaudited consolidated interim results for the six months ended 30 June 2016.

The market was exceptionally complicated and uncertain in the first half of 2016 in light of global political and economic uncertainties created by, among other things, a plunge in oil price, the depreciation of Renminbi and Euro and the UK voting for Brexit.

As a result, we have witnessed a slowdown in the rolling out of infrastructure and oil and gas projects and a general fall in the market price of steel pipes, resulting in a decline in our turnover.

For the six months ended 30 June 2016, we recorded revenue of RMB788.8 million, down by 30.1% as compared with the same period in 2015. Loss attributable to the owners of our Company was RMB253.5 million (1H2015: loss RMB206.1 million). Loss per share was RMB0.25 (1H2015: loss per share RMB0.20). The Board did not recommend the payment of interim dividend for the six months ended 30 June 2016 (1H2015: Nil).

We are going through challenging times, but we have never failed to see the opportunities. We believe the 13th Five-year Plan, the "One Belt One Road" ("OBOR") initiative of China and a prospective recovery of oil price are likely to give rise to large scale domestic and overseas oil and gas projects which will drive up the demand for our products. In the first half of the year, we received a new order from Sinopec for a gas project in Tianjin. It is a sign that energy projects in China are coming back, which we believe will boost the domestic demand for steel pipes in the future.

We are also committed to weather the challenges by adjusting our operations, enhancing our cost and cash flow management, and strengthening our market position.

In the first half of the year, we continued to extend our global footprint. During the period, we successfully secured overseas orders for notable projects, such as the Northern Gas Pipeline in Queensland, Australia (which connects Tennant Creek in the Northern Territory to Mount Isa in Queensland) and Petronas's refinery and petrochemical integrated development (RAPID) project in Johor, Malaysia. We also supplied steel pipes for a gas project in Mexico.

Chairman's Statement

In order to promote our brand internationally and capture overseas business opportunities, we have set up a production plant in Saudi Arabia. The plant commenced trial production in 2015 and has been operating smoothly ever since. The plant is designed to house a 300,000-tonne LSAW production line to meet the demand in the Middle East. So far, it has obtained ISO9001, whilst we expect API Standards certifications and other certifications will follow. Benefiting from the extensive connections of our joint-venture partner, Abdel Hadi Abdullah Al Qhtani & Sons ("AHQ"), in the Middle East, we will continue to explore cooperation opportunities with major oil and gas players in the region.

It is also our strategy to diversify and expand into the offshore equipment manufacturing market. To this end, we have built our Zhuhai production plant with a self-owned and self-operated wharf. The wharf offers us easy access to transportation and cost efficiency. We have also started to supply steel structure pipes with a diameter of 6,500mm for constructing offshore platforms. Meanwhile, we are close to completing the research and development of deep sea pipes for use at a depth of 3,500m. We believe the new deep-sea pipes will enrich our product portfolio and enhance our reputation in the offshore equipment manufacturing market.

Meanwhile, the Lianyungang production plant is already contributing to our success. It has supplied steel pipes in the first half of the year to the iconic first cross-bay bridge project in Lianyungang, Jiangsu. It has also obtained ISO9001 certification recently.

Apart from the steel pipe business, we have also endeavoured to create value for our shareholders by developing a large scale integrated commercial complex project, namely the Golden Dragon City Fortune Plaza ("GDC") on vacated lands adjourning its factory site in Panyu, which has a total permitted construction area (including underground construction area) of approximately 550,000m^2. The first phase accounts for 25% of the total construction area of the GDC development and over 700 units had been released for sale by end of August 2016. We believe the GDC development will broaden our income sources and give further financial support to our steel pipe business in the long run.

We are planning to relocate our production facilities in Panyu to Lianyungang and Zhuhai, which will serve as our major production bases in China in the future. After the relocation, we will carefully consider all available options relating to the vacated land in Panyu with a view to maximising its economic return to our Company and our shareholders.

Chairman's Statement

Appreciation

On behalf of our Group, I would like to express my gratitude to all our staff for their valuable contributions to our Group's development. I would also like to thank our shareholders for their unfailing support which enable us to accumulate strength to embrace the prosperities in the future. Our Group and our staff will work hard as a team to maintain our leading position and entrenching its role model image in the industry under the brand "PCK", which is one of the most reputable brands in the steel pipe industry.

Chen Chang
Chairman

Panyu, Guangdong Province, China
31 August 2016

Management Discussion and Analysis

Business Review

We mainly manufacture and sell welded steel pipes and provide welded steel pipes manufacturing services. 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 and are capable of manufacturing LSAW steel pipes that meet the X100 standard. We also hold 10 international quality certifications accredited by renowned certification bodies, such as Det Norske Veritas ("DNV") and American Petroleum Institute ("API"). In addition, we are the first and only PRC manufacturer that has successfully produced deep sea welded pipes for use at a water depth of 1,500m. Our products are widely used in major oil and gas pipeline projects (both onshore and offshore) and infrastructure projects domestically and internationally.

We are capable of manufacturing subsea pipes and drilling platform structure pipes for offshore projects and are classified as part of the Offshore Engineering Equipment Industry*（海洋工程裝備製造業）. We benefit from China's strategic policies and are supported by policy banks and insurance institutions in China. We maintain good relationships with and have obtained medium-term loans and credit facilities from the China Development Bank, the Export-Import Bank of China and the China Export & Credit Insurance Corporation.

