Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited

珠江石油天然氣鋼管控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1938

2017 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
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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

Loeb & Loeb LLP

Principal Bankers

In Hong Kong:

China Citic Bank International Limited
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

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road
P.O. Box 1586
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

Management Discussion and Analysis

Financial Review

Overall Financial Results

During the period under review, the Group recorded a revenue of approximately RMB418.0 million (1H2016: RMB788.8 million), representing a decrease of approximately 47.0% as compared with the corresponding period in 2016. Loss attributable to the owners of our Company was RMB361.3 million (1H2016: loss RMB253.5 million). Loss per share was RMB0.36 (1H2016: loss per share RMB0.25). The Board did not recommend the payment of interim dividend for the six months ended 30 June 2017 (1H2016: Nil).

Revenue

During the period under review, we recorded a revenue of approximately RMB418.0 million (1H2016: RMB788.8 million), representing a decrease of approximately 47.0% as compared with the corresponding period in 2016. The decrease in revenue was attributable to a drop in both domestic and overseas sales.

During the period under review, the revenue from domestic sales and overseas sales represented approximately 46.7% (1H2016: 44.1%) and approximately 53.3% (1H2016: 55.9%) respectively of our total revenue. Both domestic and overseas sales dropped as compared with the corresponding period in 2016 due to a drop in oil price that led to a reduction in the number of large-size overseas and domestic orders received.

Sales by geography

	Six months ended 30 June			
	2017		2016	
	RMB'000 (Unaudited)	**% of revenue**	RMB'000 (Unaudited)	% of revenue
Domestic sales	**195,146**	**46.7%**	348,068	44.1%
Overseas sales	**222,885**	**53.3%**	440,719	55.9%
Total	**418,031**	**100.0%**	788,787	100.0%

Sales by products

	Six months ended 30 June			
	2017		2016	
	RMB'000 (Unaudited)	**% of revenue**	RMB'000 (Unaudited)	% of revenue
Manufacture and sale of steel pipes				
LSAW steel pipes	**209,715**	**50.2%**	540,000	68.5%
ERW steel pipes	**129,492**	**31.0%**	32,029	4.1%
SSAW steel pipes	**17,077**	**4.0%**	64,646	8.2%
Sub total	**356,284**	**85.2%**	636,675	80.8%
Steel pipes manufacturing services				
LSAW steel pipes	**20,175**	**4.8%**	8,099	1.0%
ERW steel pipes	**357**	**0.1%**	1,945	0.2%
SSAW steel pipes	**12,480**	**3.0%**	5,068	0.7%
Sub total	**33,012**	**7.9%**	15,112	1.9%
Others	**28,735**	**6.9%**	137,000	17.3%
Total	**418,031**	**100.0%**	788,787	100.0%

Gross Profit and Gross Profit Margin

During the period under review, our gross profit was approximately RMB33.6 million (1H2016: RMB111.8 million), representing a decrease of approximately 69.9% as compared with the corresponding period in 2016. The decrease was primarily attributable to the decrease in sales and decrease in gross profit margin as compared with the corresponding period in 2016. The overall gross profit margin was approximately 8.0%, which was lower than that for the same period in 2016 which was approximately 14.2%. The decrease in gross profit margin was because the decreased sales cannot cover the fixed cost of the Group and old stock was sold at loss to enhance our cashflow.

Management Discussion and Analysis

	Six months ended 30 June			
	2017		2016	
	RMB'000 (Unaudited)	**GP margin %**	RMB'000 (Unaudited)	GP margin %
Manufacture and sale of steel pipes				
LSAW steel pipes	**39,827**	**19.0%**	119,889	22.2%
ERW steel pipes	**235**	**0.2%**	2,259	7.1%
SSAW steel pipes	**1,371**	**8.0%**	9,641	14.9%
Sub total	**41,433**	**11.6%**	131,789	20.7%
Steel pipes manufacturing services				
LSAW steel pipes	**1,677**	**8.3%**	4,057	50.1%
ERW steel pipes	**43**	**12.0%**	678	34.9%
SSAW steel pipes	**1,349**	**10.8%**	1,599	31.6%
Sub total	**3,069**	**9.3%**	6,334	41.9%
Others	**(10,902)**	**-37.9%**	(26,319)	-19.2%
Total	**33,600**	**8.0%**	111,804	14.2%

Other income and gains for the six months ended 30 June 2017 were approximately RMB103.1 million (1H2016: RMB13.0 million), representing an increase of approximately 690.6% as compared with the corresponding period in 2016. Such increase was due to an increase in bank interest income and forfeiture of customer deposit.

Selling and distribution expenses for the six months ended 30 June 2017 were approximately RMB53.1 million (1H2016: RMB65.2 million), representing a decrease of approximately 18.5% as compared with the corresponding period in 2016. Such decrease was mainly due to a decrease in sales.

Administrative expenses for the six months ended 30 June 2017 were approximately RMB228.2 million (1H2016: RMB204.7 million), representing an increase of approximately 11.5% as compared with the corresponding period in 2016. The increase in administrative expenses was mainly due to an increase in professional expenses for issue of bonds and borrowings during the period under review.

Finance costs for the six months ended 30 June 2017 were approximately RMB199.5 million (1H2016: RMB103.0 million), representing an increase of 93.7% as compared with the corresponding period in 2016. The increase was due to an increase in borrowing cost during the period under review.

The Group recorded exchange losses of approximately RMB10.5 million for the six months ended 30 June 2017, representing a decrease of approximately 63.0% as compared with the exchange losses of approximately RMB28.4 million recorded for the six months ended 30 June 2016. The decrease in exchange losses was mainly because assets denominated in RMB held by our Hong Kong subsidiaries decreased during the period under review.

Income tax expenses of approximately RMB22.5 million was recorded for the six months ended 30 June 2016 while tax expenses of approximately RMB2.1 million was recorded for the six months ended 30 June 2017.

As a result of the above, the net loss attributable to the owners of the Company was approximately RMB361.3 million (1H2016: RMB253.5 million). Loss per share was RMB0.36 (1H2016: loss per share RMB0.25).

Business Review

Steel pipe business

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 11 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.

During the period under review, we received new orders of approximately 99,000 tonnes of steel pipes, 66% of which came from overseas customers. We delivered approximately 117,000 tonnes of welded steel pipes during the period under review.

Management Discussion and Analysis

Property development

Apart from the steel pipe manufacturing, the Group also engaged in property development and investment. Following the conversion of the Panyu land in 2013, the Group grasped the opportunity of asset appreciation to convert the land use right of the Panyu production plant from industrial use to commercial use. The property project, named Golden Dragon City Fortune Plaza（金龍城財富廣場）("GDC") (the "Development"), is a large scale integrated commercial complex of offices, shops, apartments and villas. The land area of the converted land accounted for approximately 25% of the total land area of Panyu's factory. The total permitted construction area of the Land (including underground construction area) is approximately 550,000m^2.

Most of the apartments and villas of the first phase of the Development had been pre-sold. The Group is in the progress to arrange the handover of the premises to the buyers. The Group will recognize such property sales in the second half of 2017.

The construction of second phase of the Development is in progress. It will have a permitted construction area (including the underground construction area) of approximately 191,000m^2 and accounted for approximately 35% of the total permitted construction area. The second phase is mainly composed of apartments and shopping centre. Pre-sale of the second phase of the Development is expected to commence in the fourth quarter of 2017. GDC is one of our stable income sources that will provide solid financial support to our steel pipe business in the long run. It will also help improving our cash flow.

Future Plan and Prospects

The National Development and Reform Commission of the PRC has recently announced the "13th Five Year Plan – Oil Development" and "13th Five Year Plan – Natural Gas Development", giving the green light for mega projects in the oil and gas industry. The plans mentioned clearly that a total of 17,000km of crude and refined oil pipelines and 40,000km of gas pipelines are targeted to be constructed by 2020.

Moreover, the 13th Five-Year Plan of oil and gas pipeline network was launched, in which it is expected that the pipeline network would reach 165,000km by 2020, representing an extension of 47%. It would be a golden era for the development of oil and gas pipeline during the 13th Five-Year Plan period. There are 6 crude oil pipelines to be constructed under the plan, including phase II of the Sino-Russian Crude Oil Pipeline, the Yizheng-Changling Dual Pipelines, the Lianyungang-Yizheng, Rizhao-Luoyang, Rizhao-Zhanhua and Dongjiakou-Dongying crude oil pipelines. There are 8 new refined oil pipelines to be constructed under the plan, including the Zhangshu-Zhuzhou, Zhanjiang-Beihai, Luoyang-Linfen, Sanmenxia-Xian, Yongping-Jinzhong and Hubei-Chongqing refined oil pipelines as well as coal-derived oil transportation pipelines in western and eastern Inner Mongolia. Meanwhile, the Qinghai-Tibet refined Oil Pipeline will be extended and upgraded.