During the period under review, we received new orders of approximately 135,000 tonnes of steel pipes, 78% of which came from overseas customers. These included overseas orders for MRC's Northern Gas Pipeline Project in Queensland of Australia and domestic orders for Sinopec's natural gas project in Tianjin. We delivered approximately 148,000 tonnes of welded steel pipes during the period under review.

Financial Review

During the period under review, we recorded a revenue of approximately RMB788.8 million (1H2015: RMB1,128.7 million), representing a decrease of approximately 30.1% as compared with the corresponding period in 2015. The decrease in revenue was attributed to a drop in both domestic and overseas sales as well as the fall in the price of our steel pipes in light of the drop in the market price of steel pipes.

Management Discussion and Analysis

During the period under review, the revenue attributed to domestic sales and overseas sales represented approximately 44.1% (1H2015: 40.1%) and approximately 55.9% (1H2015: 59.9%) respectively of our total revenue. Both domestic and overseas sales dropped as compared with the corresponding period in 2015 due to the reduction in the number of large-size overseas and domestic orders received in light of the slowdown in the rolling out of infrastructure and oil and gas projects and the fall in the market price of steel pipes.

Revenue

Sales by geography

	Six months ended 30 June			
	2016		2015	
	RMB'000 (unaudited)	**% of revenue**	RMB'000 (unaudited)	% of revenue
Domestic sales	**348,068**	**44.1%**	452,847	40.1%
Overseas sales	**440,719**	**55.9%**	675,854	59.9%
Total	**788,787**	**100.0%**	1,128,701	100.0%

Sales by products

	Six months ended 30 June			
	2016		2015	
	RMB'000 (unaudited)	**% of revenue**	RMB'000 (unaudited)	% of revenue
Manufacture and sale of steel pipes				
LSAW steel pipes	**540,000**	**68.5%**	739,455	65.5%
ERW steel pipes	**32,029**	**4.1%**	110,152	9.8%
SSAW steel pipes	**64,646**	**8.2%**	222,105	19.7%
Sub total	**636,675**	**80.8%**	1,071,712	95.0%
Steel pipes manufacturing services				
LSAW steel pipes	**8,099**	**1.0%**	14,882	1.3%
ERW steel pipes	**1,945**	**0.2%**	2,486	0.2%
SSAW steel pipes	**5,068**	**0.7%**	4,260	0.4%
Sub total	**15,112**	**1.9%**	21,628	1.9%
Others	**137,000**	**17.3%**	35,361	3.1%
Total	**788,787**	**100.0%**	1,128,701	100.0%

During the period, our gross profit was approximately RMB111.8 million (1H2015: RMB181.4 million), representing a decrease of approximately 38.4% as compared with the corresponding period in 2015. The decrease was primarily attributable to the decrease in sales as compared with that for the corresponding period in 2015. The overall gross profit margin was approximately 14.2%, which was lower than that of approximately 16.1% for the same period in 2015. The decrease in gross profit margin was due to the increase of trading of steel materials with lower gross profit margin and the sale of old stock at loss to enhance our cashflow.

Gross Profit and Gross Profit Margin

	Six months ended 30 June			
	2016		2015	
	RMB'000 (unaudited)	**GP margin %**	RMB'000 (unaudited)	GP margin %
Manufacture and sale of steel pipes				
LSAW steel pipes	**119,889**	**22.2%**	128,007	17.3%
ERW steel pipes	**2,259**	**7.1%**	16,680	15.1%
SSAW steel pipes	**9,641**	**14.9%**	18,298	8.2%
Sub total	**131,789**	**20.7%**	162,985	15.2%
Steel pipes manufacturing services				
LSAW steel pipes	**4,057**	**50.1%**	8,686	58.4%
ERW steel pipes	**678**	**34.9%**	765	30.8%
SSAW steel pipes	**1,599**	**31.6%**	1,281	30.1%
Sub total	**6,334**	**41.9%**	10,732	49.6%
Others	**(26,319)**	**-19.2%**	7,659	21.7%
Total	**111,804**	**14.2%**	181,376	16.1%

Other income and gains for the six months ended 30 June 2016 were approximately RMB13.0 million (1H2015: RMB16.3 million), representing a decrease of approximately 20.0% as compared with that for the corresponding period in 2015. Such decrease was due to a decrease in bank interest income.

Selling and distribution expenses for the six months ended 30 June 2016 were approximately RMB65.2 million (1H2015: RMB94.7 million), representing a decrease of approximately 31.2% as compared with that for the corresponding period in 2015. Such decrease was mainly due to the decrease in sales.

Administrative expenses for the six months ended 30 June 2016 were approximately RMB204.7 million (1H2015: RMB216.4 million), representing a decrease of approximately 5.4% as compared with that for the corresponding period in 2015. The decrease in administrative expenses was mainly due to a decrease in research and development expenses during the period under review.

Finance costs for the six months ended 30 June 2016 were approximately RMB103.0 million (1H2015: RMB127.0 million), representing a decrease of 18.9% as compared with that for the corresponding period in 2015. The decrease was due to the decrease in borrowing cost and average borrowing balance during the period under review.