The Chinese government is keen to promote its clean energy strategy on the foundation built on its last Five-Year Plan. The constructions relating to transport infrastructure are expected to accelerate as the Chinese government is determined to resolve its pollution problems. Pipelines and auxiliary facilities will be built to support the expected increasing demand of natural gas. According to the "Guidelines on Energy-related works 2017" announced by the National Development and Reform Commission of the PRC, the projects in relation to the Sino-Russian Pipeline East, "New Gas Pipeline" (formerly "Xinjiang-Guangdong-Zhejiang" pipeline) and Shaanxi-Beijing Line 4 will be launched in line with the national policy. There are 14 new gas pipelines to be constructed under the plan, including the Central Asia-China Gas Pipeline Line D, Sino-Russian East pipeline, middle part of the West-East Gas Pipeline (Phase III), Phase IV and Phase V of the West-East Gas Pipeline, Phase IV of the Shanxi-Beijing Pipeline, Sichuan-East Gas Pipeline, coal gas transportation pipeline in Sinkiang, Erdos-Anping-Cangzhou, Qingdao-Nanjing, Chongqing-Guizhou-Guangxi, Qinghai-Tibet, Fujian-Guangdong and Haikou-Xuwen gas pipelines etc. Construction of regional pipeline networks will be accelerated whilst gas storages and transportation pipelines for coalbed methane, shale gas and coal gas will be constructed when necessary. The PRC government expects gas will account for over 10 percent of the nation's energy consumption by 2020 at the end of the 13th Five-Year Plan. The Directors believe that given our business relationships with major oil and gas companies, the Group shall benefit from these developments of the country.

In regard to the Group's overseas business, the Group has established sales offices in different countries and regions, such as Saudi Arabia, Dubai, and Singapore. These offices help the Group to maintain close relationships with our business partners and promote our PCK brand. Two of the Group's production bases in Zhuhai and Lianyungang are close to the wharf which provides the Group with a competitive advantage during negotiating overseas projects. Following the commencement of operations of the Group's Saudi Arabian production plant, the Group has further enhanced its international competitiveness and will continue to pursue its aspiration to become a multinational corporation in the market.

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 taking into account 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.

Management Discussion and Analysis

Employees

As at 30 June 2017, we had 1,850 full time employees in total (at 31 December 2016: 2,100). 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 their respective countries.

Exchange Risk Exposure

During the period under review, most of our operating transactions are settled in RMB except for export sales which are mostly denominated in USD. Apart from the 31% of borrowings and bonds 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 payment of any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil) to the shareholders.

Contingent Liabilities

As at 30 June 2017, we did not have any material contingent liabilities or guarantees.

Pledge of Assets

As at 30 June 2017, we pledged certain property, plant and equipment, land use rights, time deposits and certain properties under development with an aggregate net book value of RMB1,661.0 million (at 31 December 2016: RMB1,512.5 million), RMB1,123.7 million (at 31 December 2016: RMB1,061.8 million), RMB1,119.4 million (at 31 December 2016: RMB410.2 million) and RMB461.7 million (at 31 December 2016: RMB442.7 million) respectively, to secure bank loans granted to the Group.

Liquidity and Financial Resources

As at 30 June 2017, our cash and cash equivalents and current ratio, as a ratio of current assets to current liabilities, were approximately RMB45.8 million (at 31 December 2016: RMB439.1 million) and 0.68 (at 31 December 2016: 0.58) respectively.

On 27 April 2017, the Company entered into a note purchase agreement (the "Note Purchase Agreement") with an investment fund, pursuant to which the Company agreed to issue, and the investment fund agreed to purchase from the Company, HK$155,000,000 8% notes due in April 2020 (the "Notes"). Pursuant to the Note Purchase Agreement, specific performance obligations (the "Specific Performance Obligations") are imposed on Mr. Chen, the controlling shareholder of the Company, during the term of the Note Purchase Agreement including (i) Mr. Chen, directly or indirectly, holds or owns more than 50% of the voting rights of the Company; or (ii) the controlling shareholder of the Company, has management control of the Company. Any breach of the Specific Performance Obligations may constitute a breach under the Note Purchase Agreement, pursuant to which the investment fund is entitled to redeem the Notes immediately upon the occurrence of the breach in accordance with the terms and conditions of the Notes.

On 28 April 2017, the Company issued a bond with a principal amount of US dollar 3,000,000 to an investor, Ms Fang, Lisa Qiu（邱運鳳）. The bond will be repayable in full by April 2020. The bond bears a fixed coupon interest rate at 7% per annum for three years payable semi-annually, commencing on 28 October 2017. The bond is unsecured.

As at 30 June 2017, our aggregate borrowings were approximately RMB6,558.2 million (at 31 December 2016: approximately RMB6,349.4 million), of which approximately RMB5,743.4 million (at 31 December 2016: RMB5,518.8 million) were bank loans, other borrowings and government loans, approximately RMB198.2 million (at 31 December 2016: RMB246.1 million) were for obligations under finance leases, and approximately RMB616.6 million (at 31 December 2016: RMB584.5 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 RMB11,130.1 million (at 31 December 2016: RMB10,955.8 million) was approximately 58.9% (at 31 December 2016: 58.0%).

The maturity profile of our total borrowings as at 30 June 2017 was spread over a period of over five years, with approximately 58% (at 31 December 2016: 70%) of the total borrowings repayable within one year, approximately 26% (at 31 December 2016: 26%) repayable between two to five years and the remaining 16% (at 31 December 2016: 4%) 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 RMB1,957.2 million as at 30 June 2017 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, unused banking facilities of approximately RMB1,204 million and cash flows generated from the pre-sale of phase II of GDC in the fourth quarter of 2017, we have sufficient liquidity to repay our short term borrowings. The Group is also actively seeking other funding opportunities to meet the short term obligations.

As at 30 June 2017, approximately 60% (at 31 December 2016: 43%) 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 9% (at 31 December 2016: 15%) of our total borrowings were denominated in RMB which carried fixed interest rate, approximately 10% (at 31 December 2016: 9%) of our total borrowings 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 21% (at 31 December 2016: 33%) of our total borrowings were denominated in USD and HKD which carried fixed interest rate.

Litigation

As at 30 June 2017, 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 2016 for particulars of the lawsuits.

As at 30 June 2017, we had made full provision for the claimed amounts for the outstanding lawsuits. We have paid approximately RMB18 million to Yuancheng Investment on the basis of the court's judgment.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

In November 2016, the Group entered into a subscription agreement with Fang Yang Commerce Trade Company Limited（中國方洋商貿有限公司）("Fangyang"), pursuant to which the Group would inject its existing land and equipment at a market value of RMB982 million and Fangyang would inject RMB500 million cash to the registered capital of Lianyungang Zhujiang Metal Composite Materials Co., Ltd.*（連雲港珠江金屬複合材料有限公司）(the "JV Company"). Upon completion of the capital injection, Fangyang held 33.33% of the enlarged registered capital of the JV Company and the Group's equity interest in the JV Company reduced from 100% to 66.67%. The Group also entered into a non-legally binding memorandum of understanding with Fangyang, pursuant to which Fangyang would further inject RMB200 million cash to the registered capital of the JV Company. If this further capital injection materializes, Fangyang would hold 41.2% of the further enlarged registered capital of the JV Company and the Group's equity interest in the JV Company would further reduce to 58.8%. The JV Company entered into construction agreements for the purchase of bimetal composite plate processing equipment and construction of the processing plant for an aggregate consideration of not more than RMB2.5 billion. The Company has obtained a written approval of the capital injection from Mr. Chen Chang and Bournam Profits Limited. The construction agreements for the purchase of bimetal composite plate processing equipment and construction of the processing plant was duly passed by the shareholders of the Company at the extraordinary general meeting on 25 January 2017. The principal business of the JV Company is the manufacturing and sales of bimetal composite plates. The construction of the processing plant will provide the Group with a stable supply of raw materials located near its production base at costs under its control. The capital injection will provide the start-up capital for the construction plant and the introduction of a reliable partner located in Lianyungang. The JV Company will be consolidated in the Company's financial statements.

On 19 April 2017, the Group and 江蘇雲港投資發展有限公司(Jiangsu Yungang Investment Development Company Limited*) ("Yungang") entered into an Asset Transfer Agreement, pursuant to which, the Group agreed to sell, and Yungang agreed to purchase, the right of use of four land parcels and six production plants (the "Assets") of 連雲港艾可新型建材有限公司 (Lianyungang Aike New Construction Materials Limited*) ("Lianyungang Aike") at a total consideration of RMB76 million. The total net book value of the Assets of Lianyungang Aike as at 31 March 2017 was approximately RMB76.2 million. The disposal of the Assets is to enhance the working capital position by disposing non-core assets of the Group. The net proceeds from the disposal of the Assets was for the general working capital of the Group for its future business development.

On 30 December 2016, the Group entered into a purchase agreement with 廣州市珠江機床廠有限公司(Guangzhou City Pearl River Machine Tool Works Co., Ltd.*) ("GZMT") for the purchase of spare parts and production line ("Purchase Transaction") from the latter for the maintenance of machines, installation of rolling line electrical drive system equipment and transformation of steel transportation system of bimetal composite plate processing plant in Lianyungang, the PRC. The consideration for the Purchase Transaction is approximately RMB173.6 million. The purchase of the spare parts and production line is mainly for the construction of the bimetal composite plate processing plant in Lianyungang, the PRC as per the Company's announcement dated 18 November 2016 and the circular dated 9 January 2017. GZMT is ultimately, wholly and beneficially, owned by Mr. Chen Chang, the controlling shareholder and chairman of the Company, and is therefore an associate of Mr. Chen Chang and a connected person of the Company. The Purchase Transaction was duly passed by the independent shareholders of the Company at the extraordinary general meeting on 19 June 2017. As at 30 June 2017, the amount due from a related party of approximately RMB84.8 million was the advance payment to GZMT for the Purchase Transaction.

Except the above, the Group had no other significant investments, material acquisitions or disposals of subsidiaries, associates and joint ventures during the period under review.

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 2017, Bournam Profits Limited ("Bournam"), a controlling Shareholder of the Company charged 476,142,000 ordinary shares of the Company (approximately 47.09% of the total number of issued shares) and 49,600,000 ordinary shares of the Company (approximately 4.91% and of the total number of issued shares) in favour of a bank and an investment company respectively, as securities for the loan agreements entered into by the Company.