The Group recorded exchange losses of approximately RMB28.4 million for the six months ended 30 June 2016, as compared with the exchange gains of approximately RMB13.7 million recorded for the six months ended 30 June 2015. The exchange losses were mainly due to a depreciation of assets denominated in RMB held by our Hong Kong subsidiaries which led to unrealised exchange losses of approximately RMB19.1 million during the period under review.

Income tax credit decreased from approximately RMB23.7 million for the six months ended 30 June 2015 to approximately RMB22.5 million for the six months ended 30 June 2016.

As a result of the above, the net loss attributable to the owners of the Company was approximately RMB253.5 million (1H2015: RMB206.1 million). Loss per share was RMB0.25 (1H2015: loss per share RMB0.20).

Future Plan and Prospects

The year of 2016 marks the beginning China's 13th Five-year Plan, which sets out the social and economic development blueprint for China from 2016 to 2020. It emphasises better resources allocation and management and champions the development of greener and cleaner energy. Under the Plan's focus on tackling environmental challenges and curbing pollution, China is likely to continue its policy of encouraging gas consumption and gas resources development. Several long-distance pipelines, as well as other infrastructure and transportation networks, are expected to come onstream over the next few years to connect the mega oil and gas projects in resource producing areas to resource consuming regions. For instance, China's National Development and Reform Commission has approved the construction of "New Gas Pipeline" (previous known as the "Xinjiang-Guangdong-Zhejiang" pipeline), a key pipeline project with a total length of 8,400km. The project consists of one main line and six sub-lines worth over RMB130 billion. Besides, the construction of the Chinese section of the Eastern route of the Sino-Russia Pipeline has also commenced, and the pipeline is expected to start transmitting gas from Russia to China from 2018 at a rate of 38 billion cubic metres of gas per annum. The Chinese government anticipates that by 2020, being the last year covered under the 13th Five-year Plan, gas will account for over 10% of the nation's energy consumption. Given our solid business relationships with major oil and gas companies, we are well positioned to benefit from these developments in China.

We also aim to enhance our international competitiveness and aspire to become a multinational corporation in the market. We have already established sales offices abroad, including in the US, Saudi Arabia, Dubai, Singapore and other emerging markets. Our Saudi production plant will commence commercial production soon. These developments all help us to get closer to our international business partners and promote our PCK brand internationally. In addition, we have built production bases in Zhuhai and Lianyungang with self-owned and self-operated wharfs and port services company. The wharfs and port service company offer us easy access to transportation which will be a competitive advantage when we negotiate in overseas projects.

We will continue our development plan of the Golden Dragon City Fortune Plaza and push forward our plans to relocate the production facilities from Panyu to Lianyungang and Zhuhai at appropriate time after considering the orders on hand and the production and delivery schedule. After the relocation, we will carefully consider all available options relating to the vacated land in Panyu with a view to maximising its economic return to our Company and our shareholders.

Employees

As at 30 June 2016, we had 2,442 full time employees in total (at 31 December 2015: 2,775). To retain our employees, we provide competitive remuneration package including salaries, medical insurance, discretionary bonuses, other benefits as well as mandatory retirement benefit schemes for employees in respective countries.

Exchange Risk Exposure

During the period under review, most of our operating transactions are settled in RMB except for the export sales which are mostly denominated in USD. Apart from half of the bank borrowings denominated in USD/HKD, most of the our assets and liabilities are denominated in RMB. We did not adopt formal hedging policies nor instruments of foreign currency for hedging purposes during the period under review.

Interim Dividend

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: nil) to the shareholders.

Management Discussion and Analysis

Contingent Liabilities

As at 30 June 2016, we did not have any material contingent liabilities or guarantees.

Pledge of Assets

As at 30 June 2016, we pledged certain property, plant, equipment, land use rights and time deposits with an aggregate net book value of RMB1,528.5 million (at 31 December 2015: RMB582.8 million), RMB1,056.4 million (at 31 December 2015: RMB650.2 million), and RMB491.2 million (at 31 December 2015: RMB491.1 million) respectively, to secure bank loans granted to us.

Liquidity and Financial Resources

As at 30 June 2016, our cash and cash equivalents and current ratio, as a ratio of current assets to current liabilities, were approximately RMB99.5 million (at 31 December 2015: RMB286.1 million) and 0.84 (at 31 December 2015: 0.91) respectively.

As at 30 June 2016, our aggregate borrowings were approximately RMB5,931.3 million (at 31 December 2015: approximately RMB6,309.4 million), of which approximately RMB5,103.4 million (at 31 December 2015: RMB5,459.6 million) were bank loans and government loans, approximately RMB271.9 million (at 31 December 2015: RMB308.2 million) were for obligations under finance leases, and approximately RMB556.0 million (at 31 December 2015: RMB541.7 million) were USD and HKD bonds.

The gearing ratio, expressed as a percentage of the summation of interest-bearing borrowings, finance lease and bonds over total assets of approximately RMB11,981.3 million (at 31 December 2015: RMB12,073.4 million) was approximately 49.5% (at 31 December 2015: 52.3%).