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

As at 30 June 2017, 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 taken 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 525,742,000 shares of the Company, representing 52.0% of total number of issued shares of the Company, in favour of independent third parties.

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 2017, 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 525,742,000 shares, representing 52.0% of total number of issued shares of the Company, in favour of independent third parties.

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 2017, 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 2017.

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 is also responsible for the leadership and effective running of the Company and 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 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 measures would be taken should suitable circumstances arise.

Other Information

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 2017.

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 2017.

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 condensed consolidated interim results for the six months ended 30 June 2017.

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 2017

	Notes	Six months ended 30 June **2017** **(Unaudited)** **RMB'000**	 2016 (Unaudited) RMB'000
REVENUE	5	**418,031**	788,787
Cost of sales		**(384,431)**	(676,983)
Gross profit		**33,600**	111,804
Other income and gains	5	**103,080**	13,039
Selling and distribution costs		**(53,137)**	(65,165)
Administrative expenses		**(228,216)**	(204,654)
Other expenses		**(4,630)**	(1,039)
Exchange loss, net		**(10,518)**	(28,403)
Finance costs	6	**(199,521)**	(103,002)
Share of loss of a joint venture		**(670)**	(386)
LOSS BEFORE TAX	7	**(360,012)**	(277,806)
Income tax (expense)/credit	8	**(2,064)**	22,498
LOSS FOR THE PERIOD		**(362,076)**	(255,308)
Loss attributable to:			
Owners of the parent		**(361,344)**	(253,536)
Non-controlling interests		**(732)**	(1,772)
		(362,076)	(255,308)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	**RMB(0.36)**	RMB(0.25)

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
LOSS FOR THE PERIOD	**(362,076)**	(255,308)
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	**63,972**	(37,112)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**63,972**	(37,112)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**63,972**	(37,112)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(298,104)**	(292,420)
Total comprehensive loss attributable to:		
Owners of the parent	**(297,372)**	(290,648)
Non-controlling interests	**(732)**	(1,772)
	(298,104)	(292,420)

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2017

	Notes	**As at 30 June 2017 (Unaudited) RMB'000**	As at 31 December 2016 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**3,229,076**	3,315,315
Properties under development		**1,198,138**	1,196,775
Investment properties	11	**1,138,221**	1,138,221
Long term prepayments and deposits		**124,368**	144,582
Prepaid land lease payments		**1,155,216**	1,211,764
Investment in a joint venture		**37,312**	37,335
Available-for-sale investment		**800**	800
Pledged deposits		**83,038**	95,570
Total non-current assets		**6,966,169**	7,140,362
CURRENT ASSETS			
Inventories	12	**430,954**	411,001
Properties under development		**1,081,460**	1,036,362
Trade and bills receivables	13	**476,766**	618,421
Prepayments, deposits and other receivables		**633,754**	657,497
Due from a related party		**84,813**	90,726
Pledged and restricted bank balances		**1,410,368**	562,390
Cash and bank balances		**45,766**	439,067
Total current assets		**4,163,881**	3,815,464
CURRENT LIABILITIES			
Trade and bills payables	14	**893,988**	790,348
Interest-bearing bank and other borrowings	15	**3,304,538**	4,374,936
Fixed rate bonds and notes	16	**486,572**	87,911
Other payables and accruals		**1,335,929**	1,185,524
Provision		**21,268**	29,268
Due to a director		**7,480**	5,563
Due to a related party		**278**	3,927
Tax payable		**71,001**	62,042
Total current liabilities		**6,121,054**	6,539,519
NET CURRENT LIABILITIES		**(1,957,173)**	(2,724,055)
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,008,996**	4,416,307

Interim Condensed Consolidated Statement of Financial Position (continued)

As at 30 June 2017

	Notes	**As at 30 June 2017 (Unaudited) RMB'000**	As at 31 December 2016 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	**2,637,097**	1,389,904
Fixed rate bonds and notes	16	**130,017**	496,609
Government grants		**381,374**	369,707
Deferred tax liabilities		**592,654**	592,201
Total non-current liabilities		**3,741,142**	2,848,421
Net assets		**1,267,854**	1,567,886
EQUITY			
Equity attributable to owners of the parent			
Issued capital	17	**88,856**	88,856
Reserves		**1,166,652**	1,464,024
		1,255,508	1,552,880
Non-controlling interests		**12,346**	15,006
Total equity		**1,267,854**	1,567,886

	Note	Attributable to owners of the parent										
		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 2017		**88,856**	**767,097**	**1,153,715**	**224,589**	**57,607**	**165,276**	**(691,557)**	**(212,703)**	**1,552,880**	**15,006**	**1,567,886**
Loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**(361,344)**	**–**	**(361,344)**	**(732)**	**(362,076)**
Other comprehensive loss for the year												
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**63,972**	**63,972**	**–**	**63,972**
Total comprehensive loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**(361,344)**	**63,972**	**(297,372)**	**(732)**	**(298,104)**
Dividends declared to non-controlling shareholder		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,928)**	**(1,928)**
At 30 June 2017 (unaudited)		**88,856**	**767,097***	**1,153,715***	**224,589***	**57,607***	**165,276***	**(1,052,901)***	**(148,731)***	**1,255,508**	**12,346**	**1,267,854**

* These reserve accounts comprise the consolidated reserves of RMB1,166,652,000 (31 December 2016: RMB1,464,024,000) in the interim condensed consolidated statement of financial position as at 30 June 2017.