The maturity profile of our total borrowings as at 30 June 2016 was spread over a period of over five years, with approximately 48% (at 31 December 2015: 45%) of the total borrowings repayable within one year, with approximately 42% (at 31 December 2015: 46%) repayable between two to five years and the remaining 10% (at 31 December 2015: 9%) repayable after five years. We have to finance our working capital by short term borrowings as around 90% of the cost of sales is incurred on the procurement of steel plates and steel coils. Once we receive sales proceeds from our customers, we will repay the short term borrowings. In addition, we have net current liabilities of approximately RMB807.0 million as at 30 June 2016 as some long term interest-bearing loans will be repayable within one year and is classified as current portion of the borrowings. Taking into account the cash held at the balance sheet date and unused banking facilities of approximately RMB1,009.7 million and cash flows generated from the profits of sales of products, we have sufficient liquidity to repay its short term borrowings.

As at 30 June 2016, approximately 35% (at 31 December 2015: 37%) of our 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 17% (at 31 December 2015: 16%) of the total borrowings were denominated in RMB which carried fixed interest rate, approximately 15% (at 31 December 2015: 15%) of total borrowings as at 30 June 2016 were denominated in USD and HKD with interest rates linked to the London Interbank Offered Rate for USD loans and Hong Kong Interbank Offered Rate for HKD loans and approximately 33% (at 31 December 2015: 32%) of the total borrowings as at 30 June 2016 were denominated in USD and HKD which carried fixed interest rate.

Litigation

As at 30 June 2016, we had four outstanding lawsuits which were initiated by Nanjing Yuanchang Investment Guarantee Development Co., Ltd. ("Yuancheng Investment")（南京源昌投資擔保發展有限公司）against Nanjing Rongyu Group Co., Ltd.（南京鎔裕集團有限公司）and Nanjing City Xixia Hill Roll Steeling Co., Ltd.（南京市棲霞山軋鋼有限公司）, both of which are our subsidiaries. Please refer to our annual report for the year ended 31 December 2015 for particulars of the lawsuits.

As at 30 June 2016, we had made full provision for the claimed amounts for the lawsuits. We have paid RMB10 million to Yuancheng Investment on the basis of the court's judgment.

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

We had no significant investments, 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 our businesses.

Pledge of Shares by Controlling Shareholder

As at 30 June 2016, Bournam Profits Limited ("Bournam"), a controlling Shareholder of the Company charged 220,000,000 ordinary shares of the Company, representing 21.75% of the total number of issued shares, in favour of a bank as a security for the loan agreement entered by the Company and the bank.

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

As at 30 June 2016, 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 (note 2)	69.42%
	Personal interest	Long	2,868,000	0.28%

Note:

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

2. Bournam has pledged 220,000,000 shares of the Company, representing 21.75% of total number of issued shares of the Company, in favour of an independent third party.

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 and Underlying Shares

As at 30 June 2016, 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 had 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	704,779,000	69.70%
Bournam	Beneficial owner (note 2)	Long	701,911,000 (note 3)	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 704,779,000 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 in the 701,911,000 shares held by Bournam.

3. Bournam has pledged 220,000,000 shares, representing 21.75% of total number of issued shares of the Company, in favour of an independent third party.

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 2016, 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 of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2016.

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". The role is currently performed by Mr. Chen Chang, the Chairman and founder of the Group, who also responsible for the leadership and effective running of the Company and ensure 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 will complement Mr. Chen in carrying out his responsibilities. 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 circumstances arise.

Compliance with Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following specific enquiries having been made to all Directors, all the Directors confirmed that they have complied with the Model Code throughout the six months ended 30 June 2016.

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 during the six months ended 30 June 2016.

Audit Committee

The Company's Audit Committee comprises Mr. See Tak Wah (Chairman), Mr. Chen Ping and Mr. Tian Xiao Ren 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 2016.

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, risk management functions and financial reporting system.

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2016

	Notes	Six months ended 30 June **2016** **(Unaudited)** **RMB'000**	 2015 (Unaudited) RMB'000
REVENUE	5	**788,787**	1,128,701
Cost of sales		**(676,983)**	(947,325)
Gross profit		**111,804**	181,376
Other income and gains	5	**13,039**	16,305
Selling and distribution costs		**(65,165)**	(94,676)
Administrative expenses		**(204,654)**	(216,382)
Other expenses		**(1,039)**	(1,769)
Exchange gain/(loss), net		**(28,403)**	13,666
Finance costs	6	**(103,002)**	(127,005)
Share of loss of a joint venture		**(386)**	(116)
LOSS BEFORE TAX	7	**(277,806)**	(228,601)
Income tax credit	8	**22,498**	23,657
LOSS FOR THE PERIOD		**(255,308)**	(204,944)
Profit/(loss) attributable to:			
Owners of the parent		**(253,536)**	(206,118)
Non-controlling interests		**(1,772)**	1,174
		(255,308)	(204,944)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	**RMB(0.25)**	RMB(0.20)

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
LOSS FOR THE PERIOD	**(255,308)**	(204,944)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(37,112)**	8,252
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**(37,112)**	8,252
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**(37,112)**	8,252
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(292,420)**	(196,692)
Total comprehensive income/(loss) attributable to:		
Owners of the parent	**(290,648)**	(197,866)
Non-controlling interests	**(1,772)**	1,174
	(292,420)	(196,692)

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	**30 June 2016 (Unaudited) RMB'000**	31 December 2015 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**3,740,591**	3,721,360
Investment properties	11	**2,306,804**	2,306,804
Long term prepayments and deposits		**190,795**	204,937
Prepaid land lease payments		**1,144,291**	1,083,448
Goodwill		**4,075**	4,075
Investment in a joint venture		**38,404**	38,790
Available-for-sale investments		**800**	800
Deferred tax assets		**100,843**	80,497
Pledged deposits		**111,091**	431,924
Total non-current assets		**7,637,694**	7,872,635
CURRENT ASSETS			
Inventories	12	**787,921**	816,115
Properties under development		**927,981**	808,127
Trade and bills receivables	13	**821,830**	921,143
Prepayments, deposits and other receivables		**975,497**	950,785
Pledged deposits		**730,877**	418,425
Cash and bank balances		**99,547**	286,135
Total current assets		**4,343,653**	4,200,730
CURRENT LIABILITIES			
Trade and bills payables	14	**1,085,727**	1,062,085
Interest-bearing bank and other borrowings	15	**2,766,613**	2,853,246
Fixed rate bonds	16	**82,190**	–
Other payables and accruals		**1,129,978**	590,609
Provision		**24,348**	24,348
Tax payable		**61,751**	64,198
Total current liabilities		**5,150,607**	4,594,486
NET CURRENT LIABILITIES		**(806,954)**	(393,756)
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,830,740**	7,478,879

Interim Condensed Consolidated Statement of Financial Position (continued)

As at 30 June 2016

	Notes	**30 June 2016 (Unaudited) RMB'000**	31 December 2015 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	**2,608,740**	2,914,481
Fixed rate bonds	16	**473,775**	541,651
Government grants		**227,929**	205,875
Deferred tax liabilities		**612,814**	616,970
Total non-current liabilities		**3,923,258**	4,278,977
Net assets		**2,907,482**	3,199,902
EQUITY			
Equity attributable to owners of the parent			
Issued capital	17	**88,856**	88,856
Reserves		**2,802,198**	3,092,846
		2,891,054	3,181,702
Non-controlling interests		**16,428**	18,200
Total equity		**2,907,482**	3,199,902

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

		Attributable to owners of the parent										
	Note	Issued capital RMB'000 (note 17)	Share premium RMB'000	Asset revaluation reserve RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000 (note (a))	Statutory reserve fund RMB'000 (note (b))	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
At 1 January 2016		88,856	767,097	1,153,715	224,589	57,607	165,276	804,247	(79,685)	3,181,702	18,200	3,199,902
Loss for the year		–	–	–	–	–	–	(253,536)	–	(253,536)	(1,772)	(255,308)
Other comprehensive loss for the year												
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	(37,112)	(37,112)	–	(37,112)
Total comprehensive loss for the year		–	–	–	–	–	–	(253,536)	(37,112)	(290,648)	(1,772)	(292,420)
At 30 June 2016 (unaudited)		**88,856**	**767,097***	**1,153,715***	**224,589***	**57,607***	**165,276***	**550,711***	**(116,797)***	**2,891,054**	**16,428**	**2,907,482**

* These reserve accounts comprise the consolidated reserves of RMB2,802,198,000 (31 December 2015: RMB3,092,846,000) in the interim condensed consolidated statement of financial position as at 30 June 2016.

For the six months ended 30 June 2015

		Attributable to owners of the parent										
	Note	Issued capital RMB'000 (note 17)	Share premium RMB'000	Asset revaluation reserve RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000 (note (a))	Statutory reserve fund RMB'000 (note (b))	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
At 1 January 2015		88,856	767,097	1,154,425	224,589	57,607	133,745	816,274	15,040	3,257,633	11,483	3,269,116
Profit/(loss) for the year		–	–	–	–	–	–	(206,118)	–	(206,118)	1,174	(204,944)
Other comprehensive income for the year												
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	8,252	8,252	–	8,252
Total comprehensive income/(loss) for the year		–	–	–	–	–	–	(206,118)	8,252	(197,866)	1,174	(196,692)
At 30 June 2015 (unaudited)		88,856	767,097	1,154,425	224,589	57,607	133,745	610,156	23,292	3,059,767	12,657	3,072,424

Interim Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2016

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 2016

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash flows from/(used in) operating activities	**492,333**	(348,611)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(61,307)**	(342,151)
Addition to investment properties	**–**	(50,460)
Addition to prepaid land lease payments	**(74,798)**	–
Proceeds from disposal of items of property, plant and equipment	**–**	1,088
Proceeds from disposal of an investment property	**–**	6,706
Payment for investment deposits	**(41,100)**	(256,300)
Collection of investment deposits	**41,100**	282,300
Net cash flows used in investing activities	**(136,105)**	(358,817)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans and other borrowings	**1,365,991**	2,971,431
Repayment of bank loans and other borrowings	**(1,766,802)**	(2,109,518)
Repayment of short term note	**–**	(300,000)
Interest paid	**(116,474)**	(149,917)
Interest element of finance lease rental payments	**–**	(6,943)
Capital element of finance lease rental payments	**(43,909)**	(53,965)
Cash received from sales and lease back finance lease	**–**	24,000
Net cash flows from/(used in) financing activities	**(561,194)**	375,088
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(204,966)**	(332,340)
Effect of foreign exchange rate changes, net	**18,378**	4,191
Cash and cash equivalents at 1 January	**286,135**	637,577
CASH AND CASH EQUIVALENTS AT 30 JUNE	**99,547**	309,428

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

1. Corporate Information

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

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

2. Basis of Preparation

These interim condensed consolidated financial statements for the six months ended 30 June 2016 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"). These interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

These 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 2015.