For the six months ended 30 June 2016

	Note	Attributable to owners of the parent										
		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

Interim Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2017

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 2017

	Six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash flows from operating activities	**324,482**	492,333
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(22,079)**	(61,307)
Receipt of government grants	**16,385**	–
Addition to prepaid land lease payments	**–**	(74,798)
Proceeds from disposal of prepaid land lease payments	**34,272**	–
Decrease in due from related parties	**2,264**	–
Payment for investment deposits	**–**	(41,100)
Collection of investment deposits	**–**	41,100
Net cash flows from/(used) in investing activities	**30,842**	(136,105)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans and other borrowings	**3,823,205**	1,365,991
Repayment of bank loans and other borrowings	**(3,547,897)**	(1,766,802)
Proceeds from issue of bonds	**135,087**	–
Repayment of bonds	**(86,879)**	–
Interest paid	**(187,276)**	(116,474)
Interest element of finance lease rental payments	**(6,287)**	–
Capital element of finance lease rental payments	**(47,845)**	(43,909)
Increase in pledged bank deposit	**(835,446)**	–
Decrease in due to a director	**1,917**	–
Net cash flows used in financing activities	**(751,421)**	(561,194)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(396,097)**	(204,966)
Effect of foreign exchange rate changes, net	**2,796**	18,378
Cash and cash equivalents at 1 January	**439,067**	286,135
CASH AND CASH EQUIVALENTS AT 30 JUNE	**45,766**	99,547

1. Corporate Information

Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company") was incorporated in the Cayman Islands on 9 January 2008 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's registered office address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company and its subsidiaries (together, the "Group") are principally engaged 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 current interim period.

In the opinion of the directors of the Company (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 2017 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 (the "Listing Rule") 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 2016.

Going concern basis

Notwithstanding that the Group had consolidated net current liabilities of approximately RMB1,957,173,000 as at 30 June 2017, the interim condensed consolidated financial statements have been prepared by the Directors on a going concern basis, because:

2. Basis of Preparation (Continued)

Going concern basis (Continued)

(i) as at 30 June 2017, the Group had unutilised credit facilities from banks of approximately RMB1,203,526,000; and

(ii) the Group is actively seeking another financing opportunities to refinance the short-term debt; and

(iii) the Group is considering to use properties under development, investment properties and the land to reduce the debt and financing cost; and

(iv) the Directors 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, 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 2017.

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 2016, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs"), IAS and International Financial Reporting Interpretations Committee ("IFRIC") Interpretations by Group for the first time for the current period as disclosed below.

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in Annual Improvements 2014-2016 Cycle	*Disclosure of Interests in Other Entities*

The adoption of these revised IFRSs and IAS 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, IAS and IFRIC Interpretations, that have been issued but are not yet effective, in the interim condensed consolidated financial statements:

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
IFRS 17	*Insurance Contracts*[4]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

The Group is in the process of making an assessment of the impact of these new and revised IFRSs, IAS and IFRIC Interpretations upon initial application, but is not in a position to state whether they 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) the 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 to third parties at the then prevailing market prices.

4. Operating Segment Information (Continued)

Six months ended 30 June 2017 (Unaudited)	Steel pipes RMB'000	Property development and investment RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	418,031	–	418,031
Segment results:	(277,685)	(29,429)	(307,114)
Reconciliation:			
Corporate and other unallocated expenses			(52,898)
Loss before tax			(360,012)
Segment assets:	2,652,286	4,832,445	7,484,731
Reconciliation:			
Elimination of intersegment receivables			1,101,704
Corporate and other unallocated assets			2,543,615
Total assets			11,130,050
Segment liabilities:	5,075,763	2,623,941	7,699,704
Reconciliation:			
Elimination of intersegment payables			1,101,704
Corporate and other unallocated liabilities			1,060,788
Total liabilities			9,862,196
Other segment information:			
Share of loss of a joint venture	(670)	–	(670)
Impairment losses recognised in the statement of profit or loss	(823)	–	(823)
Impairment losses reversed in the statement of profit or loss	967	–	967
Depreciation and amortisation	(91,221)	(173)	(91,394)
Capital expenditure*	45,710	299	46,009