2. Basis of Preparation (Continued)

Going concern basis

Notwithstanding that the Group had consolidated net current liabilities of approximately RMB806,954,000 as at 30 June 2016, the interim condensed consolidated financial statements have been prepared by the directors of the Company on a going concern basis, because:

(i) as at 30 June 2016, the Group had unutilised credit facilities from banks of approximately RMB1,009,726,000; and

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

In the opinion of the directors of the Company, in light of the measures taken to date together with the expected results of other measures in progress, the Group is able to fulfil its financial obligations upon fall due. Accordingly, it is appropriate to prepare the interim condensed consolidated financial statements on a going concern basis, notwithstanding the Group's financial and liquidity positions as at 30 June 2016.

3.1 Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are the same as those used in the Group's annual financial statements for the year ended 31 December 2015, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs") and Interpretations that the Group has adopted for the first time for the current period as disclosed below.

IFRS 14	*Regulatory Deferral Accounts*
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	*Amendments to a number of IFRSs*

The adoption of these revised IFRSs has no significant effect on these interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

3.2 Issued But Not Yet Effective IFRSs

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

IFRS 9	*Financial Instruments*[2]
IFRS 15	*Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 15	*Revenue from Contracts with Customer*[2]

[1] Effective for annual periods beginning on or after 1 January 2017
[2] Effective for annual periods beginning on or after 1 January 2018
[3] Effective for annual periods beginning on or after 1 January 2019

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application, but is not in a position to state whether these new and revised IFRSs will have a significant impact on the Group's results of operations and financial position.

4. Operating Segment Information

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

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

(b) property development and investment segment engages in property development for sale of properties and property investment for its rental income potential.

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

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

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

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

4. Operating Segment Information (Continued)

Six months ended 30 June 2016 (unaudited)	Steel pipes RMB'000	Property development and investment RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	788,787	–	788,787
Segment results:	(233,169)	(21,310)	(254,479)
Reconciliation:			
Interest income			–
Corporate and other unallocated expenses			(23,327)
Loss before tax			(277,806)
Segment assets:	5,742,475	3,550,090	9,292,565
Reconciliation:			
Elimination of intersegment receivables			(275,062)
Corporate and other unallocated assets			2,963,844
Total assets			11,981,347
Segment liabilities:	7,526,741	1,261,098	8,787,839
Reconciliation:			
Elimination of intersegment payables			(275,062)
Corporate and other unallocated liabilities			561,088
Total liabilities			9,073,865
Other segment information:			
Share of loss of a joint venture	(386)	–	(386)
Impairment losses recognised in the statement of profit or loss	(535)	–	(535)
Impairment losses reversed in the statement of profit or loss	10,986	–	10,986
Depreciation and amortisation	(97,577)	(163)	(97,740)
Capital expenditure*	177,924	641	178,565

4. Operating Segment Information (Continued)

Six months ended 30 June 2015 (unaudited)	Steel pipes RMB'000	Property development and investment RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	1,128,701	–	1,128,701
Segment results:	(195,055)	(12,842)	(207,897)
Reconciliation:			
Interest income			1
Corporate and other unallocated expenses			(20,705)
Loss before tax			(228,601)
Segment assets:	6,670,071	2,601,549	9,271,620
Reconciliation:			
Elimination of intersegment receivables			(324,165)
Corporate and other unallocated assets			2,909,446
Total assets			11,856,901
Segment liabilities:	7,832,084	764,526	8,596,610
Reconciliation:			
Elimination of intersegment payables			(324,165)
Corporate and other unallocated liabilities			512,032
Total liabilities			8,784,477
Other segment information:			
Share of loss of a joint venture	(116)	–	(116)
Impairment losses recognised in the statement of profit or loss	(4,467)	–	(4,467)
Impairment losses reversed in the statement of profit or loss	17,870	–	17,870
Depreciation and amortisation	(89,466)	(97)	(89,563)
Capital expenditure*	221,169	50,515	271,684

* Capital expenditure consists of additions to property, plant and equipment, investment properties and intangible assets.

4. Operating Segment Information (Continued)

Information about products

The revenue of the major products is analysed as follows:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Manufacture and sale of steel pipes:		
LSAW steel pipes	**540,000**	739,455
ERW steel pipes	**32,029**	110,152
SSAW steel pipes	**64,646**	222,105
Steel pipe manufacturing services:		
LSAW steel pipes	**8,099**	14,882
ERW steel pipes	**1,945**	2,486
SSAW steel pipes	**5,068**	4,260
Others*	**137,000**	35,361
	788,787	1,128,701

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

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	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sales to external customers:		
Mainland China	**348,068**	452,847
America	**215,900**	433,741
European Union	**4,539**	2,723
Middle East	**145,714**	120,221
Other Asian countries	**74,566**	43,390
Oceania	**–**	42,564
Other	**–**	33,215
	788,787	1,128,701