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

* 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	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Manufacture and sale of steel pipes:		
LSAW steel pipes	**209,715**	540,000
ERW steel pipes	**129,492**	32,029
SSAW steel pipes	**17,077**	64,646
Steel pipe manufacturing services:		
LSAW steel pipes	**20,175**	8,099
ERW steel pipes	**357**	1,945
SSAW steel pipes	**12,480**	5,068
Others*	**28,735**	137,000
	418,031	788,787

* 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	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Sales to external customers:		
Mainland China	**195,146**	348,068
America	**27,367**	215,900
European Union	**7,391**	4,539
Middle East	**40,371**	145,714
Other Asian countries	**36,537**	74,566
Oceania	**110,674**	–
Other	**545**	–
	418,031	788,787

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 2017, revenue from one customer of the Group amounted to approximately RMB101,428,000, which accounted for over 24% 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	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Revenue		
Manufacture and sale of seam welded steel pipes and the provision of related manufacturing services	**418,031**	788,787
Other income		
Bank interest income	**35,045**	2,694
Subsidy income from the PRC government*	**4,718**	7,812
Others	**63,317**	2,533
	103,080	13,039

* The subsidy income represented subsidies granted by the local finance bureaus of the PRC government to Panyu Chu Kong Steel Pipe (Zhuhai) Co., Ltd.（番禺珠江鋼管（珠海）有限公司）, Panyu Chu Kong Steel Pipe Co., Ltd., Lianyungang Kaidi Heavy Equipment Technology Co., Ltd.（連雲港凱帝重工科技有限公司）, Nanjing Rongyu Group Co.,Ltd（南京鎔裕集團有限公司）as awards for their product, 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	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Interest on bank loans and government loans	**122,969**	118,368
Interest on other loans (including bonds and short term notes)	**108,363**	2,930
Interest on finance lease	**6,287**	7,639
Interest on discounted bills	**4,247**	2,383
Total interest expense on financial liabilities not at fair value through profit or loss	**241,866**	131,320
Less: Interest capitalised	**(42,345)**	(28,318)
	199,521	103,002

7. Loss Before Tax

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

	Six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Cost of inventories sold	**281,455**	537,000
Depreciation	**77,837**	85,293
Impairment of trade receivables (reversed)/recognised	**(139)**	335

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	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – Mainland China		
charge for the period	**1,611**	106
Deferred	**453**	(22,604)
Total tax expense/(credit) for the period	**2,064**	(22,498)

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 RMB361,344,000 (six months ended 30 June 2016: RMB253,536,000), and the weighted average number of ordinary shares of 1,011,142,000 (30 June 2016: 1,011,142,000) in issue during the period.

No adjustment has been made to the basic loss per share amount presented for the periods ended 30 June 2017 and 2016 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 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
At beginning of the period/year	**3,315,315**	3,721,360
Additions	**45,496**	286,154
Disposals	**(52,953)**	(5,774)
Depreciation	**(77,837)**	(176,661)
Impairment	**–**	(512,175)
Exchange realignment	**(945)**	2,411
At end of the period/year	**3,229,076**	3,315,315

11. Investment Property

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Land		
Carrying amount at 1 January	**1,138,221**	2,306,804
Additions	**–**	28,192
Transfer to properties under development	**–**	(1,196,775)
Carrying amount at end of the period/year	**1,138,221**	1,138,221
	1,138,221	1,138,221

12. Inventories

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Raw materials	**124,164**	121,858
Work in progress	**115,691**	120,216
Finished goods	**213,404**	196,058
	453,259	438,132
Less: Provision against slow-moving and obsolete	**22,305**	27,131
	430,954	411,001

13. Trade and Bills Receivables

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Trade receivables	**429,727**	608,491
Impairment	**(12,573)**	(12,712)
Trade receivables, net	**417,154**	595,779
Bills receivable	**59,612**	22,642
	476,766	618,421

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 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within 60 days	**87,503**	206,449
61 to 90 days	**12,994**	20,122
91 to 180 days	**63,751**	88,491
181 to 365 days	**91,799**	52,332
1 to 2 years	**61,001**	135,429
2 to 3 years	**94,413**	78,347
Over 3 years	**5,693**	14,609
	417,154	595,779

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 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within 90 days	**250,023**	309,447
91 to 180 days	**39,120**	52,683
181 to 365 days	**49,978**	149,595
1 to 2 years	**74,602**	88,756
2 to 3 years	**26,997**	20,748
Over 3 years	**24,226**	17,562
	464,946	638,791
Bills payable	**429,042**	151,557
	893,988	790,348