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

Information about major customers

For the six months ended 30 June 2016, revenue from two customers of the Group amounting to RMB172,220,000 and RMB116,586,000, which had accounted for over 21% and 14%, respectively 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	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Manufacture and sale of seam welded steel pipes and the provision of related manufacturing services	**788,787**	1,128,701
Other income		
Bank interest income	**2,694**	11,948
Subsidy income from the PRC government*	**7,812**	4,026
Rental income	**–**	15
Others	**2,533**	316
	13,039	16,305

* The subsidy income represented subsidies granted by the local finance bureaus to Panyu Chu Kong Steel Pipe (Lianyungang) Co Ltd., Panyu Chu Kong Steel Pipe (Zhuhai) Co., Ltd., Panyu Chu Kong Steel Pipe Co., Ltd. and Nanjing Rongyu Group Co., Ltd. as awards for their products. 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	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans and government loans	**118,368**	117,906
Interest on other loans (including bonds and short term notes)	**2,930**	16,282
Interest on finance lease	**7,639**	8,697
Interest on discounted bills	**2,383**	19,122
Total interest expense on financial liabilities not at fair value through profit or loss	**131,320**	162,007
Less: Interest capitalised	**(28,318)**	(35,002)
	103,002	127,005

7. Loss Before Tax

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	**537,000**	800,874
Depreciation	**85,293**	78,130
Impairment of trade receivables recognised/(reversed)	**335**	(13,403)

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, Dubai, Indonesia and Singapore profits tax have been made as the Group had no assessable profits derived from or earned in these regions during the period.

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – Mainland China charge/(credit) for the period	**106**	(5,008)
Deferred	**(22,604)**	(18,649)
Total tax credit for the period	**(22,498)**	(23,657)

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

The calculation of basic loss per share is based on the loss for the period attributable to ordinary equity holders of the parent of RMB253,536,000 (six months ended 30 June 2015: RMB206,118,000), and the weighted average number of ordinary shares of 1,011,142,000 (30 June 2015: 1,011,142,000) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the periods ended 30 June 2016 and 2015 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 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
At beginning of the period/year	**3,721,360**	3,547,707
Additions	**103,767**	317,894
Disposals	**–**	(990)
Depreciation	**(85,293)**	(144,250)
Exchange realignment	**757**	999
At end of the period/year	**3,740,591**	3,721,360

11. Investment Properties

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Buildings		
Carrying amount at 1 January	**–**	6,627
Disposals	**–**	(6,627)
Carrying amount at end of the period/year	**–**	–
Land		
Carrying amount at 1 January	**2,306,804**	2,327,000
Additions	**–**	145,118
Net gain from a fair value adjustment	**–**	627,882
Transfer to properties under development	**–**	(793,196)
Carrying amount at end of the period/year	**2,306,804**	2,306,804
	2,306,804	2,306,804

12. Inventories

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Raw materials	**217,967**	254,521
Work in progress	**209,638**	230,325
Finished goods	**360,316**	342,048
	787,921	826,894
Less: Provision against slow-moving and obsolete	**–**	(10,779)
	787,921	816,115

13. Trade and Bills Receivables

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Trade receivables	**825,563**	912,410
Impairment	**(11,433)**	(11,098)
Trade receivables, net	**814,130**	901,312
Bills receivable	**7,700**	19,831
	821,830	921,143

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 90 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 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Within 60 days	**346,470**	351,437
61 to 90 days	**42,116**	43,034
91 to 180 days	**54,384**	85,475
181 to 365 days	**102,803**	203,946
1 to 2 years	**196,890**	162,347
2 to 3 years	**55,699**	33,893
Over 3 years	**15,768**	21,180
	814,130	901,312

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 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Within 90 days	**279,451**	353,210
91 to 180 days	**118,154**	60,472
181 to 365 days	**94,227**	92,767
1 to 2 years	**69,258**	33,059
2 to 3 years	**13,611**	16,041
Over 3 years	**13,815**	9,676
	588,516	565,225
Bills payable	**497,211**	496,860
	1,085,727	1,062,085

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 Bank and Other Borrowings

	Effective interest rate %	Maturity	**30 June 2016 (Unaudited) RMB'000**	31 December 2015 (Audited) RMB'000
Current				
Finance lease payables	4.61-8.43	2016-2017	**82,002**	72,631
Bank loans				
– secured	3.98-6.90	2016-2017	**429,033**	393,060
– unsecured	2.30-6.16	2016-2017	**1,079,556**	1,232,162
Government loans				
– unsecured	3.15-5.50	2017	**153,000**	99,500
Current portion of long term loans				
– secured	2.23-7.04	2016-2017	**659,817**	674,839
– unsecured	2.40-6.46	2016-2017	**363,205**	381,054
			2,766,613	2,853,246
Non-current				
Finance lease payables	4.61-8.43	2017-2020	**189,900**	235,541
Bank loans				
– secured	2.07-6.40	2017-2028	**423,834**	566,767
– unsecured	2.50-3.86	2017-2020	**1,408,506**	1,502,173
Government loans				
– secured	4.90-5.40	2023	**440,000**	410,000
– unsecured	3.15-4.75	2017-2018	**146,500**	200,000
			2,608,740	2,914,481
			5,375,353	5,767,727