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 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Current				
Finance lease payables	4.61-8.43	2017-2018	**97,084**	96,076
Bank loans				
– secured	1.61-6.16	2017-2018	**877,464**	707,682
– unsecured	2.85-24.00	2017-2018	**771,521**	1,023,033
Other borrowing				
– secured	16.00	2018	**304,078**	–
– unsecured	4.30-22.8	2017-2018	**444,792**	368,578
Government loans				
– secured	4.75-4.90	2017-2018	**139,100**	17,600
– unsecured	2.65-4.75	2017	**200,000**	200,000
Current portion of long term loans				
– secured	2.75-7.21	2017-2018	**470,499**	1,818,847
– unsecured	N/A	N/A	**–**	143,120
			3,304,538	4,374,936
Non-current				
Finance lease payables	4.61-8.43	2018-2020	**101,145**	149,998
Bank loans				
– secured	2.75-7.21	2018-2028	**2,135,552**	718,006
Government loans				
– secured	4.90	2018-2023	**400,400**	521,900
			2,637,097	1,389,904
			5,941,635	5,764,840

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

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**2,119,484**	3,692,682
In the second year	**458,285**	140,556
In the third to fifth years, inclusive	**704,167**	439,450
Beyond five years	**973,100**	138,000
	4,255,036	4,410,688
Government loans repayable:		
Within one year	**339,100**	217,600
In the second year	**57,200**	143,500
In the third to fifth years, inclusive	**255,200**	246,400
Beyond five years	**88,000**	132,000
	739,500	739,500
Other borrowings and finance lease payables:		
Within one year	**845,955**	464,654
In the second year	**78,644**	97,319
In the third to fifth years, inclusive	**22,500**	52,679
	947,099	614,652
	5,941,635	5,764,840

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 RMB1,661,006,000 (31 December 2016: RMB1,512,480,000) 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 RMB1,123,654,000 (31 December 2016: RMB1,061,802,000) as at the end of the reporting period;

(c) certain of the Group's time deposits amounting to RMB1,119,366,000 (31 December 2016: RMB410,160,000) as at the end of the reporting period; and

(d) certain of the Group's properties under development amounting to RMB461,725,000 (31 December 2016: RMB442,742,000) as at the end of the reporting period.

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

Except for the bank loans and other borrowings of RMB305,476,000 (31 December 2016: RMB161,566,000), and RMB1,098,840,000 (31 December 2016: RMB1,986,000,000) as at 30 June 2017, 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:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Floating rate		
– expiring within one year	**1,203,526**	1,944,563

16. Fixed Rate Bonds and Notes

	30 June 2017 (Unaudited)				31 December 2016 (Audited)			
	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	RMB'000	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	RMB'000
2013 Bonds	US$72	5.6	2018	–	US$72	5.6	2018	496,609
2017 Notes	HK$155	8.0	2020	113,742	–	–	–	–
2017 Bonds	US$3	7.0	2020	16,275	–	–	–	–
				130,017				496,609
Current portion								
2013 Bonds	US$72	5.6	2018	486,572	US$72	5.6	2018	–
2014 Bonds	HK$100	5.0	2017	–	HK$100	5.0	2017	87,911
				486,572				87,911

16. Fixed Rate Bonds and Notes (Continued)

The 2013 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.

On 27 April 2017, the Company redeemed in full the 2014 Bonds before maturity at a redemption price of 102.48% of the principal amount plus accrued and unpaid interest.

The investment fund, which purchased the 2017 Notes, is entitled to redeem the notes immediately upon the occurrence of the breach in accordance with the terms and conditions of 2017 Notes.

All the bonds and notes are unsecured.

The effective interest rate of the 2013 Bonds, 2014 Bonds, 2017 Notes and 2017 Bonds are 6.05%, 10.62%, 15.51% and 16.75% per annum, respectively.

17. Issued Capital

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Authorised:		
10,000,000,000 (31 December 2016: 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 2016: 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 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within one year	**3,527**	3,697
In the second to fifth years, inclusive	**5,362**	6,613
After five years	**5,684**	6,175
	14,573	16,485

19. Commitments

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

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Contracted, but not provided for:		
Purchase of land and buildings	**317,720**	343,643
Purchase of plant and machinery	**91,618**	95,349
Construction and development cost	**133,974**	143,833
	543,312	582,825
Contracted, but not provided for:		
Capital contributions payable for establishment of a joint venture	**295,126**	140,495
Authorised, but not contracted for:		
Plant and machinery	**2,500,000**	2,500,000
	3,338,438	3,223,320

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.

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

Name of party	Nature of transaction	Notes	Six months ended 30 June 2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
GZMT	Purchases of spare parts	(i)	**3,737**	8,120
Al-Qahtani PCK Pipe Company	Sales of plant and machinery	(ii)	**–**	88

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 525,742,000 ordinary shares of the Company, representing 52.0% of the total number of issued shares, in favour of a bank and an investment fund as a securities for the loan agreements entered by the Group.

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**2,744**	5,505
Retirement benefit scheme contributions	**76**	141
Total compensation paid to key management personnel	**2,820**	5,646

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 29 August 2017.