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

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**2,531,611**	2,681,115
In the second year	**1,217,645**	1,354,970
In the third to fifth years, inclusive	**474,695**	565,970
Beyond five years	**140,000**	148,000
	4,363,951	4,750,055
Government loans repayable:		
Within one year	**153,000**	99,500
In the second year	**146,500**	200,000
Beyond five years	**440,000**	410,000
	739,500	709,500
Finance lease payables:		
Within one year	**82,002**	72,631
In the second year	**91,500**	89,948
In the third to fifth years, inclusive	**98,400**	145,593
	271,902	308,172
	5,375,353	5,767,727

The Group's bank loans are secured by:

(a) a charge over certain property, plant and equipment of the Group with a net carrying amount of approximately RMB1,528,496,000 (31 December 2015: RMB582,846,000) as at the end of the reporting period;

(b) a charge over certain leasehold land of the Group with a net carrying amount of approximately RMB1,056,402,000 (31 December 2015: RMB650,234,000) as at the end of the reporting period; and

(c) certain of the Group's time deposits amounting to RMB491,205,000 (31 December 2015: RMB491,150,000) as at the end of the reporting period.

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

In addition, the Company has guaranteed certain of the Group's bank loans up to RMB1,202,067,000 (31 December 2015: RMB1,369,000,000) as at the end of the reporting period.

Except for the bank loans of RMB262,070,000 (31 December 2015: RMB236,803,000), and RMB2,068,098,000 (31 December 2015: RMB2,194,929,000) as at 30 June 2016, which are denominated in Hong Kong dollars and United State dollars, respectively, all borrowings are in RMB.

The Group had the following undrawn banking facilities:

	Group	
	30 June 2016 RMB'000	31 December 2015 RMB'000
Floating rate		
– expiring within one year	**1,009,726**	1,365,867

16. Fixed Rate Bonds

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

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

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

16. Fixed Rate Bonds (Continued)

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

On 2 May 2014, the Group issued bonds with a principal amount of HK dollar 100,000,000 which was subscribed at a price equal to HK dollar 86,500,000 and the bonds will repayable in full by 2 May 2017 (the "2014 Bonds"). The bonds may be redeemed at the option of the Group in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the holders of the bonds, at their principal amount, together with interest accrued to the date fixed for redemption. The bonds bear a fixed coupon interest rate at 5% per annum for three years payable semi-annually, commencing on 2 November 2014. The bonds are unsecured.

The bonds were issued for refinancing the existing debt and for general corporate purposes. The net proceeds of the bonds after deducting issue expenses amounted to approximately RMB68,659,000.

2013 Bonds	**30 June 2016 (Unaudited) RMB'000**	31 December 2015 (Audited) RMB'000
Carrying amount at 1 January	**462,965**	434,632
Amortisation	**1,129**	1,915
Exchange realignment	**9,681**	26,418
Carrying amount at end of the period/year	**473,775**	462,965
Portion classified as non-current	**(473,775)**	(462,965)
Current portion	**–**	–

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

2014 Bonds	**30 June 2016 (Unaudited) RMB'000**	31 December 2015 (Audited) RMB'000
Carrying amount at 1 January	**78,686**	70,542
Amortisation	**1,801**	3,613
Exchange realignment	**1,703**	4,531
Carrying amount at end of the period/year	**82,190**	78,686
Portion classified as non-current	**–**	(78,686)
Current portion	**82,190**	–

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

17. Issued Capital

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Authorised:		
10,000,000,000 (31 December 2015: 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 2015: 1,011,142,000) ordinary shares of HK$0.10 each	**88,856**	88,856

18. Operating Lease Arrangements

As lessee

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

As at 30 June 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Within one year	**2,676**	3,071
In the second to fifth years, inclusive	**5,761**	6,723
After five years	**4,978**	5,255
	13,415	15,049

19. Commitments

In addition to the operating lease commitments detailed in note 18 above, the Group had the following capital commitments:

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Contracted, but not provided for:		
Purchase of land and buildings	**362,680**	167,129
Purchase of plant and machinery	**121,204**	60,770
	483,884	227,899
Contracted, but not provided for:		
Capital contributions payable for establishment of a joint venture	**125,328**	106,486
	609,212	334,385

20. Related Party Transactions

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

Name of party	**Relationship**
Guangzhou City Pearl River Machine Tool Works Co., Ltd. ("GZMT") 廣州市珠江機床廠有限公司	GZMT is a company of which Mr. Chen Chang is the ultimate equity owner.
Al-Qahtani PCK Pipe Company	Al-Qahtani PCK Pipe Company is a joint venture of the Group.

20. Related Party Transactions (Continued)

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

			Six months ended 30 June	
			2016	2015
Name of party	**Nature of transaction**	**Notes**	**(Unaudited) RMB'000**	(Unaudited) RMB'000
GZMT	Purchases of spare parts	(i)	**6,343**	4,406
Al-Qahtani PCK Pipe Company	Sales of plant and machinery	(ii)	**88**	1,910

Notes:

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

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

20. Related Party Transactions (Continued)

(b) Other transactions with related parties:

The Company's ultimate holding company has pledged 220,000,000 ordinary shares of the Company, representing 21.75% of the total number of issued shares, in favour of a bank as a security for the loan agreement entered by the Group and the bank.

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**4,565**	4,638
Retirement benefit scheme contributions	**95**	90
Total compensation paid to key management personnel	**4,660**	4,728

21. 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 31 August 2016.